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Credit Opinion: Northeast Utilities

Global Credit Research - 22 Nov 2010

Hartford, Connecticut, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Preferred Shelf	(P)Ba1
Yankee Gas Services Company	
Outlook	Stable
Issuer Rating	Baa2
Connecticut Light and Power Company	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured Shelf	(P)A2
Preferred Stock	Baa3
Public Service Company of New Hampshire	
Outlook	Stable
Issuer Rating	Baa2
First Mortgage Bonds	A3
Senior Secured Shelf	(P)A3
Western Massachusetts Electric Company	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2

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Key Indicators

[1]**Northeast Utilities**

	LTM3Q'10	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest	**4.6x**	**4.3x**	**3.1x**	**3.7x**
(CFO Pre-W/C) / Debt	**18.3%**	**17.8%**	**12.0%**	**15.1%**
(CFO Pre-W/C - Dvidends) / Debt	**15.3%**	**15.1%**	**9.9%**	**12.7%**
Debt / Book Capitalization	**53.7%**	**54.7%**	**59.9%**	**54.6%**

[1] All ratios calculated in accordance with the Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Primarily a rate-regulated utility holding company with limited exposure to unregulated operations

- Credit supportive regulatory frameworks with increasing exposure to FERC

- Expectation for continued prudent financial policies in conjunction with the announced merger with NSTAR

- Geographic and operational diversification

Company Profile

Headquartered in Hartford, Connecticut, Northeast Utilities (NU; Baa2 Senior Unsecured) is the parent holding company of a largely regulated utilities group, including the vertically integrated utility, Public Service Company of New Hampshire (PSNH); the electric transmission and distribution (T&D) utilities The Connecticut Light & Power Company (CL&P) and Western Massachusetts Electric Company (WMECO); and the local gas distribution utility (LDC), Yankee Gas Services Company (YGS). They comprise the largest utility system in the New England region with over 1.9 million electric and 200,000 gas customers.

The utilities' are regulated at the state level by their respective public utility commissions in Connecticut (DPUC), Massachusetts (DPU), and New Hampshire (NHPUC). The companies are also subject to the Federal Energy Regulatory Commission (FERC) purview, which oversees the group's transmission business (around 40% of the consolidated asset rate base) and PSNH's hydro-electric license conditions.

NU's unregulated businesses consist mainly of an energy services business and a few remaining wholesale marketing contracts (Select Energy Inc.) that expire in 2013 as this business winds down. As of September 2010, NU's consolidated assets amounted to around $14.3 billion with trailing 12-month FFO of $1.1 billion.

Recent Events

On October 18, 2010, Moody's affirmed the ratings of NU, NSTAR and all subsidiaries following the announcement that the boards of trustees of NU and NSTAR agreed to a merger of equals in a stock-for-stock transaction. Pending receipt of all necessary approvals, the transaction close is expected before the fourth quarter of 2011. NU will be the surviving corporation, with former NSTAR shareholders accounting for 44% of the combined entity. Together, the merged company will serve about 3.5 million electric and natural gas customers in New England.

On October 4, 2010, Northern Pass Transmission, LLC (NPT, a 75% and 25% JV between NU and NSTAR) and HQ Hydro Renewable Energy (Hydro Quebec's subsidiary) entered into a Transmission Service Agreement (TSA) in connection with the Northern Pass transmission project.

On September 28, 2010, the Massachusetts Energy Facilities Sitting Board issued a Final Decision approving the petition of WMECO, to construct the 23-mile Massachusetts portion of the Greater Springfield Reliability Project (GSRP). This followed the March 2010 approval by the Connecticut Sitting Council for the Connecticut portion to be built by CL&P. Construction in Massachusetts is expected to start before year-end 2010 and construction in Connecticut is expected to begin in 2011 with completion planned during 2013. The GSRP is the largest section (nearly $800 million) of the New England East-West Solution (NEEWS) family of transmission projects in which CL&P and WMECO are involved (NU's aggregate share: approximately $1.5 billion) along with National Grid USA. In mid-July 2010, United Illuminating Company (UIL) and CL&P executed a purchase and sale agreement for UIL to invest in CL&P's portion of the NEEWS project in Connecticut for over $60 million (about 8.4% of CL&P's portion in the project).

On July 9, 2010, Moody's affirmed the ratings of NU, CL&P and PSNH and stable outlooks following the outcome of the utilities' rate cases.

For more details about the rating actions and information on each subsidiary's recent events, regulatory and investment programs, please refer to the press releases and Credit Opinions available under www.moodys.com.

SUMMARY RATING RATIONALE

NU's Baa2 senior unsecured rating is based on the predominantly regulated nature of the group's operations following the 2006 divesture of several non-regulated competitive businesses. The rating is further underpinned by geographic and operational diversification, and reflects the overall credit supportiveness of the utilities' multi-jurisdictional regulatory frameworks. The rating further captures our expectation that management will continue its prudent financial policies upon completion of its merger with NSTAR, particularly in terms of new debt issuance, including the practice that any NU subsidiary's positive free cash flow may be utilized throughout the merged organization given the group's material capital expenditure (capex) program. To that end, the rating captures an expectation that NU will report credit metrics in line within its current rating category, and acknowledges the structural subordination that exists for parent level debt holders relative to the existing debt outstanding at the utility subsidiaries.

DETAILED RATING CONSIDERATIONS

DIVERSIFICATION COUPLED WITH MODEST EXPOSURE TO INDUSTRIAL CUSTOMERS AND RATE DESIGN

Moody's assessment for NU in terms of the diversification factor under the methodology is largely driven by the group's operations in three states albeit recognizing a high concentration in the New England area coupled with their wide range of services provided.

For example, during the first nine months of 2010, YGS' natural gas firm volumes increased by 6.1% on a weather adjusted basis largely underpinned by higher natural gas-fired generation and the growing conversion of customers switching from heating oil to natural gas; however, NU's consolidated electric sales dropped by 2.1% on a weather-adjusted basis (+2.3% without weather-related adjustment) driven by the still weak economic environment in its service territory. Nevertheless, we note the subsidiaries' modest exposure to industrial customers with PSNH showing the highest reliance (less than 15% of its total revenues). In addition, the design of the commercial and industrial distribution rates, which includes significant amounts of fixed-charges, further insulates NU's consolidated cash flows from declining or weak industrial sale volumes.

In terms of the generation and fuel diversity sub-factor, the Baa rating reflects PSNH's significant reliance on carbon emitting generation sources to meet its power requirements, albeit PSNH is already able to recover these Regional Greenhouse Gas Initiative costs from end-users. Moody's expects similar treatment for the costs associated with complying with the State's Renewable Portfolio Standards (RPS).

MATERIAL CAPEX PROGRAMS TO GROW UTILITY INFRASTRUCTURE

NU plans to invest about $6.6 billion between 2011-2015, focusing primarily on upgrading the distribution infrastructure, increasing system reliability, as well as complying with each state's environmental requirements. The investment program will also take advantage of opportunities in renewables and transmission in light of the rather aggressive greenhouse gas reduction targets and RPS in New England. For instance, utilities in Connecticut are required to obtain 27% of their power from renewables by 2020, while in New Hampshire, the RPS is 23.8% by 2025.

The NEEWS project accounts for a substantial portion of NU's $2.8 billion investments in transmission (completion of the final project not

expected before 2016), closely followed by the capital deployment associated with the $1.1 billion NPT transmission project (NU's share about $830 million; expected completion in 2015). The NPT project will interconnect with a planned HVDC transmission line that HydoQuebec plans to build to bring Canadian sourced hydro-power into New England. Under the TSA, NPT will sell 1,200MW transmission rights to HQ over a 40 year period. If NU's is successful in completing its transmission investment program, transmission assets will grow to $4.8 billion accounting for about 40% of its total asset base by 2015. Given the material involvement of different regulatory entities, delays in the project's implementation cannot be ruled out.

In addition, the group's main investments in generation is the $430 million installation of emission control equipment at PSNH's Merrimack plant (73% completed; remaining capex: $271million). NU also plans to invest around $2.8 billion in electric and $585 million in natural gas distribution assets.

Moody's believes that NU should be able to smoothly implement its significant capex program and takes comfort from its proven track record of completing similar large scale projects on time and within budget, such as CL&P's SW Connecticut Reliability project completed for about $1.6 billion in 2008, approximately $100 million below budget.

DIVERSE AND REASONABLY CREDIT SUPPORTIVE REGULATORY ENVIRONMENTS

Unregulated operations account for less than 5% of NU's consolidated operating income with further reductions expected in future years as Select Energy's business is wound down. Moreover, with no further investments planned in unregulated businesses, the risks associated with this segment currently consist mainly of providing certain performance guarantees, surety and LoCs (around $2 million as of September 30, 2010; $57.8 million at year-end 2008).

The supportiveness of the regulatory framework in which an utility operates and its ability to recover costs on a timely basis and earn a reasonable return are important rating factors in our rating methodology for regulated utilities. Moody's considers the regulatory frameworks in Connecticut, New Hampshire and Massachusetts to generally be about average in their credit support for utilities based on the reasonable ability to recover costs and investments. WMECO is awaiting the outcome of its distribution rate case filed in June 2010 (expected before end of January 2011). Moody's views are underpinned by the outcomes of the June 2010 CL&P's rate case and PSNH's settlement which we consider moderately credit supportive. Particularly, the DPUC's decision alleviated our previous concerns about the predictability of the regulatory framework in Connecticut, as well as CL&P's relationship with the DPUC. That being said, Moody's remains concerned about further political interference following the decision to implement a new charge on customer electricity bills to collect funds to repay around $650 million of economic recovery revenue bonds issued to fund the gap resulting from the Connecticut Legislature's 2010-2011 budget over an eight-year period (Senate Bill 494).

Moody's ranks the FERC's regulatory framework at the top of any jurisdiction in the US due to the high allowed RoEs, and the significant ability to recoup costs and investments in a timely manner. Hence, NU's ratings will become increasingly influenced by the growing exposure to the FERC's regulatory oversight amid the expected substantial investments in transmission, which we view as a credit positive.

ANTICIPATED WEAKENING OF THE CREDIT METRICS ALBEIT STILL COMMENSURATE FOR RATING CATEGORY

Historically, NU's key credit metrics have been positioned in the mid to lower end of the Baa-rating category. Its 2007-2009 CFO pre-W/C to debt, CFO pre-W/C minus Dividends to debt and CFO pre-W/C interest coverage averaged 15%, 12.6%, and 3.5x, respectively. With the execution of the expected $6.5 billion capex program for the period 2011-2015, NU's key metrics are expected to be weaker positioned within the Baa rating category on a standalone basis.

SOME UNCERTAINTY SURROUNDING THE PENDING MERGER

Moody's acknowledges the strategic benefits of NU's pending merger with NSTAR given the complementary nature of their operations and the resulting increase in the group's size amid their substantial planned capex program. Furthermore, the cash flows of NSTAR will undoubtedly enhance the group's operational cash flow generation. That said, we observe that as a result of the pending merger with NSTAR, NU will not pursue its originally planned $300 million equity issuance in 2012.

Looking prospectively NU's credit metrics should be stronger on a combined basis, but the degree of improvement will highly depend on whether management will have unfettered access to NSTAR's expected excess free cash flows pending the possibility of regulatory restrictions, the total indebtedness incurred to fund the material capex program, the degree of continuing success with the current cost optimization programs, the timing and impact of the cash flows associated with the transmission investments and the increasing exposure to FERC's regulatory overview, the pace of the ongoing economic recovery in each of the service territories, the resolution of the current material underfunding of each company's pension program which in aggregate amounted to $1,060 million at the end of 2009 (including NSTAR obligations, and whether NU continues to prudently fund its material capex program after completion of the merger. That being said, Moody's expects that NU will continue to report credit metrics that are slightly higher than its historical results that should keep the combined enterprise well positioned within the Baa rating category.

Liquidity

As of September 30, 2010, NU reported a cash balance of $41 million (year-end 2009: $27 million). For 2010, NU projects to generate consolidated CFO ranging between $800 and $850 million following the extension of the bonus depreciation tax deductions through 2010 under the Small Business Jobs and Credit Act that is expected to result in additional $100 million cash flow. NU will invest around $1.1 billion and maintain its 50% payout ratio (dividends distributed during the first nine months 2010: $135 million; year-end 2009: $162 million). Moody's expects NU to report during 2011 CFO levels comparable to 2010 despite CL&P's and PSNH's distribution rate increases, particularly given its planned $200 million contribution to its pension plan (2010: $45 million at PSNH). Moody's also expects that NU will make further material capital contributions to its subsidiaries ($226.2 million during the first nine months of 2010 vs. 2009: $220 million; 2008: $323 million) to support their capex programs, while keeping the utilities' payout-out ratios at around 60% of their earnings (total received during the first nine months of 2010: $249.7 million; year-end 2009: $192 million).

NU's consolidated CFO includes funds for repayment of rate reduction bonds which are recovered directly via rates. After CL&P's mandatory tender to purchase $62 million in pollution control revenue bonds in April 2011 (it is anticipated that these securities will be remarketed again as they were in April 2010), the next significant debt maturities with respect to NU's parent only debt are $263 million in 2012 and $250 million in 2013 which currently represents around 13% of total consolidated debt.

In September 2010, NU and its regulated subsidiaries executed two separate three-year committed unsecured revolving credit facilities amounting to $500 million (can be extended to $600 million) and $400 million, respectively. Each of the utilities share the remaining portion with sub-limits that allow CL&P and PSNH to draw up to $300 million, while WMECO and YGS can draw up to $200 million. As of September 2010, the subsidiaries' credit facility was fully available, while NU's facility had $156 million available, including $39.6 million in LoCs issued by NU for the benefit of certain subsidiaries (primarily PSNH). These facilities have typically been used to bridge the subsidiaries' capex program requirements until longer term financing is arranged. Drawings under the facilities are not subject to a material adverse change but the they have a financial covenant that sets a 65% limit for total debt to total capitalization. NU and its subsidiaries are in compliance with this covenant. NU's ability to pay common dividends may be limited by certain state statutes, the leverage restrictions in its revolving credit agreement and the ability of its subsidiaries to upstream dividends.

Rating Outlook

The stable outlook reflects our expectations that NU will fund its significant capex program in such a manner that the consolidated key credit metrics will remain reasonably well positioned within the rating category, and that merger will be completed and implemented in a credit benign manner.

What Could Change the Rating - Up

NU's ratings could be considered for an upgrade if there were an improvement in the company's consolidated financial and operating profile following the merger. For example, if NU is able to achieve consolidated CFO pre-W/C to debt and interest coverage above 18% and closer to 4.5x, respectively, for a sustained period of time.

What Could Change the Rating - Down

NU's ratings could be negatively pressured if there is deterioration in the credit profile of its operating utilities. The rating could also be reconsidered if Moody's perceives a deterioration in the credit supportiveness in the regulatory environments under which the subsidiaries operate. From a financial perspective, NU's rating could be downgraded if CFO pre-W/C to debt and interest falls below 13% and 3.0x, respectively, for an extended period of time.

Rating Factors

Northeast Utilities

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)				X		
Factor 3: Diversification (10%)						
a) Market Position (5%)			X			
b) Generation and Fuel Diversity (5%)				X		
Factor 4: Financial Strength, Liquidity and Key Financial Metrics (40%)						
a) Liquidity (10%)				X		
b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg)				X		
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)					X	
Rating:						
a) Methodology Implied Senior Unsecured Rating				**Baa2**		
b) Actual Senior Unsecured Rating				**Baa2**		

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MOODY'S
INVESTORS SERVICE

Credit Opinion: Public Service Company of New Hampshire

Global Credit Research - 22 Nov 2010

Manchester, New Hampshire, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
First Mortgage Bonds	A3
Senior Secured Shelf	(P)A3
Parent: Northeast Utilities	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Preferred Shelf	(P)Ba1

Contacts

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Key Indicators

[1]**Public Service Company of New Hampshire**

	LTM 3Q'10	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest	3.7x	4.0x	3.1x	3.5x
(CFO Pre-W/C) / Debt	13.3%	15.1%	12.5%	14.2%
(CFO Pre-W/C - Dvidends) / Debt	9.6%	12.1%	9.6%	10.2%
Debt / Book Capitalization	52.4%	57.4%	58.2%	61.3%

[1] All ratios calculated in accordance with the Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Credit supportive regulatory environments

- Significant capex program likely to increase leverage

- Credit metrics expected to score within the low to mid range of the Baa rating category

Company Profile

Headquartered in Manchester, Public Service Company of New Hampshire (PSNH; Issuer Rating: Baa2, stable) is the largest utility in New Hampshire (NH) serving approximately 70% of the retail customers in the state (about 500,000). This vertically integrated regulated electric utility has an installed generating capacity of 1,200MW. PSNH's operations are regulated by the New Hampshire Public Utilities Commission (NHPUC) and Federal Energy Regulatory Commission (FERC). As of September 30, 2010, PSNH reported total assets of around $2.8 billion ranging as the second largest subsidiary among those that comprise Northeast Utilities before considering the recently announced merger between NU and NSTAR which has not been approved by either regulatory authorities or shareholders yet.

Recent Events

On October 18, 2010, Moody's affirmed the ratings of NU, NSTAR and all their subsidiaries following the announcement that the boards of trustees of NU and NSTAR agreed to a merger of equals in a stock-for-stock transaction. Upon closing of the transaction, expected before the fourth quarter of 2011, NU will be the surviving corporation.

On July 9, 2010, Moody's also affirmed the ratings of NU, PSNH and its sister company CL&P and maintained stable outlooks following the outcome of the utilities' rate cases.

For more details on both rating actions refer to our press release available at www.moodys.com

SUMMARY RATING RATIONALE

PSNH's Baa2 Issuer Rating reflects our views on the credit supportiveness of the regulatory frameworks under which PSNH operates. It also captures our expectation for continued financial prudency in funding the increased capital expenditure (capex) program, such that key credit metrics will remain within the low to mid-range of the Baa rating category. The Baa2 rating further acknowledges PSNH's ownership by NU and its conservative financial policies given the minimal unregulated businesses remaining in the NU family. PSNH also benefits from its participation in the corporate money pool that supplements its available portion under the committed bank credit facility for NU's regulated subsidiaries, as well as the single uniform defined benefit pension plan sponsored by NU. It also takes into account NU's periodic capital contributions and PSNH's expected 60% dividend payout ratio.

DETAILED RATING CONSIDERATIONS

MATERIAL CAPEX PROGRAM

The bulk of PSNH's $1.2 billion investments for the 2011-2015 are earmarked for electric distribution ($625 million; 2010: $45 million) followed by capital outlays in transmission (2011-2015: $288 million; 2010: $97 million) and generation (2011-2015: $271 million; $183 million).

The company has completed about 75% of the installation of emissions reduction equipment at the 434 MW Merrimack coal plant. This project is aimed at complying with the State of New Hampshire's 2006 emission reduction requirements. This $430 million project is progressing within budget (remaining capex: $132 million over the next three years) with final completion planned for middle 2012 which is well ahead the July 2013 regulatory deadline. PSNH expects that the installation will result in significant savings related to the current procurement of sulfur dioxide credits. The company plans to make further generation investments in renewable related projects.

Though PSNH's capital deployment in transmission is the smallest among NU's electric subsidiaries, it will almost double PSNH's transmission asset base to $558 million by 2015 (2010: $329 million). Its distribution and generation asset bases are expected to grow to $1.2 billion (2010: $826 million) and over $750 million (2010: $394 million), respectively.

Moody's is confident that PSNH will be able to smoothly implement this significant capex program (over $200 million p.a.) and takes comfort from NU's proven track record of completing large scale projects on time and within budget.

SUPPORTIVE REGULATORY ENVIRONMENT ALLOWS FOR REASONABLE COST RECOVERY

The supportiveness of the regulatory framework in which a utility operates, and its ability to recover costs on a timely basis and earn a reasonable return, are important rating factors in Moody's rating methodology for regulated utilities. Moody's scores PSNH at Baa for each of these factors, reflecting our views about the two regulatory frameworks under which PSNH operates.

Regulatory features supporting Moody's opinion about the regulatory framework in NH include PSNH's ability to recover the costs related to: system benefits, transmission services (fully tracked), storm restorations (funded through the Major Storm Costs Reserve) or stranded-costs largely funded via Rate Reduction Bonds (RRB). The NHPUC has also the ability to approve interim rate increases as evidenced in August 2009. PSNH is the only utility in the state that retained generation assets as part of the 2001 restructuring agreements, and provides last resort power to customers who do not choose an alternate supplier. PSNH files annually for NHPUC's approval of updated default Energy Service (ES) rates for the recovery of power, fuel and other related costs (including a 9.81% RoE) which are subject to a six-month true-up mechanism. Moody's views PSNH's ability to recover power related costs as reasonable.

Less positive features include: distribution rates that are set based on a historical test-year creating regulatory lag; utilities cannot include construction-work-in-progress (CWIP) in their rate base; currently allowed RoE rates are relatively modest compared to other jurisdictions; and there is no pension cost tracker for the distribution business although pension expenses are included in generation rates which also allow for forecasted expenses subject to an annual true-up.

Moody's considers the recently NHPUC approved multi-year settlement among PSNH, NHPUC staff and the Office of Consumer Advocate, to be moderately constructive, from a regulatory perspective. The settlement called for a $45.5 million net rate hike effective July 1, 2010, followed by a projected $2.9 million net decrease in 2011, as well as projected net increases of $9.5 million and $11.1 million in 2012 and 2013, respectively. The order also allows for an increase in the company's major storm cost reserve and provides for step-ups to fund PSNH's investments associated with its Reliability Enhancement Program (REP) and non-REP assets. We believe that the size of the first year net rate increase helps to address the regulatory lag that currently exists at PSNH. Under the settlement, PSNH agreed to stay out of rate cases until June 30, 2015 unless its distribution RoE (allowed: 9.67%) falls below 7% for two consecutive quarters or upon the occurrence of certain external events.

In terms of transmission assets, similar to its sister companies, PSNH benefits from the above-average supportive FERC regulatory framework, with most of its new projects subject to an 11.64% RoE. Further credit positive features include the fact that transmission rates are set based upon a projected test-year basis with material cost recovery disallowances being unlikely.

MODEST EXPOSURE TO INDUSTRIAL CUSTOMERS AND RATE DESIGN UNDERPINS CASH FLOWS

In terms of the revenue-breakdown, PSNH is most reliant upon the residential and commercial sectors (each contributed over 35% to the consolidated revenues at year-end 2009). On a weather-adjusted basis, PSNH's sales during the first nine months of 2010 decreased by 2.2% (+1.9% without weather adjustment) over the same period in 2009 amid a 3% drop of its industrial and commercial customers' demand due to the still weak economic situation. However, Moody's Economy.com forecasts that due to expected expansion in the high-tech manufacturing, healthcare and tourism sectors the State's unemployment rate will remain below 6.5% at year-end 2011 further dropping to 5.3% in 2012. Due to the design of the commercial and industrial rates, about half of PSNH's total distribution revenues consist of fixed charges which somewhat insulates its cash flows from the impact of the weak economy.

PSNH meets over 70% of its load via its own generation and long-term Power Purchase Agreements (PPA) with third parties. Over 85% of PSNH's 1,200MW installed capacity consists of fossil-fuel plants (the average life of its coal-plants is 40 years) with the remainder consisting of

70MW of hydro and other renewable facilities. Moody's observes that PSNH is able to recover from end-users the costs associated with complying with the Regional Greenhouse Gas Initiative (RGGI). New Hampshire law set an auction clearing price threshold of $6/CO2 allowance in 2009. Albeit declining over time, the law provided for the 2009-2011 period up to 2.5 million banked CO2 allowances p.a., which represents around half of PSNH's total current requirements. If approved by the NHPUC, the PPA executed with the 70MW Laidlaw Berlin BioPower LLC biomass plant (to be built in Berlin, NH) will aid PSNH in meeting the state's Renewable Portfolio Standard that requires that 23.8% of the State's electricity be generated from renewable resources by 2025. Associated costs are likely to be recovered via the ES rates, as well.

CREDIT METRICS

Through the twelve months ended September 2010, PSNH reported a blended RoE of 9.2% for its distribution and generation operations with the latter fully tracking its allowed 9.81% RoE.

Historically, PSNH's key credit metrics have been positioned in the lower end of the Baa-rating category. Its 2007-2009 CFO pre-W/C to debt, CFO pre-W/C minus Dividends to debt and CFO pre-W/C interest coverage averaged 14%, 11% and 3.5x, respectively.

Prospectively, PSNH's metrics will depend on the impact of regional economic conditions on its total sales, the continuation of NU's prudent approach to the company's capital structure, periodic capital contributions, and cost saving initiatives amid the subsequent rate increases following the 2010 settlement. Moody's expects PSNH's key credit metrics will continue to score within the low to mid-range of the Baa rating category, such that it will report CFO pre W/C/ debt and CFO pre-W/C interest coverage of at least 14% and 4x, respectively.

Liquidity

Similar to its sister companies, PSNH maintains a modest cash balance ($643k as of September 2010; year-end about $2 million). Over the 12 months ended September 2010, PSNH used the proceeds of its $150 million First Mortgage Bond issuance in December 2009, its CFO of approximately $179 million (after a $45 million contribution to its pension plans), and NU's capital contribution of $124 million to fund its investment program ($314 million), dividend distributions ($48million) and $36 million RRB repayment (recovered through rates with full amortization completed in May 2013). During the first-half 2010, PSNH borrowed around $19 million from the NU family money pool, while lending almost the same amount during the third quarter, such that the outstanding balance at the end of September was $26.6 million (year-end 2009: $26.7 million). PSNH's next long-term debt maturity will be $50 million in 2014, followed by $70 million in 2017.

PSNH has access to a total of $300 million under the 3-year unsecured revolver (US$400million) jointly executed by NU's subsidiaries in September 2010. No amounts were outstanding as of the end September 2010. Drawings are not subject to a material adverse change clause but the facility has a financial covenant that sets a 65% limit for total debt to total capitalization. PSNH is in compliance with this covenant. NU's subsidiaries are expected to maintain a 60% dividend payout-ratio subject to certain restrictions under the credit facility. In September 2010, NU also replaced its expiring parent facility with a $500 million 3-year facility (can be extended to $600 million; available amount as of end September 2010: $344 million) under which LoCs can be issued in the name of NU and its subsidiaries. PSNH had NU post a LoC amounting to $37.6 million as of the end September 2010, the bulk of which relates to its generation business.

Moody's expects that PSNH will continue to receive material capital contributions from NU during 2011 ($69 million during 2009 compared to $76 million in 2008) to maintain the regulatory capitalization ratio amid its material capex program which will be further funded with a combination of internally generated cash flows and long-term financing, while also maintaining a 60% dividend payout-ratio (subject to restrictions under the credit facility and FERC hydro-electric license conditions).

Within the framework of the methodology, PSNH maps to a rating factor in the Baa range for Factor 4 - Liquidity. This is principally driven by the two committed credit facilities, supplemented by PSNH's participation in the NU family money pool.

Rating Outlook

The stable rating outlook reflects a continuation of NU's conservative financial policy in terms of capital contributions and dividend pay-out ratio to help fund the utility's capex program, and the continued successful implementation of several cost cutting initiatives.

What Could Change the Rating - Up

PSNH's ratings could be upgraded if the company is able to achieve a significant improvement in its financial profile. This could occur, for example, by ?obtaining continued regulatory support for its capital investments that fosters achievement of CFO pre-W/C to debt and interest coverage in excess of 20% and near 4.5x, respectively, on a sustainable basis.

What Could Change the Rating - Down

PSNH's ratings could be downgraded if future regulatory actions are less supportive than anticipated, if NU's capital contributions are lower than expected, or if substantial cost overruns result in significant deterioration in the credit metrics, such that the company's CFO pre-W/C to debt and interest coverage falls below 13% and 3x, respectively, for an extended period of time.

Rating Factors

Public Service Company of New Hampshire

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)				X		
Factor 3: Diversification (10%)						
a) Market Position (5%)				X		
b) Generation and Fuel Diversity (5%)				X		

Factor 4: Financial Strength, Liquidity and Key Financial Metrics (40%)						
a) Liquidity (10%)				X		
b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg)				X		
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Methodology Implied Senior Unsecured Rating				**Baa2**		
b) Actual Senior Unsecured Rating				**Baa2**		

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Credit Opinion: Western Massachusetts Electric Company

Global Credit Research - 27 Oct 2010

Massachusetts, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Parent: Northeast Utilities	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Preferred Shelf	(P)Ba1

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Key Indicators

[1]**Western Massachusetts Electric Company**

	LTM2Q'10	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest	4.8x	5.2x	4.5x	4.3x
(CFO Pre-W/C) / Debt	16.9%	16.3%	15.9%	16.2%
(CFO Pre-W/C - Dvidends) / Debt	13.9%	12.8%	7.3%	13.2%
Debt / Book Capitalization	45.2%	53.2%	52.2%	49.9%

[1] All ratios calculated in accordance with the Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Transmission rate base expected to become majority of WMECO's rate base amid its significant capex program

- Credit supportive regulatory environment amid increasing exposure to FERC's purview

- Reasonable ability to recover costs and earn returns

- Historical credit metrics well positioned within the rating category albeit expected to weaken

Company Profile

Headquartered in Springfield, Western Massachusetts Electric Company (WMECO; Senior unsecured rating: Baa2/stable) is a regulated electric transmission and distribution (T&D) utility serving over 200,000 retail customers in Western Massachusetts.

WMECO's distribution operations are regulated by the Massachusetts Department of Public Utilities (MDPU), while the transmission activities are subject to the purview of the Federal Energy Regulatory Commission (FERC).

With total assets of around $1.2 billion and funds from operations of $83 million for the twelve months ended June 30, 2010, WMECO is the smallest electric utility among those that comprise Northeast Utilities (NU).

RECENT CREDIT DEVELOPMENTS

October 18, 2010, Moody's affirmed the ratings of NU, NSTAR and all their subsidiaries following the announcement that the boards of NU and

NSTAR agreed to a merger of equals in a stock-for-stock transaction. Upon closing of the transaction expected before the fourth quarter of 2011, NU will be the surviving corporation. For more details refer to our press release available under www.moodys.com

On September 28, 2010, the Massachusetts Energy Facilities Sitting Board issued a Final Decision approving WMECO's petition to construct the 23-mile Massachusetts portion of the Greater Springfield Reliability Project (GSRP) interconnecting the project to Connecticut. Construction works are expected to start before year-end with completion planned during 2013. The GSRP is the largest section (over $700 million) of the New England East-West Solution (NEEWS) transmission projects in which WMECO is involved with its sister company Connecticut Light and Power (NU's aggregate share around $1.5 billion) along with National Grid USA and United Illuminated (UIL).

On September 24, 2010, NU entered into a $500 million three-year unsecured revolving credit agreement. WMECO and its sister companies CL&P, Public Service Company of New Hampshire and Yankee Gas Services also executed a $400 million joint three-year unsecured revolving credit agreement. The facilities provide for up to two one-year extensions. The credit facilities expiring in November 2010 were terminated.

On July 16, 2010, WMECO requested a $28.4 million distribution rate increase (+23.3%) based on a 10.5% Return on Equity (RoE), a 8.11% return on its $381.6 million 2009-rate base and a 50.7% equity ratio. It is also seeking to implement a revenue decoupling mechanism following the 2008 MDPU directive requiring all utilities to implement fully decoupled rates on a going-forward basis as part of their next base rate case. WMECO has also requested an inflation adjustment and a multi-year capital investment recovery mechanism. It is also seeking recouping the 2008 major storm costs ($13 million costs) over a five year period and its hardship receivable costs. WMECO has further proposed increasing its annual investments from $35 million to $50 million to replenish its aging distribution infrastructure. The Attorney General has supported a 9.25% RoE (42.07% of capital) and a 7.17% rate base return. The MPUC's decision is expected before January 31, 2011, wherein rates will become effective in February 2011.

On June 3, 2010, WMECO requested the MDPU authority to issue up to $500 million in long-term debt through 2012.

SUMMARY RATING RATIONALE

Moody's evaluates WMECO's financial performance relative to the Regulated Electric and Gas Utilities rating methodology published in August 2009 and as depicted in the grid below which indicates a Baa2 rating which is the same as the current assigned senior unsecured rating.

WMECO's Baa2 rating reflects the company's sound financial metrics for the rating category albeit weakening amid increased leverage to fund the substantial transmission capital expenditure (capex) program. It also captures the generally constructive regulatory environment amid increasing exposure to FERC oversight although the outcome of the current distribution rate case will remain a key driver in our future assessment.

The rating also acknowledges WMECO's ownership by NU and its conservative financial policies and overall business risk profile given the minimal unregulated businesses remaining. It also factors in WMECO's liquidity profile which benefits from its participation in NU's money-pool that supplements each utility's available portion under the joint committed bank credit facility, as well as the single uniform defined benefit pension plan sponsored by NU.

DETAILED RATING CONSIDERATIONS

MATERIAL INVESTMENTS IN TRANSMISSION ASSETS

WMECO's capex earmarked for distribution assets (mainly systems upgrades) and its western Massachusetts 6MW solar generation projects (RoE: 9%) amount to $179 million and $40 million, respectively. This is considerably smaller than the planned investments in transmission assets of over $800 million over the next five years, with GSRP accounting for the bulk of them. As a result, WMECO's transmission asset base will grow to around $900 million (year-end 2009: $183 million) accounting for over 60% of WMECO's asset base (currently around 25%). The GSRP project has been approved by ISO-New England for regional cost allocation due to the expected reliability improvement across the system. Moody's is confident that WMECO will be able to smoothly implement its significant capex program and takes comfort in NU's proven track record of completing similar large scale projects on time and within budget.

CREDIT SUPPORTIVE REGULATORY FRAMEWORK

The supportiveness of the regulatory framework in which a utility operates and its ability to recover costs on a timely basis and earn a reasonable return are important rating factors in our rating methodology for regulated utilities. Moody's scores WMECO at Baa for each of these two factors. Moody's views the Massachusetts' regulatory framework as generally credit supportive. Nevertheless, the outcome of WMECO's current rate case will be a key element in our future assessment about the overall credit supportiveness of the framework and WMECO's relationship with the MDPU, particularly given that the its current rates are based on a 2006-settlement which was silent regarding the RoE, and allowed for a 50% earnings sharing mechanism such that WMECO can retain half of the earnings generated above a 12% RoE and absorb half of any earnings shortfall when reporting a RoE below 8%. That settlement also established tracking mechanisms to true-up recovery outside rate filings for transmission, pension and other post retirement benefit costs, as well as uncollectible amounts related to energy costs and certain capex needed to improve system reliability.

WMECO is still recouping via a transition charge the stranded costs associated with its divesture in generation. These are largely funded via Rate Reduction Bonds (RRB) that are amortized directly through rates (expiration in June 2013). WMECO is also allowed to recover on a relatively timely basis the costs related to its purchased power via the energy services component of the rates which are reset quarterly for large commercial and industrial customers and semi-annually for residential and small businesses.

On a less credit positive note, existing regulation in Massachusetts still sets rates based on historical test-years with post test-year additions allowed only if warranted by the importance of the project.

Moody's notes that as a result of WMECO's material capex in transmission, its exposure to FERC's regulatory overview will progressively increase. Moody's ranks the FERC's regulatory framework at the top of all regulatory jurisdictions in the US in terms of credit supportiveness. This assessment is underpinned by the fact that to foster investments in transmission, the FERC allows companies to typically earn a RoE above the allowed returns for regulated electric distribution investments. The NEEWS Project's total allowed RoE amounts to 12.89% after several RoE adders, adjustments and a 1.25% financial incentive on top of FERC's base 11.14% RoE. Transmission rates are based on a formulaic forward-looking cost-of-service model that also adjusts for changes in network load impacting demand, such as weather. It also authorizes cash recovery through rates of 100% of Construction Work in Progress. In our opinion, these features underpin transmission

investment's stable and predictable cash flows.

MODEST EXPOSURE TO INDUSTRIAL CUSTOMERS AND RATE DESIGN

One of the main drivers for WMECO's current rate case is the drop in sales (-5%) registered over the last year. During the first-half of 2010, sales increased on a weather-adjusted basis by only 0.1% vs. a decline of 5.8% for the six months ending June 2009 despite some signs of economic recovery in its service territory. According to MoodysEconomy.com, recovery in the Springfield metro area will continue with Gross Metro Product growing at 2.5% during 2010 (2011: +1.5%); however, job growth will remain tepid through 2012. WMECO shows a modest reliance on the industrial and commercial sectors which accounted for around 9% and 32% of its revenues at year-end 2009. Due to the current design of the commercial and industrial rates over 65% of its distribution revenues consist of fixed charges further insulating the company's cash flows from weak economic conditions.

CREDIT METRICS TO REMAIN RELATIVELY STABLE

We note a progressive deterioration in WMECO's distribution segment reported RoE. Through the last twelve months ended June 2010, this was 6.6% compared to 7.7% at the end of June 2009 (year-end 2008: 7.2%; year-end 2007: 9.7%) compared to the 8% to 12% RoE range currently allowed. At year-end 2010, WMECO expects its RoE to approximate only 5%.

Historically, WMECO's key credit metrics have been well positioned within the Baa-rating category. Its 2007-2009 CFO pre-W/C to debt, CFO pre-W/C minus Dividends to debt and CFO pre-W/C interest coverage averaged 16.1%, 11.1% and 4.5x, respectively.

Prospectively, Moody's expects some deterioration in these metrics amid increasing leverage to fund the significant transmission capex program couple with the expiration of the bonus depreciation tax deductions at the end of 2009, albeit this will also depend on the distribution rate case outcome, the pace of economic recovery in its service territory, and the impact on cash flows associated with the increasing exposure to FERC's regulatory overview. Nevertheless, Moody's expects these metrics to remain reasonably well-positioned within the Baa rating category for a regulated T&D utility. Specifically, Moody's expects that WMECO will report over the short to medium term CFO pre-W/C to debt around the mid teens, CFO pre-W/C minus Dividends to debt of about 10% and CFO pre-W/C interest coverage above 3.5x.

Liquidity

Similar to its sister companies, WMECO's maintains a modest cash balance ($1 million as of June 2010 and year-end 2009). Over the 12 months ended June 2010, WMECO used its CFO of approximately $72 million, NU's capital contribution of $103 million and proceeds raised from the $96 million debt issuance to fund its investments ($113 million) and dividend distributions ($15 million). WMECO lends and borrows in the NU family money pool. During the first-half 2010, it fully repaid the $136 million borrowed at year-end 2009 .

For 2011, Moody's expects WMECO will fund its capital requirements in a similar fashion after attaining MDPU's authorization for the issuance of LT-debt. During 2011 about $17 million of RRB will become due,recovered directly via rates (full amortization: June 2013). WMECO's next long-term debt maturity will be in 2013 ($55 million) followed by $50 million in 2017.

WMECO has access up to $200 million under the joint-committed unsecured revolver (US$400 million) executed by NU's subsidiaries. Drawings are not subject to a material adverse change but the facility has a financial covenant that sets a 65% limit for total debt to total capitalization. WMECO is in compliance with this covenant. NU's subsidiaries are expected to maintain a 60% dividend payout-ratio subject to certain restrictions under the credit facility.

Within the framework of the methodology, WMECO maps to a rating factor of Baa range for Factor 4 - Liquidity. This is principally driven by the two committed credit facilities supplemented by WMECO's participation in NU family money pool.

Rating Outlook

The stable rating outlook reflects our expectations that WMECO's credit metrics will remain well positioned within the Baa rating category for a T&D utility assuming a relatively constructive rate case outcome.

What Could Change the Rating - Up

WMECO's ratings could be upgraded if the company is able to achieve a significant improvement in its financial profile. This could occur, for example, by garnering continued regulatory support for capital investments that fosters achievement of CFO pre-W/C to debt and interest in excess of 19% and 4.0x, respectively, on a sustainable basis.

What Could Change the Rating - Down

WMECO's ratings could be downgraded if future regulatory actions are less supportive than anticipated, if NU's capital contributions are lower than expected and/or substantial cost overruns result in significant deterioration in the credit metrics, such that CFO pre-W/C to debt and interest falls below 13% and 3x, respectively, for an extended period of time.

Rating Factors

Western Massachusetts Electric Company

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)				X		
Factor 3: Diversification (10%)						
a) Market Position (5%)				X		

b) Generation and Fuel Diversity (5%)				n.a.		
Factor 4: Financial Strength, Liquidity and Key Financial Metrics (40%)						
a) Liquidity (10%)				X		
b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg)				X		
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)						
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Methodology Implied Senior Unsecured Rating				**Baa2**		
b) Actual Senior Unsecured Rating				**Baa2**		

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MOODY'S
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Credit Opinion: Connecticut Light and Power Company

Global Credit Research - 28 Oct 2010

Berlin, Connecticut, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured Shelf	(P)A2
Preferred Stock	Baa3
Parent: Northeast Utilities	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Preferred Shelf	(P)Ba1

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Key Indicators

[1]**Connecticut Light and Power Company**

	LTM2Q'10	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest	**5.0x**	**5.1x**	**3.8x**	**3.7x**
(CFO Pre-W/C) / Debt	**22.2%**	**22.9%**	**15.3%**	**15.2%**
(CFO Pre-W/C - Dvidends) / Debt	**15.2%**	**19.0%**	**11.9%**	**12.2%**
Debt / Book Capitalization	**47.5%**	**47.2%**	**51.5%**	**51.9%**

[1] All ratios calculated in accordance with the Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Significant capex program in T&D assets

- Despite some perceived risk of political interference, CL&P's distribution rate case outcome has somewhat eased our concerns about the Connecticut regulatory environment

- Exposure to FERC regulation given that transmission accounts for about half of its total rate base is a credit positive

- Some weakening in projected credit metrics

Company Profile

Headquartered in Berlin, CT, The Connecticut Light and Power Company (CL&P - Baa1 Issuer Rating) with more than 1.2 million customers is the state's largest regulated electric transmission and distribution (T&D) utility. CL&P's operations are regulated by the Connecticut Department of Public Utility Control (DPUC) and the Federal Energy Regulatory Commission (FERC). With total assets of around $8.3 billion as of June 30, 2010, CL&P is the largest subsidiary among those that comprise Northeast Utilities (NU - Baa2, senior unsecured).

RECENT CREDIT DEVELOPMENTS

On October 18, 2010, Moody's affirmed the ratings of NU, NSTAR and all their subsidiaries following the announcement that the boards of trustees of NU and NSTAR agreed to a merger of equals in a stock-for-stock transaction. Upon closing of the transaction expected before the

fourth quarter of 2011, NU will be the surviving corporation. For more details refer to our press release available under www.moodys.com

On September 28, 2010, the Massachusetts Energy Facilities Sitting Board issued a Final Decision approving the petition of CL&P's sister company, Western Massachusetts Electric Company (WMECO; Baa2/stable), to construct the 23-mile Massachusetts portion of the Greater Springfield Reliability Project (GSRP) connecting the project to Connecticut. This followed the March 2010 approval by the Connecticut Sitting Council for the Connecticut portion to be built by CL&P. Construction in Massachusetts is expected to start before year-end and construction in Connecticut is expected to begin in 2011 with completion planned during 2013. The GSRP is the largest section (over $700 million) of New England East-West Solution (NEEWS) family of transmission projects in which CL&P is involved with its sister company Western Massachusetts Electric Company (NU's aggregate share: approximately $1.5 billion) along with National Grid USA. In mid-July 2010, United Illuminating Company (UIL) and CL&P executed a purchase and sale agreement for UIL to invest in CL&P's portion of the NEEWS project in Connecticut for over $60 million (about 8.4% of CL&P's portion in the project).

On September 24, 2010, NU entered into a $500 million three-year unsecured revolving credit agreement. CL&P and its sister companies Public Service Company of New Hampshire (PSNH), WMECO and Yankee Gas Services also executed a $400 million joint three-year unsecured revolving credit agreement. The facilities provide for up to two one-year extensions. The credit facilities expiring in November 2010 were terminated.

On July 12, 2010, CL&P requested from the DPUC authority to issue up to $900 million in long-term debt through 2014.

On July 9, 2010, Moody's also affirmed the ratings of NU, CL&P and its sister company PSNH and maintained stable outlooks following the outcome of the utilities' rate cases. For more details refer to our press release available under www.moodys.com

SUMMARY RATING RATIONALE

Moody's evaluates CL&P's financial performance relative to the Regulated Electric and Gas Utilities rating methodology published in August 2009 and as depicted in the grid below which indicates a Baa1 rating which is the same as the current assigned senior unsecured rating.

CL&P's Baa1 Issuer Rating reflects Moody's mixed view on the regulatory authorities that oversee its T&D activities as well as its ability to reasonably recover costs and earn its allowed RoE. Moody's rating also considers the planned multi-year capital expenditure (capex) programs as CL&P and its parent focus on building upon its regulated business model, albeit full implementation of its transmission projects is still going through various regulatory procedures. The rating also reflects CL&P's sound financial metrics for the rating category although these are expected to weaken somewhat amid increased leverage to fund the capex program.

The rating also acknowledges CL&P's ownership by NU and the minimal unregulated businesses remaining within the family. CL&P also benefits from its participation in the corporate money pool that supplements its available portion under the committed bank credit facility for NU's regulated subsidiaries, as well as the single uniform defined benefit pension plan sponsored by NU.

DETAILED RATING CONSIDERATIONS

OVERALL CREDIT SUPPORTIVE REGULATORY ENVIRONMENT

The supportiveness of the regulatory framework in which a utility operates and its ability to recover costs on a timely basis and earn a reasonable return are important rating factors in our methodology for regulated utilities. Moody's scores CL&P at strong Baa for each of these two factors reflecting our views about the two regulatory jurisdictions under which CL&P operates.

Moody's considers the outcome of CL&P's distribution rate case in June 2010 moderately credit constructive. It somewhat alleviated our concerns about the credit supportiveness and predictability of the regulatory framework in Connecticut, and CL&P's constructive relationship with the DPUC. The concerns were raised after some less favorable DPUC decisions during 2008 affecting certain local natural gas distribution companies. That being said, Moody's views negatively the implementation of a new charge on customer electricity bills after the scheduled expiration of the Competitive Transition Assessment (CTA) for the recovery of stranded costs. The purpose of the charge is to collect funds to repay around $650 million of economic recovery revenue bonds issued to fund the gap resulting from the Connecticut Legislature's 2010-2011 budget over an eight-year period (Senate Bill 494). Moody's acknowledges that the pass-through nature of this charge is cash and revenue neutral for CL&P; however, it raises concerns about further political interference in the State which is also considered in our assessment of the credit supportiveness of the regulatory framework.

The DPUC allowed a two-step rate increase, namely a $63.4 million increase for the first step effective July 1, 2010 (but charged to end-users starting January 1, 2011) and a $38.5 million for the second year ending in June 2012. Moody's equates this to approximately 60% of CL&P's requested amount on a cumulative basis. The DPUC approved the bulk of the company's proposed investments in its distribution system, and final rates were based on CL&P's electricity sales forecasts for 2010 and 2011. We observe that the DPUC adopted a more moderate approach, as compared to other proposed alternatives towards amortizing the $380 million depreciation reserve, which results in better cash flow.

On a less positive note, the DPUC did not authorize the implementation of a pension tracking mechanism or full revenue decoupling. Furthermore, rates in Connecticut are set based upon a historical test year which creates regulatory lag. Additional drivers of the gap between CL&P's requested and allowed rate increase include the existing modest allowed Return on Equity (RoE) of 9.4% (requested RoE: 10.5%) on a 49.2% equity capitalization and disallowance for the recovery of certain cost items such as incentive pay for non-officers. However, we also note that the DPUC reconsidered in July 2010, its initial decision not to allow CL&P to establish a $13.7 million regulatory asset related to a provision in the federal health legislation that eliminated the tax deductibility of subsidies companies received providing retirees health care (related earnings charge of around $10 million). Moody's assessment further acknowledges that CL&P's operations benefit from the timely recovery of hardship costs for uncollectible amounts outstanding more than 90 days as well as federally mandated transmission congestion and energy costs.

Moody's ranks the FERC's regulatory framework at the top of all regulatory jurisdictions in the US in terms of credit supportiveness. The rates are set on a projected test-year basis and with material cost recovery disallowances unlikely. CL&P can earn significantly more attractive returns on its increasing transmission rate base, namely 12.89% for the NEEWS Project, and 11.64% for the remainder of CL&P's and its sister companies' projects if completed after FYE 2008 (12.64% if in service before year-end 2008).

SIGNIFICANT T&D CAPEX PROGRAM

CL&P plans to invest around $2.5 billion over the next five years to grow its T&D asset base. The bulk of its transmission capex program (about $1 billion) has been earmarked for the NEEWS project to build 115KV/345KV lines in New England. In addition to the GSRP project, the NEEWS project consists of the Interstate Reliability Project (IRP; CL&P's share over $200 million) connecting Connecticut and Rhone Island to be built together with National Grid USA. CL&P plans to file a siting application with Connecticut regulators in 2011 after the reassessment by ISO-New England of the need date and the issuance of its regional system plan. IRP's completion is not expected before end of 2014. The third major part, the Central Connecticut Reliability Project (CL&P's share over $300 million) will link Bloomfield and Watertown in Connecticut and is expected to be in service six to twelve months after the IRP. Given the material involvement of different regulatory entities, further delays in the project's implementation cannot be ruled out. Nevertheless, Moody's expects that over the medium to long term, CL&P's transmission rate base will increase to about $2.6 billion (year-end 2009: around $2.1 billion) still accounting for slightly less than 50% of its asset base.

In addition, CL&P has earmarked distribution capex of around $1.5 billion (over 65% of NU's aggregate distribution capex program) for the 2009-2014 period which relates mainly to system upgrades. The regulated distribution asset base is expected to grow to around $3 billion over the medium term (2009 around $2 billion).

Moody's is confident that CL&P will be able to smoothly implement its significant capex program and takes comfort in NU's proven track record of completing similar large scale projects on time and within budget, such as the SW Connecticut Reliability project completed for about $1.7 billion in 2008.

MODEST EXPOSURE TO INDUSTRIAL CUSTOMERS AND RATE DESIGN

During the first-half of 2010, CL&P's sales dropped by 0.9% on a weather-adjusted basis vs. a decline by 2.3% for the six months ending June 2009 despite some signs of economic recovery in its service territory. In fact, its industrial sales grew by 1.3%. According to MoodysEconomy.com, Connecticut's recovery will not regain momentum until mid-2011 with Gross State Product growing at 2.6% during 2010 (2011:+3.4%), while the unemployment rate will resume climbing to reach 9.4% in mid-2011. We note that due to the commercial and industrial rate design, a substantial portion of CL&P's total distribution revenues consists of fixed charges further insulating the company's cash flows from weak economic conditions.

WEAKENING CREDIT METRICS STILL WELL POSITIONED WITHIN THE RATING CATEGORY

Through the twelve months ended June 2010, CL&P's distribution segment reported a 5.4% RoE (same period 2009: 7.7%); however, NU expects its RoE to amount to between 7.5% and 8% at year-end following the implementation of the first-step of the authorized rate increase, and to approximate 9% over the medium term after the second allowed rate increase, while implementing further cost management initiatives.

Historically, CL&P's key credit metrics have been well positioned within the Baa-rating category. We also note that CL&P's improved credit metrics during 2009 was largely underpinned by the bonus depreciation tax deductions that expired at year-end 2009. Its 2007-2009 CFO pre-W/C to debt, CFO pre-W/C minus Dividends to debt and CFO pre-W/C interest coverage averaged 17.8%, 14.4% and 4.2x, respectively.

Prospectively, Moody's anticipates some deterioration in these metrics amid increasing leverage to fund its material capex program. This is expected to be funded with a mix of external and internal sources including NU's periodic capital contributions to maintain a common equity ratio in line with DPUC's allowed level. It will also depend upon the pace of economic recovery in its service territory, and the impact on cash flows associated with the increasing exposure to FERC's regulatory overview as well as the ongoing improvement in the cost structure. Nevertheless, Moody's expects these metrics to move more toward the mid-to-bottom portion of the Baa rating category for regulated electric and gas utilities. Specifically, Moody's expects that CL&P will report over the medium term CFO pre-W/C to debt above 13%, CFO pre-W/C minus Dividends to debt of about 10% and CFO pre-W/C interest coverage above 3.5x.

Liquidity

Similar to its sister companies, CL&P maintains a modest cash balance ($9 million as of June 2010; year-end 2009: $45k). Over the 12 months ended June 2010, CL&P used its CFO of approximately $664 million and NU's capital contribution of $71 million to fund its investments ($409 million) and dividend distributions ($206 million). We note that during the first half of 2010, CL&P received no capital contributions (2009: $148million). CL&P lends and borrows in the NU family money pool. During the first-half of 2010, it borrowed $15.6 million, while it had lent into the pool around $103 million at year-end 2009.

For 2011, Moody's expects CL&P will also issue long-term debt after attaining DPUC's authorization for the issuance of LT-debt. At year-end 2010, the Revenue Reduction Bonds (recovered directly via rates) will be fully amortized. As of June 2010, CL&P reported $62 million in the current portion of long-term debt following the remarketing of the pollution control revenue bonds (PCRB) in April which were subject to mandatory tender for purchase(maturity in 2031). CL&P's next long-term debt maturity will be in 2014 ($150 million) followed by $100 million in 2015.

CL&P has access to up to $300 million under the joint-committed unsecured revolver (US$400million) executed by NU's subsidiaries. Drawings are not subject to a material adverse change but the facility has a financial covenant that sets a 65% limit for total debt to total capitalization. CL&P is in compliance with this covenant. NU's subsidiaries are expected to maintain a 60% dividend payout-ratio subject to certain restrictions under the credit facility.

Within the framework of the methodology, CL&P maps to a rating factor of Baa range for Factor 4 - Liquidity. This is principally driven by the two committed credit facilities supplemented by CL&P's participation in the NU family money pool.

Rating Outlook

The stable rating outlook reflects our expectations that CL&P's credit metrics will remain reasonably positioned within the Baa rating category for a T&D utility assuming the parent company's continued conservative financial policy to fund CL&P's substantial capex program coupled with equity contributions.

What Could Change the Rating - Up

CL&P's ratings could be upgraded if the company is able to achieve a significant improvement in its financial profile. This could occur, for example, by garnering continued regulatory support for its capital investments that fosters achievement of CFO pre-W/C to interest and debt of near 5.0x and in excess of 22%, respectively, on a sustainable basis.

What Could Change the Rating - Down

CL&P's ratings could be downgraded if future regulatory actions are less supportive than those recently demonstrated. From a financial perspective, if CFO pre-W/C to debt and interest falls below 13% and 3.5x, respectively, for an extended period of time, the ratings would be subject to downgrade.

Rating Factors

Connecticut Light and Power Company

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)				X		
Factor 3: Diversification (10%)						
a) Market Position (5%)				X		
b) Generation and Fuel Diversity (5%)				n.a.		
Factor 4: Financial Strength, Liquidity and Key Financial Metrics (40%)						
a) Liquidity (10%)				X		
b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg)				X		
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Methodology Implied Senior Unsecured Rating				**Baa2**		
b) Actual Senior Unsecured Rating				**Baa1**		

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Credit Opinion: Yankee Gas Services Company

Yankee Gas Services Company

United States

Ratings

Category	Moody's Rating
Outlook	Negative
Issuer Rating	Baa2
Parent: Northeast Utilities	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Preferred Shelf	(P)Ba1

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Key Indicators

[1]
Yankee Gas Services Company

	LTM 6/30/2007	12/31/06	12/31/05	12/31/04
Net Income to Average Common Equity	**2.45%**	**2.14%**	**3.84%**	**3.11%**
EBIT/Customer Base	**194.8**	**180.5**	**229.6**	**189.3**
EBIT/Interest Expense	**1.84**	**1.63**	**2.20**	**1.98**
Retained Cash Flow to Adjusted Debt	**4.15%**	**8.35%**	**5.34%**	**11.48%**
Debt / Book Capitalization (Excluding Goodwill)	**44.67%**	**50.97%**	**57.90%**	**53.93%**
Free Cash Flow/Funds From Operations	**-245.45%**	**-88.58%**	**-120.00%**	**-89.61%**

[1] Ratios defined in "Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non- FinancialCorporations- Part I (US/Canadian GAAP, February 2006)"

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

Yankee Gas Services Company (YGS) is a local natural gas distribution company (LDC) and is a wholly-owned subsidiary of Northeast Utilities (NU), which is also the parent holding company for three other regulated utilities. YGS and the other regulated subsidiaries of NU (Connecticut Light & Power Company; Public Service Company of New Hampshire; and Western Massachusetts Electric Company) comprise the largest utility system in the New England region, serving roughly 1.9 million electric and 200,000 gas customers within its 11,000 square mile service territory spanning some of New England's most populous communities.

Although YGS is Connecticut's largest natural gas LDC serving approximately 202,000 gas customers, including 178,000 residential class customers, it is the smallest regulated subsidiary in the NU family and is expected to contribute approximately 8% of consolidated revenues over the next several years. YGS generated roughly $424 million in revenue through the twelve months ended June 30, 2007 and is regulated by the Connecticut Department of Public Utility Control (DPUC) and the Federal Energy Regulatory Commission.

Rating Rationale

YGS's Issuer Rating largely reflects the overall assessment of key qualitative and quantitative factors outlined in Moody's North American Regulated Gas Distribution Rating Methodology (the Rating Methodology). The factors as outlined in the Rating Methodology include regulatory support; ring-fencing; financial strength and flexibility; and sustainable profitability. With respect to the quantifiable credit metrics covered in the Rating Methodology, we consider both YGS's historical and expected levels of performance over the next few years. We also consider the adequacy of its overall liquidity.

When we strictly use historical quantitative data for our overall assessment of YGS, the company maps to a rating of Ba2, which makes it an outlier (i.e. mapping more than two notches below its actual Baa2 senior unsecured rating, albeit with a negative rating outlook). The outlier status on a historical basis is especially influenced by the very weak (i.e. Caa) indicated rating as it relates to the free cash flow to funds from operations (FCF/FFO) metric, which receives 15% weighting. The weak standing on a historical basis for this metric reflects the effects of regulatory lag related to YGS's investment in the recently completed LNG facility in Waterbury, Connecticut. It is important to note that we believe YGS's earnings and cash flow will improve considerably over the next couple of years based on the regulatory support in the recently completed rate case to address recovery of and return on the investment in the LNG facility. The expected improvement in earnings and cash flow and a reduced capital spending program should enable YGS to garner an especially higher indicated rating (i.e. at least Baa) for the FCF/FFO metric over the next several years. It is this prospective view that causes us to maintain the Issuer Rating of YGS at Baa2 (negative outlook) even though its overall rating maps to Ba2 under the Rating Methodology when strictly historical credit metrics are used.

Meanwhile, we generally view Connecticut's regulatory framework as supportive and constructive of the utilities in the state and view the degree of ring fencing provisions that help maintain financial and operational independence of the utilities as reasonable. Our overall assessments result in assigning indicated ratings of Baa for YGS as it relates to both of these rating factors, which we believe are consistent with our view of the company's moderate business risk profile and its ability to generate a relatively predicable and stable level of cash flow.

Even though an overall improvement in earnings and cash flow is anticipated, our ratings for YGS incorporate expectations for continued weakness in YGS's profitability as measured by its return on equity (including goodwill). It is important to note that YGS, like the other LDCs located in the New England area, typically map to a lower indicated rating for the return on equity (including goodwill) sub-factor compared to the rated universe as a result of market convention rather than firm specific weakness.

We elaborate on the more important key rating and outlook drivers below.

SUSTAINABLE PROFITABILIY MEASURES LIMIT SCORING UNDER THE RATING METHODOLOGY

Return on Equity: Under the Rating Methodology, sustainable profitability is measured by return on equity (ROE) including goodwill as part of the equity component. This approach lies in contrast to the method used by the DPUC, which does not include goodwill in the process of determining revenue requirements. Therefore YGS's ROE (including goodwill) is stressed due to its inability to recover and earn a return on goodwill, which is rather substantial at 44% of equity (including deferred tax liabilities).

We note this is not a firm specific weakness of YGS since LDCs in and around the New England area that also have significant goodwill on their books are also generally precluded from recovering and earning a return on goodwill. YGS and its regionally situated peers have historically averaged ROE (including goodwill) in the range of 2-5%, resulting in notably weaker indicated ratings on this sub-factor than many other LDCs in Moody's rated universe.

YGS's three-year average ROE (including goodwill) for 2004 - 2006 is 3.0% and maps to an indicated rating of Ba. While we do not anticipate any change in the ability of the company to recover and earn a return on its goodwill, we do expect improvement in the metric as a result of the new rates in effect as of July 1, 2007. We expect that the new rates should give YGS a reasonably good opportunity to earn an ROE (including goodwill) in the higher end of the 2-5% range associated with the Ba category, according to the Rating Methodology.

Using ROE (excluding goodwill) as a barometer of sustainable profitability may be more akin to the regulatory approach used in some other jurisdictions when formulating rates. As a frame of reference, YGS's ROE (excluding goodwill) has averaged 7.3% for the 2004-2006 period, which still falls shy of the company's allowed 9.9% ROE in effect during that period. Even applied prospectively, we estimate that YGS's ROE (excluding goodwill) may continue to fall short of its allowed 10.1% set as part of the outcome in its most recent rate case which was settled earlier this year, suggesting additional regulatory lag or other cost pressures. Under this scenario, we believe the utility might file another rate case over the next year or so.

EBIT/Customer Base: Moody's other consideration in assessing sustainable profitability is the EBIT/Customer Base sub-factor. This metric is a gauge of the utility's profitability relative to its residential and commercial customer count. We exclude industrial customers from the calculation for several reasons; most notably because their procurement practices typically include alternative gas sources as result of interruptible sales during times of high demand. YGS's EBIT/Customer Base sub-factor maps to an indicated rating of A for 2004-2006. This

positions the company favorably among its peer group as its firm customers contribute very well to profitability. While the strong standing relative to this sub-factor bodes well for the company, the weighting of 5% has a less pronounced impact on the overall indicated rating compared to the other five quantitative sub - factors which each have a 15% weighting.

DPUC TENDS TO BE SUPPORTIVE OF UTILITY CREDIT QUALITY

Regulatory Support: A utility's ability to achieve an ROE that is comparable with the level authorized by its regulators is largely influenced by the mechanisms in place which either support or hinder the company in dealing with some common problems such as conservation and weather related issues. Our view of these mechanisms weigh into our overall assessment of the regulatory support provided to a utility. YGS's indicated rating of Baa for this factor reflects a favorable shift in our view of regulatory support (i.e. prior mapping used a Ba indicated rating for regulatory support). The prior Ba indicated rating on this key factor was premised on concerns about whether a pending rate case would provide timely and adequate rate relief. In addition, YGS was not benefiting from a weather normalization mechanism or a decoupling mechanism, and regulators were not supporting recovery of costs associated with commodity hedging programs. However, earlier this year the DPUC approved a satisfactory settlement of YGS's rate case to provide for rate base treatment of virtually all of its investment in the aforementioned LNG plant. In addition, the Connecticut legislature recently mandated that all future gas and electric utility rate proceedings contain a proposal for a decoupling mechanism. Accordingly, YGS could gain ground on this topic with the filing of its next rate case, which would help abate one of our earlier concerns. We also note that Connecticut's energy issues have been in the legislative limelight as national statistics show that Connecticut places second only to Hawaii's highest all-in electric rates. Given this standing, the legislators are encouraging energy conservation among other ways to bring overall electric and natural gas usage and rates down. Because such steps could potentially reduce customer usage below levels assumed as part of the basis for rate setting, the reduced revenues would likely contribute to reduced earnings and cash flow for YGS. If the DPUC were to adopt a revenue decoupling mechanism for YGS, we would view that step as a credit positive.

By way of background, the recent rate increase that went into effect on July 1, 2007 approved rate base treatment for virtually all of the $108 million of construction costs associated with the recently completed LNG facility in Waterbury, Connecticut. In our opinion, the settlement of this case in just six months compared to an 8 month lag seen on average around the country for other LDC rate cases is another sign of reasonable regulatory support and speaks to the company's ability to work collaboratively with all constituents to achieve key regulatory objectives. Specifically, the rate settlement authorized a net gas rate increase of $22.1 million, reflecting a $53.7 million increase in distribution rates which are offset by roughly $31.5 in pipeline and commodity charge savings. The net gas rate increase in this instance represented about half of the net amount originally requested by YGS.

Historically, the DPUC had supported sharing of earnings in excess of the authorized 9.9% ROE on a 50/50 basis between YGS and its customers. As previously noted, YGS has struggled with earning its regulatory authorized ROE. While this shortfall has been due in part to some cost pressures not addressed in the rate making process, it has also been due to earnings variability as a result of customer conservation and weather related issues. Under the new rate settlement effective July 1, 2007, the company's authorized ROE has been adjusted favorably to 10.1% from the aforementioned 9.9%, but is still short of the observed national average ROE of 10.3% authorized in other LDC rate cases decided this year. Although the DPUC has changed its stance on equal sharing of excess earnings above the authorized ROE to a hard cap with any excess earnings to be fully repatriated to the customers, we currently view this as credit neutral for YGS. Such a change would be more of a concern for a company earning above the authorized ROE.

Despite the general supportiveness provided by the DPUC in the recent rate case, YGS continues to operate without an explicit weather normalization clause, which would otherwise help mitigate earnings fluctuations associated with unusual weather patterns. In the absence of such clauses, some LDCs may purchase weather insurance products, which the commission sometimes incorporates into the rate making process. However, the DPUC does not consider weather insurance in the rate making process and therefore these products are not purchased by YGS.

YGS benefits, like the other LDCs under the purview of the DPUC, from constructive regulatory treatment of purchased gas costs. Under YGS's purchased gas adjustment (PGA) mechanism, natural gas costs are adjusted monthly to reflect the estimated gas costs for the upcoming month. Despite the virtually automatic PGA, which requires a monthly filing with the DPUC, YGS is subject to a prudence test every September, covering the preceding 12 adjustments under the PGA. YGS has also been granted an allowance to include in rate base an adjustment for working capital, which is important as natural gas purchases can stress the company's liquidity in the summer months when typically cheaper natural gas is purchased for storage, pending peak sales in the winter months.

YGS MAINTAINS REASONABLE DEGREE OF INDEPENDENCE FROM NU

Ring-Fencing: The indicated rating of Baa for this factor reflects the reasonable ring fencing provisions that foster YGS's independence from affiliated entities when operating various aspects of its business (i.e. cash management and financing requirements). This key rating factor is potentially more important in those instances where an LDC is part of a larger family of companies that include diversified energy companies with significant investments in non-regulated businesses. With this in mind, it is important to note that YGS is part of the NU family, which is virtually a rate regulated T&D company with minimal unregulated business activities following the divestitures of its

unregulated retail and wholesale energy supply businesses last year. Through the first half of 2007, NU reported revenues of roughly $3.1 billion, 96% of which were generated from its regulated business activities.

To support its liquidity needs, YGS maintains a $100 million sub-limit borrowing capability as a legally-named participant in a jointly arranged $400 million multi-year unsecured bank revolver with NU's other regulated utility subsidiaries (see Liquidity section below for more details).

YGS is typically self-financed and has historically issued long-term debt in the public market. To date, YGS has no inter-company borrowings from its parent; however, it has been an active borrower from its affiliated utilities under the NU family money pool.

Historically, YGS has paid dividends to NU on a fairly consistent basis and we expect that future dividends will be guided in part by the DPUC's dividend limitation (i.e. dividends to NU are not to exceed YGS's cumulative retained earnings balance). Even though this limitation is more liberal than other dividend limitations imposed by the DPUC for some other utilities (i.e. limited to a percentage of current year's net income), we are not unduly concerned since dividends to the parent are not in support of unregulated activities. YGS must also bear in mind the 65% debt to capital financial covenant defined in the joint bank revolver when making decisions about its dividend policy. Ample headroom exists against this covenant and, going forward, we do not expect YGS's leverage to materially change from the 54% debt to capital ratio (excluding goodwill) maintained on average over the past three years.

The Baa indicated rating for this sub-factor also takes into account YGS's commingling of funds through the NU family money pool. Specifically, YGS tends to be a borrower under the money pool arrangement as opposed to a lender. At December 30, 2006, YGS had borrowed $80 million under the pool, but subsequently repaid that amount and reported no notes due to affiliates at June 30, 2007. NU can lend to, but not borrow from the pool. Moody's views YGS's access to short-term funds from its larger regulated affiliates as a credit positive since this source of funds often proves to be an economic alternative to other short-term funding sources. We also note that borrowing under the inter-company money pool provides YGS with the flexibility of repayment not afforded under third party arrangements.

WEAK KEY CREDIT METRICS EXPECTED TO IMPROVE TO LEVELS MORE COMMENSURATE WITH CURRENT RATING

EBIT/Interest: Over 2004 - 2006, YGS 's EBIT/Interest coverage averaged 1.93x, which maps to a Ba indicated rating for the sub-factor. A Ba indicated rating for this sub-factor is notably lower than coverage levels for most of the LDC rated universe; however, in light of the recent rate case settlement, we anticipate that YGS's EBIT/Interest coverage should improve to well above 2x. Such improvement would raise YGS's indicated rating for this sub-factor to Baa, which would be more in line with its rating level.

RCF/Debt: When we first published the Rating Methodology in October 2006, YGS mapped to a Baa for the RCF/Debt sub-factor. At the time of that calculation, we were using financial statements covering 2002 - 2005. The fact that YGS did not pay a dividend to NU in 2003 bolstered the three-year average RCF/Debt ratio for 2003 - 2005. As a result of the rolling three year average calculations, the years 2002 and 2003 have fallen off and the RCF/Debt for 2004 - 2006 averaged 8.4%. At this level, YGS maps to a Ba indicated rating, reflecting higher dividend payments to NU in recent years compared to earlier periods. Prospectively, we expect little change in this factor rating despite the satisfactory outcome in the rate case earlier this year. This view assumes that under current dividend assumptions (i.e. about a 60% dividend payout ratio), the benefits of expected higher cash flow is offset by incremental debt to help fund the capital program.

Debt/Book Capitalization (Excluding Goodwill): Capitalization ratios calculated under the Rating Methodology exclude goodwill, which is how the DPUC looks at such metrics. YGS's average debt to capitalization ratio for the three years ended 2006 is 54%. YGS's planned capital expenditures over the next several years are expected to be in a range of $50 - $60 million per year. We expect YGS to fund these investments with a mix of internal and external sources, while maintaining a common equity component of the capital structure in line with the level that the DPUC will allow it to earn a return on. Effective execution of this strategy would help YGS maintain its Baa indicated rating for this factor and leave it well positioned versus many of its similarly rated peers.

FCF/FFO : YGS, like many other LDCs, generates negative FCF given the capital intensive nature of utility operations. However, YGS was the only negative outlier (defined as more than a two-notch differential between the indicated rating for the sub- factor and the company's actual rating) of the group. Indeed, YGS had a Caa indicated rating for this sub-factor at the time we first published the Rating Methodology in October 2006 and it continues to map to a Caa indicated rating based on the average FCF/FFO for 2004 - 2006. The weak standing relative to this metric is largely due to the large capital spending program associated with the above mentioned LNG plant. Going forward, we expect that YGS will continue to generate a negative FCF/FFO metric. However, the assumed stronger cash flow due to the most recent rate case decision and assumed continuation of regulatory support for sizable planned capital spending over the next several years, albeit somewhat reduced from the 2004 - 2006 period, should result in material strengthening of the indicated rating for this sub-factor (i.e. at least to the Baa category).

Liquidity

YGS is a joint-borrower under a $400 million syndicated 5-year committed unsecured revolving credit agreement, expiring November 6, 2010. YGS's sub-limit allows it to draw up to $100 million, subject to the $400 maximum borrowing limit among all the affiliated companies. The total commitment may be increased to $500 million at the request of the utilities, subject to approval by the banks. As of June 30, 2007, YGS had a $45 million loan under the revolver due December 17, 2009. In addition to periodically borrowing under the revolving credit agreement, YGS participates in and is typically a borrower under the NU family money pool.

We expect that YGS's usually modest cash position (not an unusual position for an investment-grade rated utility), internally generated cash flow and access to the aforementioned bank revolver and money pool borrowings should provide sufficient liquidity for it to meet near term calls on cash, for working capital, capital expenditures and common dividends over the next four quarters. At June 30, 2007, YGS reported about $4.3 million of long-term debt due over the next four quarters, had the aforementioned $45 million outstanding under its revolver sub-limit, and no borrowings under the money pool. We expect that any usage of the bank credit facilities to help meet a portion of the capital program would be a bridge to long term financing to better match the term of financing with the long term nature of the assets being invested in.

Meanwhile, we observe that the quality of alternate liquidity provided by the bank revolver is generally good since drawings under these facilities are not subject to a material adverse change/material litigation clause and they only have a single financial covenant that sets a 65% limit for total debt to total capitalization. YGS is comfortably in compliance with this covenant.

Rating Outlook

YGS's negative rating outlook reflects the company's continued inability to earn its allowed return on equity (including goodwill) and historical weakness in other key credit metrics, especially as it relates to EBIT/Interest, RCF/Debt, and FCF/FFO. The negative outlook also takes into account the fact that YGS will need to successfully execute on its business strategy to fully reap the benefits of recent regulatory support provided by the DPUC in the rate case decided earlier this year. We believe it will take the better part of 2008 for material benefits to show up in YGS's overall financial performance.

What Could Change the Rating - Up

Given the current negative outlook, an upgrade of YGS's ratings in the near-term is unlikely. However, the rating outlook could be stabilized by improving key factor credit metrics; especially FCF/FFO as expected to a considerably lower negative level (i.e. mapping to a Baa or even an A indicated rating for that sub-factor).

What Could Change the Rating - Down

YGS's ratings could come under pressure if future regulatory actions prove less supportive than those recently demonstrated by the DPUC and/or there is a shortfall in obtaining the expected improvement in key credit metrics. Given the material (i.e. 15%) weightings assigned to the various key factor credit metrics, a material and unexpected decline below expectations for any key factor ratio that persists for an extended period of time could pressure the rating. More specifically, if RCF/Debt maps to an indicated rating of B (i.e. 0-5% range) for an extended period of time and/or the much needed improvement in FCF/FFO does not materialize in the near term and maps to an indicated rating of Ba (negative 45%-60%) or below, then the likelihood of a downgrade would increase.

Rating Factors

Yankee Gas Services Company

Local Gas Distribution	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%)					3.0%		
b) EBIT to Customer Base (5%)			$199.8				
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship				X			
Factor 3: Ring Fencing (10%)							
a) Ring Fencing				X			
Factor 4: Financial Strength and Flexibility (60%)							
a) EBIT/Interest (15%)					1.9		
b) Retained Cash Flow/Debt (15%)					8.4		
c) Debt to Book Capitalization (excluding goodwill)				54.0%			

(15%)							
d) Free Cash Flow/Funds from Operations (15%)							-99%
Rating:							
a) Methodology Model Implied Senior Unsecured Rating	**Ba2**						
b) Actual Senior Unsecured Equivalent Rating	**Baa2**						

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