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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2008**

or

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

For the transition period from to

**Commission file number 001-14768** **I.R.S. Employer Identification Number 04-3466300**

# NSTAR

***(Exact name of registrant as specified in its charter)***

**Massachusetts**
***(State or other jurisdiction of incorporation or organization)***

**800 Boylston Street, Boston, Massachusetts**
***(Address of principal executive offices)***

**617-424-2000**
***(Registrant's telephone number, including area code)***

**02199**
***(Zip code)***

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Shares, par value $1 per share | New York Stock Exchange |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
☐ Yes ☒ No

The aggregate market value of the 106,808,376 shares of voting stock of the registrant held by non-affiliates of the registrant, computed as the average of the high and low market prices of the common shares as reported on the New York Stock Exchange consolidated transaction reporting system for NSTAR Common Shares as of the last business day of the registrant's most recently completed second fiscal quarter: $3,580,217,000.

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

| Class | Outstanding at February 6, 2009 |
|---|---|
| Common Shares, par value $1 per share | 106,808,376 shares |

***Documents Incorporated by Reference***

Sections of NSTAR's Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders to be held on April 30, 2009 are incorporated by reference into Parts I and III of this Form 10-K.

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**NSTAR**

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**Year Ended December 31, 2008**


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## Glossary of Terms

The following is a glossary of abbreviated names or acronyms frequently used throughout this report.

| | |
|---|---|
| **NSTAR Companies** | |
| NSTAR | NSTAR (Parent company), Company or NSTAR and its subsidiaries (as the context requires) |
| NSTAR Electric | NSTAR Electric Company |
| NSTAR Gas | NSTAR Gas Company |
| NSTAR Electric & Gas | NSTAR Electric & Gas Corporation |
| Boston Edison | The former Boston Edison Company |
| ComElectric | The former Commonwealth Electric Company |
| Cambridge Electric | The former Cambridge Electric Light Company |
| Canal | The former Canal Electric Company |
| MATEP | Medical Area Total Energy Plant, Inc. |
| AES | Advanced Energy Systems, Inc. (Parent company of MATEP) |
| NSTAR Com | NSTAR Communications, Inc. |
| Hopkinton | Hopkinton LNG Corp. |
| HEEC | Harbor Electric Energy Company |
| **Regulatory and Other Authorities** | |
| AG | Attorney General of the Commonwealth of Massachusetts |
| DOE | U.S. Department of Energy |
| DPU | Massachusetts Department of Public Utilities |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission (the Commission) |
| IRS | U.S. Internal Revenue Service |
| ISO-NE | ISO (Independent System Operator) - New England Inc. |
| Moody's | Moody's Investors Service |
| NRC | U.S. Nuclear Regulatory Commission |
| NYMEX | New York Mercantile Exchange |
| PCAOB | Public Company Accounting Oversight Board (United States) |
| SEC | U.S. Securities and Exchange Commission |
| S&P | Standard & Poor's |
| **Other** | |
| AFUDC | Allowance for Funds Used During Construction |
| AOCI | Accumulated Other Comprehensive Income |
| APB | Accounting Principles Board |
| ARO | Asset Retirement Obligation |
| BBtu | Billions of British thermal units |
| Bcf | Billion cubic feet |
| CAP | IRS Compliance Assurance Process |
| CGAC | Cost of Gas Adjustment Clause |
| CPSL | Capital Projects Scheduling List |
| CY | Connecticut Yankee Atomic Power Company |
| DSM | Demand-Side Management |
| EEI Index | Edison Electric Institute Stock Index of U.S. Shareholder - Owned Electric Utilities |
| EPS | Earnings Per Common Share |
| FCA | Forward Capacity Auction |
| FCM | Forward Capacity Market |

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| | |
|---|---|
| FIN | FASB Interpretation Number |
| GAAP | Accounting principles generally accepted in the United States of America |
| GCA | Massachusetts Green Communities Act of 2007 |
| GWSA | Massachusetts Global Warming Solutions Act |
| ISFSI | Independent Spent Fuel Storage Installation |
| kW | Kilowatt (equal to one thousand watts) |
| kWh | Kilowatthour (the basic unit of electric energy equal to one kilowatt of power supplied for one hour) |
| LDAC | Local Distribution Adjustment Clause |
| LNG | Liquefied Natural Gas |
| MD&A | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| MGP | Manufactured Gas Plant |
| MMbtu | Millions of British thermal units |
| MW | Megawatts |
| MWh | Megawatthour (equal to one million watthours) |
| MY | Maine Yankee Atomic Power Company |
| N/A | Not applicable |
| NEH | New England Hydro-Transmission Electric Company, Inc. |
| NHH | New England Hydro-Transmission Corporation |
| OATT | Open Access Transmission Tariff |
| PAM | Pension and PBOP Rate Adjustment Mechanism |
| PBOP | Postretirement Benefit Obligation other than Pensions |
| RMR | Reliability Must Run |
| ROE | Return on Equity |
| RTO | Regional Transmission Organization |
| SFAS | Statement of Financial Accounting Standards |
| SIP | Simplified Incentive Plan |
| SQI | Service Quality Indicators |
| SSCM | Simplified Service Cost Method |
| YA | Yankee Atomic Electric Company |

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**Cautionary Statement Regarding Forward-Looking Information**

This Annual Report on Form 10-K contains statements that are considered forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. These forward-looking statements may also be contained in other filings with the SEC, in press releases, and oral statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. These statements are based on the current expectations, estimates or projections of management and are not guarantees of future performance. Some or all of these forward-looking statements may not turn out to be what NSTAR expected. Actual results could differ materially from these statements. Therefore, no assurance can be given that the outcomes stated in such forward-looking statements and estimates will be achieved.

Examples of some important factors that could cause our actual results or outcomes to differ materially from those discussed in the forward-looking statements include, but are not limited to, the following:

- adverse financial market conditions including changes in interest rates and the availability and cost of capital
- future economic conditions in global markets
- changes to prevailing local, state, and federal governmental policies and regulatory actions (including those of the DPU and the FERC) with respect to allowed rates of return, rate structure, continued recovery of regulatory assets and energy costs, financings, municipalization acquisition and disposition of assets, operation and construction of facilities, changes in tax laws and policies, and changes in and compliance with environmental and safety laws and policies
- new governmental regulations or changes to existing regulations that impose additional operating requirements or liabilities
- changes in available information and circumstances regarding legal issues and the resulting impact on our estimated litigation costs
- weather conditions that directly influence the demand for electricity and natural gas
- impact of continued cost control processes on operating results
- ability to maintain current credit ratings
- impact of uninsured losses
- impact of adverse union contract negotiations
- damage from major storms
- impact of conservation measures and self-generation by our customers
- changes in financial accounting and reporting standards
- changes in hazardous waste site conditions and the cleanup technology
- prices and availability of operating supplies
- impact of terrorist acts, and
- impact of service quality performance measures

Any forward-looking statement speaks only as of the date of this filing and NSTAR undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised, however, to consult all further disclosures NSTAR makes in its filings to the SEC. Other factors in addition to those listed here could also adversely affect NSTAR. This Annual Report also describes material contingencies and critical accounting policies and estimates in the accompanying Item 1A, *"Risk Factors,"* Item 7, *"Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A)* and in the accompanying *Notes to Consolidated Financial Statements* and NSTAR encourages a review of these items.

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## Part I

### Item 1. Business

**(a) General Development of Business**

NSTAR (or the Company) is a holding company engaged through its subsidiaries in the energy delivery business serving approximately 1.4 million customers in Massachusetts, including approximately 1.1 million electric distribution customers in 81 communities and approximately 300,000 natural gas distribution customers in 51 communities. Utility operations accounted for approximately 96% of consolidated operating revenues in 2008, 2007, and 2006. The remaining revenue is generated from its unregulated operations.

NSTAR's utility operations derive their operating revenues primarily from the sale of energy, distribution, and transmission services to customers. NSTAR's earnings are impacted by fluctuations in unit sales of electric kWh and natural gas MMbtu, which directly determine the level of distribution and transmission revenues recognized. In accordance with the regulatory rate structure in which NSTAR operates, its recovery of energy and certain energy-related costs are fully reconciled with the level of energy revenues currently recorded and, therefore, do not have an impact on earnings. As a result of this rate structure, any variability in the cost of energy supply purchased will impact purchased power and transmission and cost of gas sold expenses and corresponding revenues, but will not affect the Company's net income.

**(b) Financial Information about Industry Segments**

NSTAR's principal operating segments are the electric and natural gas utility operations that provide energy delivery services in 107 cities and towns in Massachusetts and its unregulated operations. Refer to Note L, *"Segment and Related Information"* of the accompanying *Notes to Consolidated Financial Statements* in Item 8, *"Financial Statements and Supplementary Data"* for specific financial information related to NSTAR's electric utility, natural gas utility, and unregulated operations segments.

**(c) Narrative Description of Business**

Principal Products and Services

**NSTAR Electric**

NSTAR Electric supplies electricity at retail to an area of 1,702 square miles. The territory served is located in Massachusetts and includes the City of Boston and 80 surrounding cities and towns, including Cambridge, New Bedford, Plymouth, and the geographic area comprising Cape Cod and Martha's Vineyard. The population of this area is approximately 2.4 million.

NSTAR Electric's operating revenues and energy sales percentages by customer class for the years 2008, 2007, and 2006 consisted of the following:

| | Revenues ($) | | | Energy Sales (mWh) | | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 |
| Retail: | | | | | | |
| Commercial | 53% | 52% | 52% | 63% | 62% | 62% |
| Residential | 42% | 43% | 43% | 30% | 30% | 30% |
| Industrial and other | 5% | 5% | 5% | 7% | 8% | 8% |

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Electric Rates

Retail electric delivery rates are established by the DPU and are comprised of:

- **a distribution charge**, which includes a fixed customer charge and a demand and/or energy charge (to collect the costs of building and expanding the infrastructure to deliver power to its destination, as well as ongoing operating costs), a Pension and PBOP Rate Adjustment Mechanism (PAM) related costs adjustment and a reconciling rate adjustment mechanism for recovery of certain DPU-approved safety and reliability program costs,
- **a basic service charge** represents the collection of energy costs, including costs related to charge-offs of uncollected energy costs, through DPU-approved rate mechanisms. Electric distribution companies in Massachusetts are required to obtain and resell power to retail customers through Basic Service for those who choose not to buy energy from a competitive energy supplier. Basic Service rates are reset every six months (every three months for large commercial and industrial customers). The price of Basic Service is intended to reflect the average competitive market price for electric power,
- **a transition charge** represents the collection of costs primarily from previously held investments in generating plants and costs related to existing above-market power contracts, and contract costs related to long-term power contracts buy-outs,
- **a transmission charge** represents the collection of costs of moving the electricity over high voltage lines from generating plants to substations located within NSTAR's service area including costs allocated to NSTAR Electric by ISO-NE to maintain the wholesale electric market,
- **an energy conservation charge** represents a legislatively-mandated charge to collect costs for demand-side management programs and energy efficiency programs, and
- **a renewable energy charge** represents a legislatively-mandated charge to collect the costs to support the development and promotion of renewable energy projects.

Rate Settlement Agreement

On December 30, 2005, the DPU approved a seven-year Rate Settlement Agreement (Rate Settlement Agreement) between NSTAR, the AG, and several interveners. Effective January 1, 2006 and continuing through 2012, the Rate Settlement Agreement establishes, among other things, annual inflation-adjusted distribution rate adjustments that are generally offset by an equal and corresponding reduction in transition rates. Refer to the *"Rate Settlement Agreement"* section of the accompanying Item 7, *"Management's Discussion and Analysis of Financial Condition and Results of Operations,"* for more details.

Massachusetts Regulatory Environment

The Secretary of Energy and Environmental Affairs oversees the Commonwealth Utilities Commission, consisting of three commissioners. The Commonwealth Utilities Commission leads the DPU, an agency that has jurisdiction over electric, natural gas, water, and transportation matters. Massachusetts has joined the Regional Greenhouse Gas Initiative, a multi-state group that supports implementation of programs to reduce the production of greenhouse gases by electric power plants.

In July 2008, the Massachusetts Legislature enacted the *Green Communities Act (GCA)* - energy policy legislation designed: (1) to substantially increase energy efficiency, (2) foster the development of renewable energy resources and (3) provide for a reduction of greenhouse gas emissions in Massachusetts. Refer to the *"Massachusetts Regulatory Environment"* section of the accompanying Item 7, *"Management's Discussion and Analysis of Financial Condition and Results of Operations,"* for more details.

Rate Decoupling

On July 16, 2008, the DPU issued an order to all Massachusetts' electric and gas distribution utility companies that permits them to develop plans to decouple their rates/revenues from sales volumes. This action is intended to

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encourage utility companies to help their customers reduce energy consumption. Decoupling of rates will allow utility companies to carry out the mandates of the GCA and at the same time collect the adequate level of revenues to maintain the quality and reliability of electric and gas services. This order allows utility companies to file for recovery of lost base revenues caused by incremental energy efficiency spending until their decoupling rate plans are approved. Once decoupled rate plans are approved, revenues will be set at a level designed to recover the utility companies' incurred costs plus a return on their investment. This revenue level will be reconciled with actual revenues received from decoupled rates on an annual basis and any over or under collection will be refunded to or recovered from customers in the subsequent year.

Sources and Availability of Electric Power Supply

For Basic Service power supply, NSTAR Electric makes periodic market solicitations consistent with DPU regulations. NSTAR Electric enters into short-term power purchase agreements to meet its Basic Service supply obligation, ranging in term from three to twelve months. NSTAR Electric fully recovers its payments to suppliers through DPU-approved rates billed to customers.

Wholesale Market and Transmission Regulation

NSTAR Electric is a New England Transmission Owner subject to FERC regulation and is a member of ISO-New England. Refer to the *"FERC Transmission ROE"* section of the accompanying Item 7, MD&A, for more details.

Forward Capacity Market (FCM)

The New England FCM includes a locational price mechanism to establish separate zones for capacity when transmission constraints are found to exist. FCM allows load-serving entities such as NSTAR to self-supply through contracted resources to meet its capacity obligations without participating in the FCAs. FCAs are auctions designed to procure capacity three or more years into the future with a one-year to five-year commitment period. Transition payments applicable to all capacity began December 1, 2006 at a rate of $3.05/kWMonth and escalate to $4.10/kWMonth until May 2010 when FCM will begin on June 1, 2010. The impact to rates for NSTAR customers during the transition period will be approximately 0.8 to 1.1 cents per kilowatt hour and is billed to NSTAR Electric by its energy suppliers. To date, two FCM auctions have taken place covering the 2010-2011 and 2011-2012 time periods. The auctions were oversubscribed by 2,814 MW and 4,360 MW, respectively, and the price reached a floor of $4.50/kWMonth and $3.60/kWMonth, respectively. The next auction will take place in October 2009 for the period 2012-2013. NSTAR Electric expects these costs to be fully recoverable.

**NSTAR Gas**

NSTAR Gas distributes natural gas to approximately 300,000 customers in 51 communities in central and eastern Massachusetts covering 1,067 square miles and having an aggregate population of 1.2 million. Twenty-five of these communities are also served with electricity by NSTAR Electric. Some of the larger communities served by NSTAR Gas include the Hyde Park area of Boston, Cambridge, Dedham, Framingham, New Bedford, Plymouth, Somerville, and Worcester.

NSTAR Gas' operating revenues and energy sales percentages by customer class for the years 2008, 2007, and 2006, consisted of the following:

| | Revenues ($) | | | Energy Sales (therms) | | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 |
| Gas Sales and Transportation: | | | | | | |
| Residential | 59% | 60% | 59% | 43% | 44% | 44% |
| Commercial | 24% | 25% | 27% | 35% | 33% | 33% |
| Industrial and other | 7% | 7% | 9% | 17% | 16% | 17% |
| Off-System and Contract sales | 10% | 8% | 5% | 5% | 7% | 6% |

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Gas Rates

NSTAR Gas generates revenues primarily through the sale and/or transportation of natural gas. Gas sales and transportation services are divided into two categories: firm, whereby NSTAR Gas must supply gas and/or transportation services to customers on demand; and interruptible, whereby NSTAR Gas may, generally during colder months, temporarily discontinue service to high volume commercial and industrial customers. Sales and transportation of gas to interruptible customers have no impact on NSTAR Gas' operating income because substantially the entire margin for such service is returned to its firm customers as rate reductions.

Retail gas delivery and supply rates are established by the DPU and are comprised of:

- **a distribution charge** consists of a fixed customer charge and a demand and/or energy charge that collects the costs of building and expanding the gas infrastructure to deliver gas supply to its customers' destination. This also includes collection of ongoing operating costs
- **a seasonal cost of gas adjustment clause (CGAC)** represents the collection of gas supply costs, pipeline and storage capacity, costs related to charge-offs of uncollected energy costs and working capital related costs. The CGAC is reset every six months. In addition, NSTAR Gas is required to file interim changes to its CGAC factor when the actual costs of gas supply vary from projections by more than 5%
- **a local distribution adjustment clause (LDAC)** primarily represents the collection of demand-side management costs, environmental costs, PAM related costs, and costs associated with the residential assistance adjustment clause. The LDAC is reset annually and provides for the recovery of certain costs applicable to both sales and transportation customers

NSTAR Gas purchases financial contracts based on NYMEX natural gas futures in order to reduce cash flow variability associated with the purchase price for approximately one-third of its natural gas purchases. This practice attempts to minimize the impact of fluctuations in prices to NSTAR's firm gas customers. These financial contracts do not procure gas supply. All actual costs incurred or benefits realized when these contracts are settled are included in the CGAC of NSTAR Gas.

Gas Supply, Transportation and Storage

NSTAR Gas maintains a flexible resource portfolio consisting of gas supply contracts, transportation contracts on interstate pipelines, market area storage and peaking services.

NSTAR Gas purchases transportation, storage, and balancing services from Tennessee Gas Pipeline Company and Algonquin Gas Transmission Company, as well as other upstream pipelines that bring gas from major producing regions in the U.S., Gulf of Mexico, and Canada to the final delivery points in the NSTAR Gas service area. NSTAR Gas purchases all of its gas supply from third-party vendors. Most of the supply is purchased under a firm portfolio management contract with a term of one year. NSTAR Gas has one multiple year contract, which is used for the purchase of its Canadian supplies for up to 4,500 MMbtu per day. Based on its firm pipeline transportation capacity entitlements, NSTAR Gas contracts for up to 139,214 MMbtu per day of domestic production during the winter heating season.

In addition to the firm transportation and gas supplies mentioned above, NSTAR Gas utilizes contracts for underground storage and LNG facilities to meet its winter peaking demands. The LNG facilities, described below, are located within NSTAR Gas' distribution system and are used to liquefy and store pipeline gas during the warmer months for use during the heating season. During the summer injection season, excess pipeline capacity is used to deliver and store gas in market area storage facilities located in the New York and Pennsylvania region. Stored gas is withdrawn during the winter season to supplement pipeline supplies in order to meet firm heating demand. NSTAR Gas has firm storage contracts and total storage capacity entitlements of approximately 9.3 Bcf.

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A portion of the storage of gas supply for NSTAR Gas during the winter heating season is provided by Hopkinton, a wholly-owned subsidiary of NSTAR. The facilities consist of a liquefaction and vaporization plant and three above-ground cryogenic storage tanks having an aggregate capacity of 3.5 Bcf of natural gas. NSTAR Gas believes that its present sources of gas supply are adequate to meet existing load and allow for future growth in sales.

**Franchises**

Through their charters, which are unlimited in time, NSTAR Electric and NSTAR Gas have the right to engage in the business of delivering and selling electricity and natural gas and have powers incidental thereto and are entitled to all the rights and privileges of and subject to the duties imposed upon electric and natural gas companies under Massachusetts laws. The locations in public ways for electric transmission and distribution lines and gas distribution pipelines are obtained from municipal and other state authorities who, in granting these locations, act as agents for the state. In some cases the actions of these authorities are subject to appeal to the DPU. The rights to these locations are not limited in time and are subject to the action of these authorities and the legislature. Under Massachusetts law, no other entity may provide electric or gas delivery service to retail customers within NSTAR's territory without the written consent of NSTAR Electric and/or NSTAR Gas. This consent must be filed with the DPU and the municipality so affected.

**Unregulated Operations**

NSTAR's unregulated operations include district energy operations, telecommunications, and liquefied natural gas service. District energy operations are provided through its AES subsidiary that sells chilled water, steam, and electricity to hospitals, teaching and research facilities located in Boston's Longwood Medical Area. Telecommunications services are provided through NSTAR Com, which installs, owns, operates, and maintains a wholesale transport network for other telecommunications service providers in the metropolitan Boston area to deliver voice, video, data, and internet services to customers. Revenues earned from NSTAR's unregulated operations accounted for approximately 4% of consolidated operating revenues in 2008, 2007 and 2006.

**Regulation**

The Energy Policy Act of 2005 established the Public Utility Holding Company Act of 2005 (PUHCA 2005) that transferred certain regulatory oversight from the SEC to the FERC. NSTAR has been granted an exemption and waiver from certain provisions of PUHCA 2005.

NSTAR Gas, NSTAR Electric and NSTAR Electric's wholly-owned regulated subsidiary, Harbor Electric Energy Company, operate primarily under the authority of the DPU, whose jurisdiction includes supervision over retail rates for distribution of electricity, natural gas, and financing and investing activities. In addition, the FERC has jurisdiction over various phases of NSTAR Electric and NSTAR Gas utility businesses, conditions under which natural gas is sold at wholesale, facilities used for the transmission or sale of that energy, certain issuances of short-term debt, and regulation of accounting.

These companies are also subject to various other state and municipal regulations with respect to environmental, employment, and general operating matters.

**Plant Expenditures and Financings**

The most recent estimates of plant expenditures and long-term debt maturities for 2009 and the years 2010-2013 are as follows:

| (in thousands) | 2009 | 2010-2013 |
|---|---|---|
| Plant expenditures | $ 365,000 | $ 1,255,000 |
| Long-term debt | $ 98,024 | $ 1,385,530 |

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In the five-year period 2009 through 2013, plant expenditures are forecasted to be used for system reliability and performance improvements, customer service enhancements, and capacity expansion in NSTAR's service territory. Capital expenditures increased $62 million from $360 million in 2007 to $422 million in 2008 primarily due to the completion and placement in service of the last phase of NSTAR Electric's 345kV Transmission Project. This project ensures continued reliability of electric service and improvement of power import capability in the Northeast Massachusetts area. A substantial portion of the cost of this project will be shared by other utilities in New England based on ISO-NE's approval and will be recovered by NSTAR through wholesale and retail transmission rates. Of the $365 million planned expenditures for 2009, approximately $100 million is for transmission system improvements.

Management continuously reviews its capital expenditure and financing programs. These programs and, therefore, the estimates included in this Form 10-K are subject to revision due to changes in regulatory requirements, operating requirements, environmental standards, availability and cost of capital, interest rates and other assumptions. Refer to the accompanying *"Cautionary Statement Regarding Forward-Looking Information"* preceding Item 1, *"Business"* and the *"Liquidity, Commitments and Capital Resources"* section of Item 7, *"Management's Discussion and Analysis of Financial Condition and Results of Operations."*

**Seasonal Nature of Business**

NSTAR Electric's kilowatt-hour sales and revenues are typically higher in the winter and summer than in the spring and fall as sales tend to vary with weather conditions. NSTAR Gas' sales are positively impacted by colder weather because a substantial portion of its customer base uses natural gas for space heating purposes. Refer to the accompanying *"Selected Quarterly Consolidated Financial Data"* section in Item 6, *"Selected Consolidated Financial Data"* for specific financial information by quarter for 2008 and 2007.

**Competitive Conditions**

As a rate regulated distribution and transmission utility company, NSTAR is not subject to a significantly competitive business environment. Through its franchise charters, NSTAR Electric and NSTAR Gas have the exclusive right and privilege to engage in the business of delivering energy services within their granted territory. Under Massachusetts law, no other entity may provide electric or natural gas delivery service to retail customers within NSTAR's service territory without the written consent of NSTAR Electric and/or NSTAR Gas. Refer to the accompanying *"Franchises"* section of this Item 1 and to Item 1A, *"Risk Factors"* for a further discussion of NSTAR's rights and competitive pressures within its service territory.

**Environmental Matters**

NSTAR's subsidiaries are subject to numerous federal, state and local standards with respect to the management of wastes and other environmental considerations. NSTAR subsidiaries face possible liabilities as a result of involvement in several multi-party disposal sites, state-regulated sites or third party claims associated with contamination remediation. NSTAR generally expects to have only a small percentage of the total potential liability for the majority of these sites. Noncompliance with certain standards can, in some cases, also result in the imposition of monetary civil penalties. Refer to the accompanying *"Contingencies - Environmental Matters*" section in Item 7, *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* and to Notes to Consolidated Financial Statements, Note N, *"Commitments and Contingencies,"* for more information.

Management believes that its facilities are in substantial compliance with currently applicable statutory and regulatory environmental requirements.

**Number of Employees and Employee Relations**

As of December 31, 2008, NSTAR had approximately 3,250 employees, including approximately 2,250, or 69%, who are represented by three labor unions covered by separate collective bargaining contracts.

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Substantially all management, engineering, finance and support services are provided to the operating subsidiaries of NSTAR by employees of NSTAR Electric & Gas. NSTAR has the following labor union contracts:

| Union | Percent of Union to Total NSTAR Employees | Supports | Contract Expiration Date |
|---|---|---|---|
| Local 369 of the Utility Workers of America (AFL-CIO) | 59% | Utility Operations | June 1, 2012 |
| Local 12004 of the United Steelworkers of America | 8% | Utility Operations | March 31, 2010 |
| Local 877 of the International Union of Operating Engineers (AFL-CIO) | 2% | MATEP | September 30, 2009 |

NSTAR's contract with Local 369 of the Utility Workers Union of America, AFL-CIO, which represents approximately 59% of total NSTAR employees, was set to expire on June 1, 2009. In January 2009, management and Local 369 reached an agreement on a three-year contract extension through June 1, 2012. Management believes that it has satisfactory relations with its employees.

**(d) Financial Information about Geographic Areas**

NSTAR is a holding company engaged through its subsidiaries in the energy delivery business in Massachusetts. None of NSTAR's subsidiaries have any foreign operations or export sales.

**(e) Available Information**

NSTAR files its Forms 10-K, 10-Q and 8-K reports, proxy statements and other information with the SEC. You may access materials NSTAR has filed with the SEC on the SEC's website at *www.sec.gov*. In addition, NSTAR's Board of Trustees has various committees, including an Audit, Finance and Risk Management Committee, an Executive Personnel Committee and a Board Governance and Nominating Committee. The Board also has a standing Executive Committee. The Board has adopted the NSTAR Board of Trustees Corporate Guidelines on Significant Corporate Governance Issues, a Code of Ethics for the Principal Executive Officer, General Counsel, and Senior Financial Officers pursuant to Section 406 of the Sarbanes-Oxley Act of 2002, and a Code of Ethics and Business Conduct for Directors, Officers and Employees ("Code of Conduct"). NSTAR intends to disclose any amendment to, and any waiver from, a provision of the Code of Ethics that applies to the Chief Executive Office or Chief Financial Officer or any other executive officer and that relates to any element of the Code of Ethics definition enumerated in Item 406(b) of Regulation S-K, on Form 8-K, within four business days following the date of such amendment or waiver. NSTAR's SEC filings and Corporate Governance documents, including charters, guidelines and codes, and any amendments to such charters, guidelines and codes that are applicable to NSTAR's executive officers, senior financial officers or trustees can be accessed free of charge on NSTAR's website at: *www.nstar.com*: Select "Investor Relations" and "Financial Information." Copies of NSTAR's SEC filings may also be obtained free of charge by writing to NSTAR's Investor Relations Department at the address on the cover of this Form 10-K or by calling 781-441-8338.

The certifications of NSTAR's Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are attached to this Annual Report on Form 10-K as Exhibits 31.1, 31.2, 32.1, and 32.2. NSTAR also filed the required Annual CEO Certification of its Chief Executive Officer pursuant to Section 303A of the NYSE Listing Manual in 2008, certifying that he is not aware of any violation of the NYSE corporate governance listing standards.

**Item 1A. Risk Factors**

Our future performance is subject to a variety of risks, including those described below. If any of the following risks actually occur, our business could be harmed and the trading price of our common shares could decline. In addition to the other information in this Annual Report on Form 10-K, shareholders or prospective investors should carefully consider the following risk factors.

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***Our electric and gas operations are highly regulated, and any adverse regulatory changes could have a significant impact on the Company's results of operations and its financial position.***

NSTAR's electric and gas operations, including the rates charged, are regulated by the FERC and the DPU. In addition, NSTAR's accounting policies are prescribed by GAAP, the FERC and the DPU. Adverse regulatory changes could have a significant impact on results of operations and financial condition.

***Potential municipalization or technological developments may adversely affect our regulated electricity and natural gas businesses.***

Under Massachusetts law, no other entity may provide electric or gas delivery service to retail customers within NSTAR's service territory without the written consent of NSTAR Electric and/or NSTAR Gas. Although not a trend, NSTAR's operating utility companies could be exposed to municipalization risk, whereby a municipality could acquire the electric or natural gas delivery assets located in that city or town and take over the customer delivery service, thereby reducing NSTAR's revenues. Any such action would require numerous legal and regulatory consents and approvals. NSTAR expects that any municipalization would require that NSTAR be compensated for its assets assumed. In addition, there is also the risk that technological developments could lead to distributed generation among NSTAR's customer base.

***Changes in environmental laws and regulations affecting our business could increase our costs or curtail our activities.***

NSTAR and its subsidiaries are subject to a number of environmental laws and regulations that are currently in effect, including those related to the handling, disposal, and treatment of hazardous materials. Changes in compliance requirements or the interpretation by governmental authorities of existing requirements may impose additional costs, all of which could have an adverse impact on NSTAR's results of operations.

***The Company may be required to conduct environmental remediation activities for power generating sites and other potentially unidentified sites.***

NSTAR is subject to actual or potential claims and lawsuits involving environmental remediation activities for power generating sites previously owned and other potentially unidentified sites. NSTAR divested all of its regulated generating assets under terms that generally require the buyer to assume all responsibility for past and present environmental harm. Based on NSTAR's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, NSTAR does not believe that its known environmental remediation responsibilities will have a material adverse effect on NSTAR's results of operations, cash flows or financial position. However, discovery of currently unknown conditions at existing sites, identification of additional waste sites or changes in environmental regulation, could have a material adverse impact on NSTAR's results of operations, cash flows or financial position.

***NSTAR is subject to operational risk that could cause us to incur substantial costs and liabilities.***

Our business, which involves the transmission and distribution of natural gas and electricity that is used as an energy source by our customers, is subject to various operational risks, including incidents that expose the Company to potential claims for property damages or personal injuries beyond the scope of NSTAR's insurance coverage, and equipment failures that could result in performance below assumed levels. For example, operational performance below established target benchmark levels could cause NSTAR to incur penalties imposed by the DPU, up to a maximum of two and one-half percent of transmission and distribution revenues, under applicable Service Quality Indicators.

***Increases in interest rates due to financial market conditions or changes in our credit ratings, could have an adverse impact on our access to capital markets at favorable rates, or at all, and could otherwise increase our costs of doing business.***

NSTAR frequently accesses the capital markets to finance its working capital requirements, capital expenditures and to meet its long-term debt maturity obligations. Increased interest rates, or adverse changes in our credit

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ratings or further deterioration in the credit markets, would increase our cost of borrowing and other costs that could have an adverse impact on our results of operations and cash flows and ultimately have an adverse impact on the market price of our common shares. In addition, an adverse change in our credit ratings could increase borrowing costs, trigger requirements that we obtain additional security for performance, such as a letter of credit, related to our energy procurement agreements. Refer to the accompanying Item 7A, *"Quantitative and Qualitative Disclosures About Market Risk,"* for a further discussion.

***Our electric and gas businesses are sensitive to variations in weather and have seasonal variations. In addition, severe storm-related disasters could adversely affect the Company.***

Sales of electricity and natural gas to residential and commercial customers are influenced by temperature fluctuations. Significant fluctuations in heating or cooling degree days could have a material impact on energy sales for any given period. In addition, extremely severe storms, such as hurricanes and ice storms, could cause damage to our facilities that may require additional costs to repair and have a material adverse impact on the Company's results of operations, cash flows or financial position. To the extent possible, NSTAR's rate regulated subsidiaries would seek recovery of these costs through the regulatory process.

***An economic downturn, increased costs of energy supply, and customers' conservation efforts could adversely affect energy consumption and could adversely affect our results of operations.***

Energy consumption is significantly impacted by the general level of economic activity and cost of energy supply. Economic downturns such as the one which is currently occurring or periods of high energy supply costs typically lead to reductions in energy consumption and increased conservation measures. These conditions could adversely impact the level of energy sales and result in less demand for energy delivery. A recession or a prolonged lag of a subsequent recovery could have an adverse effect on NSTAR's results of operations, cash flows or financial position.

***The ability of NSTAR to maintain future cash dividends at the level currently paid to shareholders is dependent upon the ability of its subsidiaries to pay dividends to NSTAR.***

As a holding company, NSTAR does not have any operating activity and therefore is substantially dependent on dividends from its subsidiaries and from external borrowings at variable rates of interest to provide the cash necessary for repayment of debt obligations, to pay administrative costs, to meet contractual obligations that may not be met by our subsidiaries and to pay common share dividends to NSTAR's shareholders. Regulatory and other legal restrictions may limit our ability to transfer funds freely, either to or from our subsidiaries. These laws and regulations may hinder our ability to access funds that we may need to make payments on our obligations. As the holding company's sources of cash are limited to dividends from its subsidiaries and external borrowings, the ability to maintain future cash dividends at the level currently paid to shareholders will be dependent upon earnings of NSTAR's subsidiaries.

NSTAR's subsidiaries do have certain limitations that could impact the payment of dividends to the parent company. Refer to the *"Sources of Additional Capital and Financial Covenant Requirements"* section of the accompanying Item 7, *"Management's Discussion and Analysis Financial Condition and Results of Operations"* for more information.

***Our electric and gas operations may be impacted if generation supply or its transportation or transmission availability is limited or unreliable.***

Our electric and natural gas delivery businesses are reliant on transportation and transmission facilities that we do not own or control. Our ability to provide energy delivery services depends on the operations and facilities of third parties, including the independent system operator, electric generators that supply our customers' energy requirements and natural gas pipeline operators from which we receive delivery of our natural gas supply. Should our ability to receive electric or natural gas supply be disrupted due either to operational issues or to inadequacy of transmission capacity, it could impact our ability to serve our customers. It could also force us to secure alternative supply at significantly higher costs.

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***Financial market performance and other changes may decrease the Company's pension and postretirement benefit plans' assets and could require additional funding beyond historic levels.***

A sustained decline in the global financial markets, as was experienced in the second half of 2008, may have a material adverse effect on the value of our pension and postretirement benefit plans' assets. This situation may increase our benefit plans' funding requirements.

**Item 1B. Unresolved Staff Comments**

None

**Item 2. Properties**

NSTAR Electric properties include an integrated system of transmission and distribution lines and substations, a jointly owned administration office building and other structures such as garages and service centers that are located in eastern Massachusetts.

NSTAR Electric's principal electric properties consist of substations, transmission and distribution lines and meters necessary to maintain reliable service to customers. In addition, it owns several service centers. NSTAR's high-voltage transmission lines are generally located on land either owned or subject to perpetual and exclusive easements in its favor. Its low-voltage distribution lines are located principally on public property under permits granted by municipal and other state authorities. In October 2006, NSTAR Electric completed and placed in service the first approximate 18-mile transmission line of its 345 kV Transmission Project. A shorter second line of this project was placed in service in April 2007. A third and final line was placed in service in December 2008.

At December 31, 2008, NSTAR Electric's primary and secondary transmission and distribution system consisted of approximately 21,950 circuit miles of overhead lines, approximately 12,980 circuit miles of underground lines, 255 substation facilities and approximately 1,169,300 active customer meters.

NSTAR Gas' principal natural gas properties consist of distribution mains, services and meters necessary to maintain reliable service to customers. In addition, it owns a jointly owned administration office and service building, three district office buildings and several natural gas receiving and take stations. As of December 31, 2008, the gas system included approximately 3,086 miles of gas distribution lines, approximately 188,000 services and approximately 299,500 customer meters together with the necessary measuring and regulating equipment. In addition, Hopkinton owns a liquefaction and vaporization plant, a satellite vaporization plant and above ground cryogenic storage tanks having an aggregate storage capacity equivalent to 3.5 Bcf of natural gas.

District energy operations consist of AES' cogeneration facility located in the Longwood Medical Area of Boston. MATEP provides steam, chilled water and electricity to over 9 million square feet of medical and teaching facilities.

NSTAR Com's telecommunications service owns approximately 200 miles of fiber optic network which represents approximately 79,000 fiber miles of network.

**Item 3. Legal Proceedings**

In the normal course of its business, NSTAR and its subsidiaries are involved in certain legal matters, including civil litigation. Management is unable to fully determine a range of reasonably possible court-ordered damages, settlement amounts, and related litigation costs (legal liabilities) that would be in excess of amounts accrued and amounts covered by insurance. Based on the information currently available, NSTAR does not believe that it is probable that any such legal liabilities will have a material impact on its consolidated financial position. However, it is reasonably possible that additional legal liabilities that may result from changes in circumstances could have a material impact on its results of operations, financial condition and cash flows.

**Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of 2008.

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**Item 4A. Executive Officers of Registrant**

Identification of Executive Officers

| Name of Officer | Position and Business Experience | Age at December 31, 2008 |
|---|---|---|
| Thomas J. May | Chairman, President and Chief Executive Officer and a NSTAR Trustee | 61 |
| James J. Judge | Senior Vice President, Treasurer and Chief Financial Officer | 52 |
| Douglas S. Horan | Senior Vice President - Strategy, Law and Policy, Secretary and General Counsel | 59 |
| Joseph R. Nolan, Jr. | Senior Vice President - Customer & Corporate Relations | 45 |
| Werner J. Schweiger | Senior Vice President - Operations | 49 |
| Christine M. Carmody | Senior Vice President - Human Resources | 45 |
| Eugene J. Zimon | Senior Vice President - Information Technology | 60 |
| Robert J. Weafer, Jr. | Vice President, Controller and Chief Accounting Officer | 61 |

## PART II

**Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

(a) Market Information and (c) Dividends

The NSTAR Common Shares, $1 par value, are listed on the New York Stock Exchange under the symbol "NST." NSTAR's Common Shares closing market price at December 31, 2008 was $36.49 per share.

The NSTAR Common Shares high and low sales prices as reported by the New York Stock Exchange composite transaction reporting system and dividends declared per share for each of the quarters in 2008 and 2007 were as follows:

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Sales Prices | | Dividends | Sales Prices | | Dividends |
| | High | Low | Declared | High | Low | Declared |
| First quarter | $ 36.70 | $ 29.36 | $ 0.350 | $ 35.37 | $ 32.68 | $ 0.325 |
| Second quarter | $ 35.36 | $ 30.41 | $ 0.350 | $ 37.37 | $ 31.70 | $ 0.325 |
| Third quarter | $ 40.00 | $ 31.17 | $ 0.350 | $ 35.05 | $ 30.75 | $ 0.325 |
| Fourth quarter | $ 36.94 | $ 25.67 | $ 0.375 | $ 37.00 | $ 33.45 | $ 0.350 |

NSTAR paid common share dividends to shareholders totaling $149.5 million and $138.9 million in 2008 and 2007, respectively.

(b) Holders

As of December 31, 2008, there were 20,276 registered holders of NSTAR Common Shares.

(d) Securities authorized for issuance under equity compensation plans

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The following table provides information about NSTAR's equity compensation plans as of December 31, 2008.

| Plan Category | Number of securities to be issued upon exercise of outstanding options | Weighted average exercise price of outstanding options | Number of securities remaining available for future issuance under equity compensation plans |
|---|---|---|---|
| Equity compensation plans approved by shareholders | 2,327,034 | $ 28.71 | 3,597,703 |
| Equity compensation plans not approved by shareholders | — | N/A | N/A |
| Total | 2,327,034 | $ 28.71 | 3,597,703 |

The NSTAR 2007 Long Term Incentive Plan (the 2007 Plan) permits a variety of stock and stock-based awards, including stock options, deferred stock awards and performance share units granted to key employees. The 2007 Plan replaced NSTAR's 1997 Share Incentive Plan, which expired by its terms in January 2007. Subject to adjustment for stock-splits and similar events, the aggregate number of common shares that are available for award under the 2007 Plan is 3.5 million. The Plan limits the terms of awards to ten years and prohibits the granting of awards beyond ten years after its effective date. In general, stock options and stock awards vest over a three-year period from date of grants. The Executive Personnel Committee (EPC) of the Board of Trustees approves stock-based awards for all executives and other key employees. However, the Chief Executive Officer (CEO)'s award must also be approved by the independent members of the Board of Trustees. The EPC and Board of Trustees established that the date of grant for annual stock-based awards under the Plan is the date each year on which the Board of Trustees approves the CEO's stock award. This date is when all participants are notified of their awards. Options are granted at the full market price of the common shares on the date of grant.

(e) Purchases of equity securities

Common Shares of NSTAR issued under the NSTAR Dividend Reinvestment and Direct Common Shares Purchase Plan, the Long Term Incentive Plan and the NSTAR Savings Plan may consist of newly issued shares from the Company or shares purchased in the open market by the Company or an independent agent. During the three-month period ended December 31, 2008, the shares listed below were acquired in the open market.

| | Total Number of Common Shares Purchased | Average Price Paid Per Share |
|---|---|---|
| October | 83,124 | $ 31.72 |
| November | 115,542 | $ 33.88 |
| December | 56,497 | $ 36.05 |
| Total Fourth Quarter | 255,163 | $ 33.66 |

(f) Stock Performance Graphs

The following Stock Performance Graphs and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

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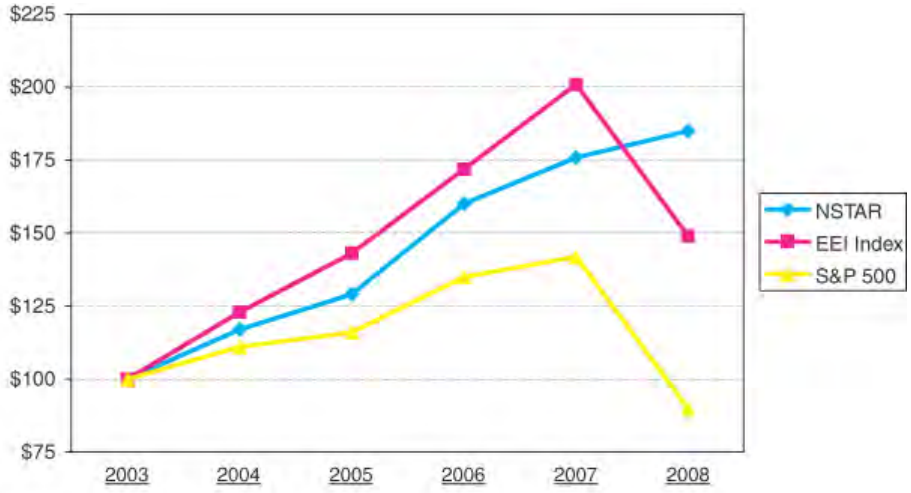
The stock performance graph presentations set forth below compare cumulative five-year and ten-year shareholder returns with the Standard & Poor's 500 Index (S&P 500) and the Edison Electric Industry Index (EEI Index), a recognized industry index of 59 investor-owned utility companies. Pursuant to the SEC's regulations, the graphs below depict the investment of $100 at the commencement of the measurement periods, with dividends reinvested.

**Five-Year Performance Graph**




| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| NSTAR | $100 | $117 | $129 | $160 | $176 | $185 |
| EEI Index | $100 | $123 | $143 | $172 | $201 | $149 |
| S&P 500 | $100 | $111 | $116 | $135 | $142 | $ 90 |

**Ten-Year Performance Graph**

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| NSTAR | $100 | $103 | $115 | $126 | $131 | $150 | $176 | $194 | $241 | $264 | $278 |
| EEI Index | $100 | $ 81 | $120 | $110 | $ 94 | $116 | $142 | $165 | $199 | $232 | $172 |
| S&P 500 | $100 | $121 | $110 | $ 97 | $ 76 | $ 97 | $108 | $113 | $131 | $138 | $ 87 |

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**Item 6. Selected Consolidated Financial Data**

The following table summarizes five years of selected consolidated financial data.

| (in thousands, except per share data) | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Operating revenues | $ 3,345,387 | $ 3,261,784 | $ 3,577,702 | $ 3,243,120 | $ 2,954,332 |
| Net income | $ 237,547 | $ 221,515 | $ 206,774 | $ 196,135 | $ 188,481 |
| Per common share: | | | | | |
| Basic earnings | $ 2.22 | $ 2.07 | $ 1.94 | $ 1.84 | $ 1.77 |
| Diluted earnings | $ 2.22 | $ 2.07 | $ 1.93 | $ 1.83 | $ 1.76 |
| Cash dividends declared (a) | $ 1.425 | $ 1.325 | $ 1.535 | $ 0.87 | $ 1.1225 |
| Total assets | $ 8,269,489 | $ 7,759,545 | $ 7,769,091 | $ 7,638,332 | $ 7,391,356 |
| Long-term debt (b) | $ 2,012,467 | $ 2,017,439 | $ 1,723,558 | $ 1,614,411 | $ 1,792,654 |
| Transition property securitization (b) | $ 331,209 | $ 483,961 | $ 637,217 | $ 787,966 | $ 308,748 |
| Preferred stock of subsidiary | $ 43,000 | $ 43,000 | $ 43,000 | $ 43,000 | $ 43,000 |

(a) As a result of a change in NSTAR's Board of Trustees' meetings schedule in 2005, the fourth quarter dividend that typically would have been declared in December 2005, was approved on January 26, 2006 at $0.3025 per share, and therefore dividends declared during 2006 include the fourth quarter of 2005. The dividend payment schedule remained unchanged.

(b) Excludes the current portion.

**Selected Quarterly Consolidated Financial Data (Unaudited) (a)**

| (in thousands, except earnings per share) | Operating Revenues | Operating Income | Net Income | Earnings Per Share (b) Basic | Earnings Per Share (b) Diluted |
|---|---|---|---|---|---|
| **2008** | | | | | |
| First quarter | $ 895,581 | $ 95,425 | $ 59,236 | $ 0.55 | $ 0.55 |
| Second quarter | $ 743,715 | $ 88,099 | $ 50,369 | $ 0.47 | $ 0.47 |
| Third quarter | $ 892,208 | $ 123,288 | $ 85,820 | $ 0.80 | $ 0.80 |
| Fourth quarter | $ 813,883 | $ 79,302 | $ 42,122 | $ 0.39 | $ 0.39 |
| **2007** | | | | | |
| First quarter | $ 984,378 | $ 89,187 | $ 47,820 | $ 0.45 | $ 0.45 |
| Second quarter | $ 725,135 | $ 92,720 | $ 50,100 | $ 0.47 | $ 0.47 |
| Third quarter | $ 804,919 | $ 121,061 | $ 84,198 | $ 0.79 | $ 0.79 |
| Fourth quarter | $ 747,352 | $ 80,869 | $ 39,397 | $ 0.37 | $ 0.37 |

(a) This information has been provided in accordance with Regulation S-K, Item 302(a)

(b) The sum of the quarters may not equal basic and diluted annual earnings per share due to rounding.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)**

**Overview**

NSTAR (or the Company) is a holding company engaged through its subsidiaries in the energy delivery business serving approximately 1.4 million customers in Massachusetts, including approximately 1.1 million electric distribution customers in 81 communities and approximately 300,000 natural gas distribution customers in 51 communities. NSTAR's retail electric transmission and distribution utility subsidiaries are NSTAR Electric and NSTAR Gas, respectively. NSTAR's nonutility, unregulated operations include district energy operations primarily through its AES subsidiary, telecommunications operations (NSTAR Com) and a liquefied natural gas

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service company (Hopkinton). Harbor Electric Energy Company, a wholly-owned subsidiary of NSTAR Electric, provides distribution service and ongoing support to its only customer, the Massachusetts Water Resources Authority. Utility operations accounted for approximately 96% of consolidated operating revenues in 2008, 2007 and 2006.

NSTAR consolidates three wholly-owned special purpose subsidiaries, BEC Funding LLC, established in 1999, BEC Funding II, LLC and CEC Funding, LLC, both established in 2004. These entities were created to complete the sale of electric rate reduction certificates to a special purpose trust created by two Massachusetts state agencies. These financing transactions securitized the costs incurred related to the divestiture of generation assets and long-term power contracts.

NSTAR derives its operating revenues primarily from the sale of energy, distribution and transmission services to customers and from its unregulated businesses. NSTAR's earnings are impacted by fluctuations in unit sales of electric kWh and natural gas MMbtu, which directly determine the level of distribution and transmission revenues recognized. In accordance with the regulatory rate structure in which NSTAR operates, its recovery of energy costs are fully reconciled with the level of energy revenues currently recorded and, therefore, do not have an impact on earnings. As a result of this rate structure, any variability in the cost of energy supply purchased will impact purchased power and transmission and cost of gas sold expenses and corresponding revenues but will not affect the Company's net income.

**Critical Accounting Policies and Estimates**

NSTAR's discussion and analysis of its financial condition, results of operations and cash flows are based on the accompanying Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these Consolidated Financial Statements required management to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies and estimates are defined as those that require significant judgment and uncertainties, and potentially may result in materially different outcomes under different assumptions and conditions. The accounting policies and estimates that are most critical to the reported results of operations, cash flows and financial position are described below.

**a. Revenue Recognition**

Utility revenues are based on authorized rates approved by the DPU and the FERC. Revenues related to the sale, transmission and distribution of energy delivery service are generally recorded when service is rendered or energy is delivered to customers. However, the determination of the energy sales to individual customers is based on systematic meter readings throughout a month. Meters that are not read during a given month are estimated and trued-up to actual use in a future period. At the end of each month, amounts of energy delivered to customers since the date of their last meter reading are estimated and the corresponding unbilled revenue is recorded. Unbilled electric revenue is estimated each month based on daily territory load (customer energy requirements), estimated line losses and applicable customer rates. Unbilled natural gas revenues are estimated based on estimated purchased gas volumes, estimated gas losses and tariffed rates in effect. Accrued unbilled revenues recorded in the accompanying Consolidated Balance Sheets as of December 31, 2008 and 2007 were $62 million and $60 million, respectively.

The level of revenues is subject to seasonal weather conditions. Electric sales volumes are typically higher in the winter and summer than in the spring or fall. Gas sales volumes are impacted by colder weather since a substantial portion of NSTAR's customer base uses natural gas for heating purposes. As a result, NSTAR records a higher level of revenue during the seasonal periods mentioned above.

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NSTAR's nonutility revenues are recognized when services are rendered or when the energy is delivered. Revenues are based, for the most part, on long-term contractual rates.

**b. Regulatory Accounting**

NSTAR follows accounting policies prescribed by GAAP, the FERC and the DPU. As a rate-regulated company, NSTAR's utility subsidiaries are subject to SFAS No. 71, *"Accounting for the Effects of Certain Types of Regulation"* (SFAS 71). The application of SFAS 71 results in differences in the timing of recognition of certain revenues and expenses from those of other businesses and industries. NSTAR's energy delivery businesses remain subject to rate-regulation and continue to meet the criteria for application of SFAS 71. This ratemaking process results in the recording of regulatory assets or a regulatory liability (including cost of removal) based on the probability of current and future cash flows. Regulatory assets represent incurred or accrued costs that have been deferred because they are probable of future recovery from customers. Regulatory liabilities may represent collections from customers that have been deferred because they will be expended in the future or they may relate to the future cost of removal of assets. (Refer to the accompanying *Asset Retirement Obligations* section of Item 7.) As of December 31, 2008 and 2007, NSTAR has recorded regulatory assets of $2.9 billion and $2.6 billion, and regulatory liabilities of $265 million and $258.9 million, respectively. NSTAR continuously reviews these regulatory assets to assess their ultimate recoverability within the approved regulatory guidelines. NSTAR expects to fully recover these regulatory assets in its rates. If future recovery of any deferred costs ceases to be probable, NSTAR would be required to charge such deferred amounts to current earnings. Impairment risk associated with these assets relates to potentially adverse legislative, judicial or regulatory actions in the future.

**c. Pension and Other Postretirement Benefits**

NSTAR's annual pension and other postretirement benefits costs are dependent upon several factors and assumptions, such as but not limited to, employee demographics, plan design, the level of cash contributions made to the plans, the discount rate, the expected long-term rate of return on the plans' assets and health care cost trends.

In accordance with SFAS No. 87, *"Employers' Accounting for Pensions" (*SFAS 87) and SFAS No. 106, *"Employers' Accounting for Postretirement Benefits Other than Pensions"* (SFAS 106), changes in pension and PBOP liabilities associated with these factors are not immediately recognized as pension and PBOP costs in the statements of income, but generally are recognized in future years over the remaining average service period of the plans' participants. As a result of the requirements of SFAS No. 158, *"Employers' Accounting for Deferred Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements Nos. 87, 88, 106, and 132(R)"* (SFAS 158), these factors could have a significant impact on pension and postretirement assets or liabilities recognized.

NSTAR's Pension Plan and PBOP Plan assets, which partially consist of equity investments, have been affected by recent declines in the overall global equity markets. Fluctuations in the fair value of the Pension Plan and PBOP Plan assets impact the funded status, accounting costs, and cash funding requirements of these Plans. The earnings impact of increased Pension and PBOP costs is mitigated as a result of NSTAR's DPU-approved pension and PBOP rate adjustment mechanism (PAM). Under the PAM, NSTAR is authorized to recover its pension and PBOP expense through this reconciling rate mechanism. The PAM removes the volatility in earnings that could result from fluctuations in market conditions and plan assumptions.

There were no significant changes to NSTAR's pension and PBOP benefits in 2008, 2007 and 2006 that had a material impact on recorded pension and PBOP costs. As further described in Note G, *"Pension and Other Postretirement Benefits,"* to the accompanying Consolidated Financial Statements, NSTAR's discount rate for the Pension Plan was 6.25% at both December 31, 2008 and 2007, respectively. NSTAR's discount rate for the PBOP obligation was 6.10% and 6.25% at December 31, 2008 and 2007, respectively. These discount rates align with market conditions and the characteristics of NSTAR's pension and PBOP obligations. The expected long-term rate of return on both pension plan and PBOP assets for 2008 remained at 9.0%, the same as 2007 and 2006.

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Changes in these assumptions will have an impact on reported pension and PBOP costs in future years in accordance with the cost recognition approaches of SFAS 87 and SFAS 106, respectively. In determining pension obligation and cost amounts, these assumptions may change from period to period, and such changes could result in material changes to recorded pension and PBOP costs and funding requirements.

The following table reflects the projected benefit obligation and cost sensitivities associated with a change in certain actuarial assumptions by the indicated percentage. Each sensitivity below reflects an evaluation of the change based solely on a change in that assumption.

**(in thousands)**

| Actuarial Assumption | Change in Assumption | Impact on Projected Benefit Obligation Increase/(Decrease) | Impact on 2008 Cost Increase/(Decrease) |
|---|---|---|---|
| Pension: | | | |
| Increase in discount rate | 50 basis points | $ (55,588) | $ (5,364) |
| Decrease in discount rate | 50 basis points | $ 55,018 | $ 4,680 |
| Increase in expected long-term rate of return on plan assets | 50 basis points | N/A | $ (5,115) |
| Decrease in expected long-term rate of return on plan assets | 50 basis points | N/A | $ 5,115 |
| Other Postretirement Benefits: | | | |
| Increase in discount rate | 50 basis points | $ (43,618) | $ (5,057) |
| Decrease in discount rate | 50 basis points | $ 48,903 | $ 6,682 |
| Increase in expected long-term rate of return on plan assets | 50 basis points | N/A | $ (1,657) |
| Decrease in expected long-term rate of return on plan assets | 50 basis points | N/A | $ 1,657 |

Management evaluates the appropriateness of the discount rate through the modeling of a bond portfolio that approximates the Plan liabilities. Management further considers rates of high quality corporate bonds of appropriate maturities as published by nationally recognized rating agencies consistent with the duration of the Company's plans. In determining the expected long-term rate of return on plan assets, NSTAR considers past performance and economic forecasts for the types of investments held by the Plan as well as the target allocation for the investments over a long-term period. In 2008, NSTAR kept the expected long-term rate of return on plan assets at 9.0% as a result of the prevailing outlook for investment returns. Actuarial assumptions also include an assumed rate for administrative and investment expenses, which have averaged approximately 0.6% for 2008, 2007 and 2006.

The expected long-term rate of return on Plan assets could vary from actual returns as well as the target allocation for investments over time. As such, these fluctuations could impact NSTAR's capital resources to meet its plan contributions. During 2008, NSTAR contributed $72.6 million to the Pension Plans and $15 million to the PBOP Plan. In 2009 NSTAR expects to contribute $25 million to the Pension Plan and $30 million to the PBOP Plan.

The Pension Protection Act of 2006 (the PPA) requires employers with defined-benefit pension plans to make minimum contributions to fund any shortfall between the assets and liabilities of the plan over a period of seven years. On December 23, 2008, the Worker, Retiree and Employer Recovery Act of 2008 (WRERA) was enacted. WRERA provides relief to single employer pension plans with respect to contribution requirements for the 2008, 2009, and 2010 plan years. Specifically, WRERA reduces the required shortfall to the difference between plan assets and 94% of the plan liabilities for the 2009 plan year (increasing to 96% in 2010). The relief effectively reduces the required amount NSTAR will need to contribute to the pension plan for the 2009 plan year. The Company is in compliance with PPA and WRERA as of December 31, 2008.

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**d. Uncertain Tax Positions**

Effective January 1, 2007, NSTAR adopted the provisions of FASB Interpretation No. 48 (FIN 48) *"Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109, Accounting for Income Taxes"* relating to uncertain tax positions. FIN 48 requires management to use judgment in assessing the potential exposure from tax positions taken that may be challenged by taxing authorities. Management is required to assess the possibility of alternative outcomes based upon all facts available at the reporting date, including in some cases the opinion of independent tax consultants. These estimates could differ significantly from the ultimate outcome. For additional information on uncertain tax positions and estimates used therein, refer to *"Income Tax Matters"* included in this section of this MD&A.

**Investments in Yankee Companies**

NSTAR Electric has an equity ownership of 14% in CY, 14% in YA, and 4% in MY, (collectively, the Yankee Companies). CY, YA and MY plant sites have been decommissioned in accordance with NRC procedures. Amended licenses continue to apply to the ISFSI's where spent nuclear fuel is stored at these sites. CY, YA and MY remain responsible for the security and protection of the ISFSI and are required to maintain radiation monitoring programs at the sites.

Yankee Companies Spent Fuel Litigation

In October, 2006, the U.S. Court of Federal Claims issued a judgment in a spent nuclear fuel litigation, in the amounts of $34.2 million, $32.9 million and $75.8 million for CY, YA and MY, respectively. This judgment in favor of these Yankee companies relates to the alleged failure of the DOE to provide for a permanent facility to store spent nuclear fuel for years prior to 2001 for CY and YA, and prior to 2002 for MY. NSTAR Electric's portion of the judgment amounts to $4.8 million, $4.6 million and $3 million, respectively. On December 4, 2006, the DOE filed its notice of appeal of the trial court's decision. As a result, the Yankee Companies have not recognized the damage awards on their books, and therefore, NSTAR Electric has not recognized its portion. On December 14, 2007, the Yankee companies filed complaints against the DOE seeking damages from 2001 for CY and YA, and from 2002 for MY, through a future trial date. On August 7, 2008, a federal appeals court reversed and remanded the U.S. Court of Federal Claims judgment based on an error in the measurement of the award calculation. NSTAR cannot predict the ultimate outcome of this decision on appeal or the subsequent complaints. However, should NSTAR Electric ultimately prevail, proceeds received would be refunded to customers and would not have an earnings impact.

The accounting for decommissioning costs of nuclear power plants involves significant estimates related to costs to be incurred many years in the future. Changes in these estimates will not affect NSTAR's results of operations or cash flows because these costs will be collected from customers through NSTAR Electric's transition charge filings with the DPU.

**Derivative Instruments**

Energy Contracts

NSTAR accounts for its energy contracts in accordance with SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* (SFAS 133) and SFAS No. 149, *"Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities"* (SFAS 149). NSTAR has determined that its electricity supply contracts qualify for, and NSTAR has elected, the normal purchases and sales exception. As a result, these agreements are not reflected on the accompanying Consolidated Balance Sheets. NSTAR has only one significant gas supply contract. This contract is an all-requirements portfolio asset management contract that expires in October 2009. This contract contains market based pricing terms and, therefore, no financial statement adjustments would be required. Gas supply costs incurred related to this contract were $259 million, $224 million

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and $237 million for the years ended December 31, 2008, 2007 and 2006, respectively, and have been recorded to Cost of gas sold on the accompanying Consolidated Statements of Income. Refer to the accompanying *Item 7A "Quantitative and Qualitative Disclosures About Market Risk"* for a further discussion.

Hedging Agreements

In accordance with a DPU order, NSTAR Gas purchases financial contracts based upon NYMEX natural gas futures in order to reduce cash flow variability associated with the purchase price for approximately one-third of its natural gas purchases. This practice attempts to minimize the impact of fluctuations in prices to NSTAR's firm gas customers. These financial contracts do not procure gas supply. These contracts qualify as derivative financial instruments under SFAS 133, as amended by SFAS 149. Accordingly, the fair value of these instruments is recognized on the accompanying Consolidated Balance Sheets as an asset or liability representing amounts due from or payable to the counter parties of NSTAR Gas, as if such contracts were settled as of the balance sheet date. All actual costs incurred or benefits realized are included in the CGAC of NSTAR Gas. As a result, NSTAR Gas records an offsetting regulatory asset or liability for the market price changes, in lieu of recording an adjustment to Other Comprehensive Income. Currently, these derivative contracts extend through April 2010. As of December 31, 2008 and 2007, NSTAR had recorded a liability and a corresponding regulatory asset of $32.9 million and $10.5 million, respectively, to reflect the fair value of these contracts. During the years ended December 31, 2008 and 2007, $16 million and $30 million, respectively, of these financial contracts were settled and were recognized as additional charges to Cost of gas sold on the accompanying Consolidated Statements of Income.

**Asset Retirement Obligations**

FASB Interpretation No. 47, *"Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS No. 143"* (FIN 47), *"Accounting for Asset Retirement Obligations"* (SFAS 143), requires entities to record the fair value of a liability for an ARO in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

The recognition of an ARO within NSTAR's regulated utility businesses has no impact on its earnings. In accordance with SFAS 71, for its rate-regulated utilities, NSTAR establishes a regulatory asset to recognize future recoveries through depreciation rates for the recorded ARO. NSTAR has certain plant assets in which this condition exists and is related to both plant assets containing hazardous materials and legal requirements to undertake remediation efforts upon retirement.

For NSTAR's regulated utility businesses, the ultimate cost to remove utility plant from service (cost of removal) is recognized as a component of depreciation expense in accordance with approved regulatory treatment. As of December 31, 2008 and 2007, the estimated amount of the cost of removal included in regulatory liabilities was approximately $265 million and $259 million, respectively, based on the estimated cost of removal component in current depreciation rates. At December 31, 2008, NSTAR has an asset retirement cost in utility plant of $3 million, an asset retirement liability of $26 million and a regulatory asset of $21 million.

**New Accounting Standard**

SFAS No. 161

On March 19, 2008, the FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities,"* (SFAS 161) which is intended to improve financial reporting about derivatives and hedging activities by requiring enhanced disclosures. This standard became effective on January 1, 2009. NSTAR anticipates that SFAS 161 will not have a significant impact on its current disclosures.

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**Rate and Regulatory Proceedings**

**a. Rate Structures**

Rate Settlement Agreement

Beginning January 1, 2007 and continuing through 2012, the Rate Settlement Agreement establishes annual inflation-adjusted distribution rate increases (SIP of 1.74%, 2.68%, and 2.64% effective January 1, 2009, 2008, and 2007, respectively). These increases are generally offset by an equal and corresponding reduction in transition rates. Uncollected transition costs are deferred and will be collected through future rates with a carrying charge.

Basic Service Rates

Electric distribution companies in Massachusetts are required to obtain and resell power to retail customers through Basic Service for those customers who choose not to buy energy from a competitive energy supplier. Basic Service rates are reset every six months (every three months for large commercial and industrial customers). The price of Basic Service is intended to reflect the average competitive market price for electric power. As of December 31, 2008, 2007, and 2006, customers of NSTAR Electric had approximately 45%, 47%, and 49%, respectively, of their load requirements provided through Basic Service. NSTAR Electric fully recovers its energy costs through DPU-approved rate mechanisms.

Firm Natural Gas Rates

In addition to delivery service rates, NSTAR Gas' tariffs include a seasonal CGAC and a LDAC. The CGAC provides for the recovery of all gas supply costs from firm sales customers. The LDAC provides for the recovery of certain costs applicable to both sales and transportation customers. The CGAC is filed semi-annually for approval by the DPU. The LDAC is filed annually for approval. In addition, NSTAR Gas is required to file interim changes to its CGAC factor when the actual costs of gas supply vary from projections by more than 5%. Changes in the cost of gas supply have no impact on the Company's earnings due to the CGAC and LDAC rate recovery mechanisms.

**b. Service Quality Indicators**

SQI are established performance benchmarks for certain identified measures of service quality relating to customer service and billing performance, safety and reliability and consumer division statistics performance for all Massachusetts utilities. NSTAR Electric and NSTAR Gas are required to report annually to the DPU concerning their performance as to each measure and are subject to maximum penalties of up to two percent (two and one-half percent beginning in 2009) of total transmission and distribution revenues should performance fail to meet the applicable benchmarks.

NSTAR monitors its service quality continuously to determine if a liability has been triggered. If it is probable that a liability has been incurred and is estimable, a liability is accrued. Annually, each NSTAR utility subsidiary makes a service quality performance filing with the DPU. Any settlement or rate order that would result in a different liability level from what has been accrued would be adjusted in the period that the DPU issues an order determining the amount of any such liability.

On March 1, 2007, NSTAR Electric and NSTAR Gas filed their 2006 Service Quality Reports with the DPU that demonstrated the Companies achieved sufficient levels of performance. The reports indicate that no penalty was assessable for 2006. The DPU approved both filings but did not approve NSTAR Electric's benchmarks due to outstanding DPU decisions relating to changes in the calculation of reliability measures for the duration and frequency of service interruptions. On September 25, 2008, the DPU issued an order clarifying these requirements, and NSTAR Electric will file recalculated benchmarks in 2009.

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On February 29, 2008, NSTAR Electric and NSTAR Gas filed their 2007 Service Quality Reports with the DPU that demonstrated the Companies achieved sufficient levels of performance. The NSTAR Electric report did not include 2007 results for reliability measures for the duration and frequency of service interruptions due to the outstanding DPU decisions. The filed reports indicate that no penalty was assessable for 2007 for non-reliability measurements. On May 16, 2008, the DPU issued an order that approved the NSTAR Gas 2007 Service Quality Report, as filed. The September 2008 order clarified the outstanding issues pertaining to calculating reliability measures for the duration and frequency of service interruptions. NSTAR Electric will now file its 2007 Service Quality Report for reliability performance information in 2009.

In addition, the May and September 2008 DPU orders established new requirements for NSTAR Electric performance metrics related to poor performing circuits. These new performance metrics measure circuit performance over a three-year period that commenced on January 1, 2007. NSTAR Electric's performance level has not been in a penalty position as of December 31, 2008. NSTAR Electric will not be able to determine its final performance related to all of the SQI circuit performance measurements until the end of 2009.

**c. Regulatory Matters**

Massachusetts Regulatory Environment

On July 2, 2008, the Massachusetts Legislature passed the *Green Communities Act* (GCA) energy policy legislation designed to substantially increase energy efficiency and the development of renewable energy resources in Massachusetts. The GCA:

- Creates a new Department of Energy Resources with expanded powers to oversee energy efficiency, renewable and alternative energy development, and other Green programs;
- Mandates efficiency improvements in government buildings, and provides technical and financial assistance to communities that implement Green initiatives;
- Requires electric and natural gas distribution companies to file three-year energy efficiency investment plans designed to implement all available cost-effective energy efficiency and demand reduction resources; the plans are to include fully reconciling funding mechanisms and incentives;
- Requires utility distribution companies to undertake various Green programs, including the solicitation of bids for long-term renewable energy procurement contracts for which utilities would be allowed remuneration on certain contract commitments;
- Establishes a "smart grid" pilot program;
- Gives final approval to the State's participation in the Regional Greenhouse Gas Initiative;
- Increases the Renewable Portfolio Standard by 1% annually, requiring that by the year 2020 utilities and other electricity suppliers obtain 15% of the power they sell from renewable resources;
- Authorizes electric distribution companies to construct, own, and operate up to 50 megawatts of solar generating capacity; and
- Modifies the service quality performance penalty provision (Refer to Note N of the accompanying *Notes to Consolidated Financial Statements*).

The GCA provides for utilities to recover in rates the incremental costs associated with its various mandated programs.

On August 7, 2008, the *Massachusetts Global Warming Solutions A*ct (GWSA) was enacted. The intention of the GWSA is to reduce greenhouse gas emissions in Massachusetts across multiple sectors of the economy, first by requiring the reporting of carbon dioxide and other greenhouse gas emissions and then requiring the gradual reduction of such greenhouse gas emissions by 80% of 1990 levels over a 40-year period beginning in 2010. Regulations setting forth specific detailed requirements under the GWSA will start with the reporting

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requirements that are presently expected to be established during the second quarter of 2009. By January 1, 2012, the State is expected to adopt regulations establishing a desired level of declining emissions limits for resources that emit greenhouse gases. At this time, NSTAR cannot predict the effect of the GWSA on its future results of operations, financial position, or cash flows.

Electric and Gas Rate Decoupling

On July 16, 2008, the DPU issued an order to all Massachusetts' electric and gas distribution utility companies that permits them to develop plans to decouple their rates/revenues from sales volumes. This action is intended to encourage utility companies to help their customers reduce energy consumption. Decoupling of rates will allow utility companies to carry out the mandates of the GCA and at the same time collect the adequate level of revenues to maintain the quality and reliability of electric and gas services. This order allows companies to file for recovery of lost base revenues caused by incremental energy efficiency spending until their decoupling rate plans are approved. Once decoupled rate plans are approved, revenues will be set at a level designed to recover the utility companies' incurred costs plus a return on their investment. This revenue level will be reconciled with actual revenues received from decoupled rates on an annual basis and any over or under collection will be refunded to or recovered from customers in the subsequent year.

NSTAR Electric expects to file for lost base revenues in 2009. The recovery of lost base revenues is not anticipated to have a material impact on earnings as any revenue adjustment mitigates the impact of lower sales resulting from energy efficiency. NSTAR Electric currently does not expect to file for fully decoupled electric rates until after the Rate Settlement Agreement expires in 2012. However, NSTAR Gas may file prior to that date.

Regulatory Proceedings - DPU Safety and Reliability programs (CPSL)

As part of the 2005 rate settlement, NSTAR Electric is allowed to recover incremental spending for the double pole inspection, replacement/restoration and transfer program and the underground electric safety program, which includes stray-voltage remediation and manhole inspections, repairs, and upgrades. Recovery of these Capital Program Scheduling List (CPSL) costs is subject to DPU review and approval. NSTAR Electric incurred incremental costs of $11.1 million and $13.1 million in 2006 and 2007, respectively. This includes incremental operations and maintenance and revenue requirements on capital investments. The final reconciliation of 2006 and 2007 CPSL costs recovery is currently under review by the DPU. The incremental costs for the year 2008 are currently under review by the Company and are estimated to be approximately $15 million. NSTAR anticipates filing with the DPU its final 2008 CPSL cost recovery reconciliation in the second quarter of 2009. NSTAR cannot predict the timing of these pending filings. Should an adverse decision be issued that would disallow CPSL cost recovery, it could have a material adverse impact to NSTAR's results of operations, financial position, and cash flows.

Wholesale Power Cost Savings Initiatives

The Rate Settlement Agreement encourages NSTAR Electric to continue its efforts to advocate on behalf of customers at the FERC to mitigate wholesale electricity cost inefficiencies that would be borne by regional customers. If NSTAR Electric's efforts to reduce customers' costs are successful, it is allowed to retain a portion of those savings as an incentive, as well as recover related litigation costs. Under the terms of the Rate Settlement Agreement, NSTAR Electric was to share in 25% of the savings applicable to its customers. The recovery of NSTAR Electric's share of benefits is to be collected over three years. As a result of its role in two RMR cases, NSTAR Electric had sought to collect $9.8 million annually for three years and began recognizing and collecting some of these incentive revenues from its customers effective January 1, 2007, subject to final DPU approval. Public hearings were held by the DPU in early 2007 to investigate the basis and support for the incentive payments. After these hearings, NSTAR Electric began discussions with the staff of the newly elected AG and a revised Settlement Agreement was executed on July 23, 2007. This revised Settlement Agreement allowed NSTAR Electric to collect $6.3 million of the savings annually for three years effective January 1, 2007 and it

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stipulated that NSTAR Electric would share 12.5% of the savings applicable to its customers in its future efforts related to new wholesale energy cost savings cases. On February 29, 2008, the DPU issued an order that did not approve the revised Settlement Agreement. The DPU re-established a procedural schedule and final briefs were filed in early May 2008. Through December 31, 2008, $12.6 million has been collected from customers for the Wholesale Power Cost Saving Initiatives.

NSTAR is unable to predict the timing or ultimate outcome of this proceeding. In the event an adverse decision is issued, it would not have a material impact on the Company's results of operations.

Basic Service Bad Debt Adder

On July 1, 2005, in response to a generic DPU order that required electric utilities in Massachusetts to recover the energy-related portion of bad debt costs in their Basic Service rates, NSTAR Electric increased its Basic Service rates and reduced its distribution rates for those bad debt costs. In furtherance of this generic DPU order, NSTAR Electric included a bad debt cost recovery mechanism as a component of its Rate Settlement Agreement. This recovery mechanism (bad debt adder) allowed NSTAR Electric to recover its Basic Service bad debt costs on a fully reconciling basis. These rates were implemented, effective January 1, 2006, as part of NSTAR Electric's Rate Settlement Agreement.

On February 7, 2007, NSTAR Electric filed its 2006 Basic Service reconciliation with the DPU proposing an adjustment related to the increase of its Basic Service bad debt charge-offs. This proposed rate adjustment was anticipated to be implemented effective July 1, 2007. On June 28, 2007, the DPU issued an order approving the implementation of a revised Basic Service rate. However, the DPU instructed NSTAR Electric to reduce distribution rates by the increase in its Basic Service bad debt charge-offs. Such action would result in a further reduction to distribution rates from the adjustment NSTAR Electric made when it implemented the Settlement Agreement. This adjustment to NSTAR Electric's distribution rates would eliminate the fully reconciling nature of the Basic Service bad debt adder.

NSTAR Electric has not implemented the components of the June 28, 2007 DPU order. Implementation of this order would require NSTAR Electric to write-off a previously recorded regulatory asset related to its Basic Service bad debt costs. NSTAR Electric filed a Motion for Reconsideration of the DPU's order on July 18, 2007. On December 14, 2007, the Motion for Reconsideration was granted and the DPU reopened the case to hear additional evidence. NSTAR Electric filed additional testimony in April 2008, an evidentiary hearing was held, and briefs were filed in June and early July 2008. NSTAR Electric believes its position is appropriate and that it is probable that it will ultimately prevail. However, in the event that it does not, NSTAR Electric intends to pursue all legal options. As of December 31, 2008, the potential impact to earnings of eliminating the bad debt adder would be approximately $17 million, pre-tax. NSTAR cannot predict the timing of this proceeding.

Regulatory Proceeding - FERC

On July 9, 2007, FERC approved NSTAR Electric's 2007 proposed consolidated transmission rates as filed on February 14, 2007, subject to refund, pending the conclusion of subsequent proceedings. As a result of these proceedings, NSTAR Electric reached an agreement with the FERC staff, the AG, and a wholesale customer. A final Settlement Agreement was filed on March 12, 2008 and approved by the FERC on June 19, 2008. The implementation of this Settlement Agreement did not have an impact on the Company's results of operations, financial position, or cash flows.

FERC Transmission ROE

Local Transmission Facilities

Effective retroactive to February 1, 2005, the FERC authorized, for the participating New England Transmission Owners, including NSTAR Electric, a base ROE on transmission facilities of 10.4%. This was increased to 11.14% effective on November 1, 2006. NSTAR earns this ROE on all local transmission facility investments.

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Regional Transmission Facilities

The FERC also authorized a 50 basis point adder on regional facilities for joining a RTO effective February 1, 2005 (the RTO effective date). NSTAR joined ISO-New England on the RTO effective date, thereby qualifying for the adder. This brings the ROE on NSTAR's regional transmission facilities to 10.9% for the period from February 1, 2005 to October 31, 2006, and 11.64% thereafter. Customers of the ISO-NE participants benefit from this order because it responds to the need to enhance the New England transmission grid to alleviate congestion costs and reliability concerns.

Additional Incentive Adders

Additional incentive adders are decided on a case by case basis according to FERC's most recent national transmission incentive rules. The FERC may grant a variety of financial incentives, including ROE basis point incentive adders for qualified investments made in new regional transmission facilities. New England projects that were included in ISO-NE's regional system plan and went into service prior to December 31, 2008 qualified for a 100 basis point ROE adder. This 100 basis point adder, when combined with the FERC's approved ROEs described above, results in a 12.64% ROE for qualified regional investments. The incentive is intended to promote and accelerate investment in transmission projects that can significantly reduce congestion costs and enhance reliability in the region. NSTAR's 345 kV Transmission Project, among others, has received this additional incentive adder.

**Proposed Transmission Investment**

On December 12, 2008, NSTAR Electric, together with Northeast Utilities (NU) (collectively, the Petitioners), filed a joint petition with the FERC for a declaratory judgment that would allow the Petitioners to enter into a bilateral transmission services agreement with Hydro Quebec (HQ) subsidiaries. Under this agreement, the Petitioners would sell 1,200 MW of firm transmission service over a new, participant-funded transmission tie line connecting New England with the HQ system in order for HQ to sell and deliver this same amount of firm power from the HQ system to interested parties in New England for a term of no less than twenty years. This project would provide a competitive source of clean power that is favorable in comparison to current alternatives and provides for an expansion of New England's transmission system without raising regional transmission rates.

The Petitioners and HQ are negotiating:

- A joint development agreement for the design and construction of a 1,200 MW high-voltage direct current line over existing rights-of-way in Northern New England to a point to be determined in Southern New Hampshire and are performing joint planning studies for this line
- A long-term bilateral transmission service agreement
- A Purchase Power Agreement for HQ to sell 1,200 MW of firm power to NSTAR Electric, NU and other interested New England entities for a period of no less than twenty years

These transmission agreements must be approved by the FERC and the Purchase Power Agreement between HQ, NSTAR Electric, and other interested New England entities, must be approved by their appropriate state regulatory agencies. NSTAR Electric anticipates that, if approved by the FERC and the DPU, construction will commence in the 2011 to 2014 timeframe and forecasts that its portion of the construction funding to be approximately $200 million. NSTAR Electric and NU will finance and own this transmission line, while HQ will reimburse NSTAR Electric and NU for the total costs of this project, including an investment return to NSTAR Electric and NU, over twenty years.

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**General Legal Matters**

In the normal course of its business, NSTAR and its subsidiaries are involved in certain legal matters, including civil litigation. Management is unable to fully determine a range of reasonably possible court-ordered damages, settlement amounts, and related litigation costs (legal liabilities) that would be in excess of amounts accrued and amounts covered by insurance. Based on the information currently available, NSTAR does not believe that it is probable that any such legal liabilities will have a material impact on its consolidated financial position. However, it is reasonably possible that additional legal liabilities that may result from changes in circumstances could have a material impact on its results of operations, cash flows or financial condition.

**Income Tax Matters**

Construction-related Costs

In 2004, NSTAR filed an amended 2002 Federal income tax return to change the method of accounting for certain construction-related overhead costs previously capitalized to plant to the Simplified Service Cost Method (SSCM). Under SSCM, certain costs which were previously capitalized for tax purposes are deducted in the year incurred. NSTAR has claimed additional deductions related to the tax accounting method change in its 2002-2004 returns of $368.9 million. In 2005, NSTAR received formal notification from the IRS that the claim on its amended income tax return would be denied. NSTAR did not receive the requested refund amount due.

In August 2005, the IRS issued Revenue Ruling 2005-53 and Treasury Regulations under Code Section 263A related to the SSCM to curtail these levels of construction-related cost deductions by utilities and others. Under this Regulation, the SSCM is not available for the majority of NSTAR's constructed property for the years 2005 and forward. NSTAR was required to make a cash tax payment to the IRS of $129.1 million in late 2006 representing the disallowed SSCM deductions taken for 2002-2004 even though the tax refund was never received. This payment will be fully refunded with interest to NSTAR, once this tax position is resolved. As a result of recent developments, as of December 31, 2008, this refund has been recorded as a current refundable income tax on the accompanying Consolidated Balance Sheets; at December 31, 2007, it was recorded as non-current.

RCN Corporation (RCN) Share Abandonment Tax Treatment

On December 24, 2003, NSTAR exited its investment in RCN by formally abandoning its 11.6 million shares of RCN common stock. As a result of the RCN share abandonment, the Company claimed an ordinary loss on its 2003 tax return for this item. The ordinary loss tax treatment resulted in the Company realizing the benefits represented by the tax asset recorded on its books that resulted from the previous write-down of this investment for financial reporting purposes.

Prior to the adoption of FIN 48, it was NSTAR's tax accounting policy not to recognize tax benefits associated with an uncertain tax position until it is probable that such tax benefit would ultimately be realized. NSTAR determined that it could not conclude that it was probable that the tax deduction related to the abandonment of its RCN investment would ultimately be sustained. Accordingly, NSTAR accrued a tax reserve so as to not recognize the tax benefit of this tax position.

As of January 1, 2007, the potential tax loss was approximately $39.6 million. NSTAR adopted FIN 48 effective January 1, 2007. FIN 48 establishes a tax accounting recognition standard of more-likely-than-not, which is a lower threshold than NSTAR's previous tax recognition policy of probable. Upon the adoption of FIN 48, NSTAR recognized the entire amount as an adjustment to its January 1, 2007 retained earnings balance. NSTAR cannot predict the timing or ultimate resolution of this tax position.

IRS Appeals and Examinations

As of December 31, 2008, the 2001 through 2007 federal and state tax years remain open. Years 2001 through 2004 (which include the SSCM and RCN Share Abandonment matters) are at the IRS Office of Appeals and

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years 2005 through 2007 are under examination by the IRS. The 2008 Federal income tax return is being examined under the IRS Compliance Assurance Process (CAP). This program accelerates the examination of the return in an attempt to resolve issues before the tax return is filed. NSTAR expects that ongoing IRS audits will not have a material effect on its financial statements. However, the outcome of any audit and the timing of audit settlement are subject to significant uncertainty.

**Earnings Outlook**

NSTAR is reaffirming its guidance for the year 2009 as follows:

- Earnings per share are expected to be in the $2.33 to $2.43 range
- Electric sales are expected to increase by about 1%; gas sales are expected to be flat
- Operations and maintenance expense is expected to decline by about 2% due to cost control efforts across the company anticipated throughout the year
- Capital expenditures for 2009 are expected to be approximately $365 million

**Common Share Dividends**

On November 20, 2008, NSTAR's Board of Trustees declared a quarterly cash dividend of $0.375 per share for shareholders of record on January 9, 2009, payable February 2, 2009. NSTAR's current annualized rate is $1.50 per share, a 7.1% increase over the previous rate of $1.40 per share. NSTAR expects that the growth rate of its common dividend will continue to be in-line with the growth rate in earnings per share. All future dividend decisions are subject to quarterly dividend declarations based on the Company's financial position and other relevant considerations at the time.

**Results of Operations**

The following section of MD&A compares the results of operations for each of the three fiscal years ended December 31, 2008, 2007, and 2006 and should be read in conjunction with the accompanying Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included elsewhere in this report.

**2008 compared to 2007**

*Executive Summary*

NSTAR achieved several positive performance results in 2008:

- EPS increased $0.15 from $2.07 to $2.22. This 7.2% increase reflects increased distribution revenues, higher transmission revenues, and lower interest costs
- The Company's common share dividend was increased in 2008 by 7.1%
- NSTAR, NSTAR Electric, and NSTAR Gas each maintained their S&P overall credit ratings at "A" levels

Earnings per common share were as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | % Change |
| Basic and Diluted | $ 2.22 | $ 2.07 | 7.2 |

Net income was $237.5 million for 2008 compared to $221.5 million for 2007. Major factors on an after tax basis that contributed to the $16.0 million, or 7.2%, increase include:

- Higher electric distribution revenues ($11.5 million)
- Higher transmission revenues as a result of increased transmission investment base ($13.9 million)

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- Non-recurring cumulative impact of implementing the March 2008 FERC transmission order ($2.4 million)
- Higher earnings from NSTAR's unregulated businesses ($4.3 million)
- Environmental insurance settlement ($2.9 million)
- Lower net interest expense primarily as a result of decreased interest rates and increased interest income related to higher regulatory asset balances ($7.0 million)

These positive earnings factors were partially offset by:

- Higher operations and maintenance expenses ($9.9 million) primarily relating to unplanned expenditures related to litigation and claims ($3.0 million), and higher storm-related costs ($1.8 million). The remaining increase relates to higher labor costs including union contract negotiations that concluded in January 2009
- Higher depreciation and amortization and property tax expenses in 2008 related to higher depreciable electric and gas distribution plant in service ($9.1 million)
- Lower firm gas revenues due to lower sales of 1.4% ($1.8 million)
- Absence of the 2007 recognition of interest income on certain tax matters ($3.0 million)

Significant cash flow events during 2008 include the following:

- Cash flows from operating activities provided approximately $543.1 million, an increase of $51.7 million as compared to the same period in 2007. The increase is due to an increase in operating income driven by increased electric distribution revenues and increased earnings from unregulated subsidiaries, favorable changes in various working capital balances, and lower income tax payments. These items were offset by higher Pension contributions ($70 million) during 2008
- NSTAR invested approximately $422.2 million in capital projects to improve capacity and reliability
- NSTAR paid approximately $149.5 million in common share dividends and retired approximately $159.6 million in long-term and securitized debt
- Short-term borrowings increased from $403.4 million to $582.9 million during 2008, an increase of $179.5 million

*Energy Sales*

The following is a summary of retail electric and firm gas and transportation energy sales for the years indicated:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | % Change Increase/(decrease) |
| Retail Electric Sales - MWH | | | |
| Residential | 6,538,227 | 6,575,587 | (0.6) |
| Commercial, Industrial, and Other | 15,109,818 | 15,079,661 | 0.2 |
| Total retail sales | 21,648,045 | 21,655,248 | 0.0 |

| | Years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | % Change Increase/(decrease) |
| Firm Gas Sales and Transportation - BBtu | | | |
| Residential | 20,763 | 21,792 | (4.7) |
| Commercial and Industrial | 22,134 | 21,788 | 1.6 |
| Municipal | 2,933 | 2,885 | 1.7 |
| Total firm sales | 45,830 | 46,465 | (1.4) |

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NSTAR's electric energy sales in 2008 were flat primarily due to the unfavorable weather conditions resulting from a cooler summer during 2008 as compared to 2007. In addition, electric sales have been impacted by the downturn in the economy that has resulted in lost sales from commercial office and retail business vacancies, and also by the impact of customer and NSTAR-sponsored conservation measures. The 1.4% decrease in firm gas and transportation sales is due to the milder winter weather that directly impacts residential sales offset by the shift of commercial and industrial customers converting to using natural gas from fuel oil. All gas customer segments are impacted by continued customer conservation efforts.

Weather, higher fuel costs, conservation measures, and economic conditions affect sales to NSTAR's residential and small commercial customers. Economic conditions, higher fuel costs, and conservation measures affect NSTAR's large commercial and industrial customers. In terms of customer sector characteristics, industrial sales are less sensitive to weather than residential and commercial sales, which are influenced by temperature extremes. Refer to the *"Electric Revenues"* and *"Gas Revenues"* sections below for more detailed discussions.

NSTAR Electric's retail peak demand for 2008 was 4,379 MW measured on July 9, 2008. This was 11.7% less than the all-time high peak demand of 4,959 MW reached on August 2, 2006.

*Weather Conditions*

NSTAR forecasts its electric and natural gas sales based on normal weather conditions. Actual results may vary from those projected due to actual weather conditions, energy conservation, and other factors. Refer to the *"Cautionary Statement Regarding Forward-Looking Information"* section preceding Item 1. *"Business"* of this Form 10-K.

The demand for electricity and natural gas is affected by weather conditions. Weather conditions impact electric sales primarily during the summer and, to a greater extent, gas sales during the winter season in NSTAR's service area. Customer heating or cooling usage may not directly correlate with historical levels or with the level of degree-days that occur (as further discussed below), particularly when weather patterns experienced are consistently colder or warmer. Also, NSTAR's electric and gas businesses are sensitive to variations in daily weather, are highly influenced by New England's seasonal weather variations, and are susceptible to severe storm-related incidents that could adversely affect the Company's ability to provide energy.

Degree-days measure changes in daily mean temperature levels. A degree-day is a unit measuring how much the outdoor daily mean temperature falls below (in the case of heating) or rises above (in the case of cooling) a base of 65 degrees. The comparative information below relates to heating and cooling degree-days for the years 2008 and 2007 and the number of heating and cooling degree-days in a "normal" year as presented by a 30-year average. NSTAR uses the "normal 30-year average" degree-days data to compare current temperature readings to a baseline or "normal" period, that is recalculated every ten years for the preceding 30 years (currently 1971-2000), as collected at the Worcester, Massachusetts airport and Boston's Logan Airport for heating degree-day data and cooling degree-day data, respectively. Weather conditions during the three months ended March 31, 2008 and June 30, 2008 measured by heating degree-days were 4.3% and 14.1% lower/warmer for 2008 as compared to 2007, unfavorably impacting gas revenues. Weather conditions during the three months ended September 30, 2008 measured by cooling degree-days were 10.4% lower/cooler for 2008 as compared to 2007, unfavorably impacting electric revenues. Refer to the *"Electric Revenues"* and *"Gas Revenues"* sections below for more detailed discussions.

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*Heating Degree-Days*

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | Sept. 30 | Dec. 31 |
| 2008 | 3,186 | 874 | 134 | 2,414 |
| 2007 | 3,330 | 1,017 | 161 | 2,274 |
| Normal 30-Year Average | 3,339 | 972 | 177 | 2,362 |
| Percentage that 2008 was (warmer) colder than 2007 | (4.3)% | (14.1)% | (16.8)% | 6.2% |
| Percentage that 2008 was (warmer) colder than 30-year average | (4.6)% | (10.1)% | (24.3)% | 2.2% |

*Cooling Degree-Days*

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | Sept. 30 | Dec. 31 |
| 2008 | — | 210 | 578 | 1 |
| 2007 | — | 231 | 645 | 31 |
| Normal 30-Year Average | 1 | 175 | 593 | 8 |
| Percentage that 2008 was (cooler) than 2007 | n/m | (9.1)% | (10.4)% | n/m |
| Percentage that 2008 was warmer (cooler) than 30-year average | n/m | 20.0% | (2.5)% | n/m |

n/m - not meaningful

**Operating Revenues**

Operating revenues for 2008 increased 2.6% from 2007 as follows:

| | | | Increase/(Decrease) | |
|---|---|---|---|---|
| (in millions) | 2008 | 2007 | Amount | Percent |
| Electric revenues | | | | |
| Retail distribution and transmission | $ 963.3 | $ 957.0 | $ 6.3 | 0.7% |
| Energy, transition, and other | 1,676.3 | 1,605.9 | 70.4 | 4.4% |
| Total retail electric revenues | 2,639.6 | 2,562.9 | 76.7 | 3.0% |
| Gas revenues | | | | |
| Firm and transportation | 144.9 | 152.0 | (7.1) | (4.7)% |
| Energy supply and other | 408.8 | 408.4 | 0.4 | 0.1% |
| Total gas revenues | 553.7 | 560.4 | (6.7) | (1.2)% |
| Unregulated operations revenues | 152.1 | 138.5 | 13.6 | 9.8% |
| Total operating revenues | $ 3,345.4 | $ 3,261.8 | $ 83.6 | 2.6% |

*Electric Revenues*

NSTAR's largest earnings sources are the revenues derived from distribution and transmission rates approved by the DPU and FERC. Electric retail distribution revenues primarily represent charges to customers for recovery of the Company's capital investment, including a return component, and operation and maintenance costs related to its electric distribution infrastructure. The transmission revenue component represents charges to customers for the recovery of similar costs to move the electricity over high voltage lines from the generator to the Company's substations.

The increase of $6.3 million, or 0.7%, in retail distribution and transmission revenues primarily reflects:

- Higher distribution revenues due to the impact of the annual inflation-adjustment to distribution rates. This annual inflation-adjustment is offset by an equal and corresponding reduction in transition rates ($18.9 million)
- Increased transmission revenues is primarily due to increased transmission investment base ($25.8 million)

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These increases were partially offset by:

- Decreased transmission revenues related to lower forecasted reliability must-run (RMR) payments to energy generators ($38.4 million) that are fully recoverable from customers

Energy, transition, and other revenues primarily represent charges to customers for the recovery of costs incurred by the Company in order to acquire the energy supply on behalf of its customers and a transition charge for recovery of the Company's prior investments in generating plants and the costs related to long-term power contracts. The energy revenues relate to customers being provided energy supply under Basic Service. These revenues are fully reconciled to the costs incurred and have no impact on NSTAR's consolidated net income. Energy, transition, and other revenues also reflect revenues related to the Company's ability to effectively reduce stranded costs (incentive entitlements), rental revenue from electric property, and annual cost reconciliation true-up adjustments. The $70.4 million increase in energy, transition, and other revenues is primarily attributable to the increased recovery of energy supply costs. Uncollected transition charges as a result of the reductions in transition rates are being deferred and collected through future rates with a carrying charge.

*Gas Revenues*

Firm and transportation gas revenues primarily represent charges to customers for the Company's recovery of costs of its capital investment in gas infrastructure, including a return component, and for the recovery of costs for the ongoing operation and maintenance of that infrastructure. The transportation revenue component represents charges to customers for the recovery of costs to move the natural gas over pipelines from gas suppliers to take stations located within the Company's service area. The $7.1 million decrease in firm and transportation revenues is primarily attributable to warmer winter weather conditions offset by customers converting to natural gas from alternate fuel sources as a result of higher energy price concerns. These factors resulted in the decrease in sales volumes of 1.4% through December 31, 2008.

Energy supply and other gas revenues primarily represent charges to customers for the recovery of costs to the Company in order to acquire the natural gas in the marketplace and a charge for recovery of the Company's gas supplier service costs. The energy supply and other revenues increase of $0.4 million primarily reflects an increase in the cost of gas supply offset by the lower sales demand. These revenues are fully reconciled with the costs currently recognized by the Company and, as a result, do not have an effect on the Company's earnings.

*Unregulated Operations Revenues*

Unregulated operating revenues are derived from NSTAR's district energy and telecommunications operations. Unregulated revenues were $152.1 million in 2008 compared to $138.5 million in 2007, an increase of $13.6 million, or 9.8%. The increase in unregulated revenues is primarily the result of the absence of a provision for a potential customer refund recorded in 2007 and increases in energy sales, prices and higher ISO-NE capacity revenues during 2008.

*Operating Expenses*

**Purchased power and transmission costs** were $1,430.4 million in 2008 compared to $1,390.6 million in 2007, an increase of $39.8 million, or 2.9%. This increase in expense reflects $34.8 million of higher transmission costs and higher Basic Service and other energy supply costs of $5 million. NSTAR Electric adjusts its rates to collect the costs related to energy supply from customers on a fully reconciling basis. Due to this rate adjustment mechanism, changes in the amount of NSTAR Electric's energy supply expense have no impact on earnings.

**Cost of gas sold**, representing NSTAR Gas' supply expense, was $372.4 million in 2008 compared to $375.8 million in 2007, a decrease of $3.4 million, or 0.9%. The decrease in this cost primarily reflects the 1.4% decrease in firm gas sales and the lower settlement of hedging contracts during the current year that decreased

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expenses by $14.8 million, partly offset by higher costs of gas supply. NSTAR Gas maintains a flexible resource portfolio consisting of gas supply contracts, transportation contracts on interstate pipelines, market area storage, and peaking services. NSTAR Gas adjusts its rates to collect costs related to gas supply from customers on a fully reconciling basis and therefore changes in the amount of energy supply expenses have no impact on earnings.

**Operations and maintenance expense** was $459.1 million in 2008 compared to $446.8 million in 2007, an increase of $12.3 million, or 2.8%. This increase primarily relates to higher labor and labor related costs, higher than planned insurance and claims costs, higher advertising costs, and higher storm-related costs.

**Depreciation and amortization expense** was $379.8 million in 2008 compared to $369.6 million in 2007, an increase of $10.2 million or 2.8%. The increase primarily reflects higher depreciable distribution and transmission plant in service. The increase in transmission plant is primarily related to the in-service of NSTAR's 345 kV project in December 2008.

**DSM and renewable energy programs expense** was $73.3 million in 2008 compared to $70.9 million in 2007, an increase of $2.4 million, or 3.4%, which is consistent with the collection of conservation and renewable energy revenues. These costs are in accordance with program guidelines established by the DPU and are collected from customers on a fully reconciling basis plus an incentive return.

**Property and other taxes** were $100.4 million in 2008 compared to $93.7 million in 2007, an increase of $6.7 million, or 7.2%, reflecting higher overall property investments and higher tax rates.

**Income tax expense** attributable to operations was $143.9 million in 2008 compared to $130.4 million in 2007, an increase of $13.5 million, or 10.4%, primarily reflecting the higher pre-tax operating income in 2008.

*Other income (deductions):*

**Other income, net** was approximately $9.0 million in 2008 compared to $10.1 million in 2007, a decrease of $1.1 million. The decrease reflects lower after-tax earnings from the Company's equity investments and lower interest and dividend income. These factors were partially offset by after-tax proceeds of $2.9 million resulting from an environmental site insurance settlement.

**Other deductions, net** was approximately $3.6 million in 2008 compared to $3.0 million in 2007, an increase of $0.6 million. The increase in deductions primarily reflects an after-tax loss on insurance policies investments of $1.5 million, partially offset by lower charitable contributions in 2008 as compared to 2007.

*Interest charges (income):*

**Long-term debt and transition property securitization certificate interest charges** were $161.5 million in 2008 compared to $155 million in 2007, an increase of $6.5 million, or 4.2%. The increase in interest charges reflects:

- $15.2 million in additional interest costs associated with NSTAR Electric's $300 million Debentures issued in November 2007

This increase was partially offset by:

- Lower interest costs on transition property securitization debt of $8 million resulting from redemptions of these securities. Securitization interest represents interest on securitization certificates of BEC Funding, BEC Funding II, and CEC Funding, and is collateralized by the future income stream associated primarily with NSTAR Electric's stranded costs

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**Short-term debt and other interest charges (income), net** were $7.7 million of net interest income in 2008 compared to $16.3 million of net interest expense in 2007, a change of $24 million, or 147%. The change in short-term and other interest charges (income) reflects:

- Lower short-term borrowing costs of $15.3 million resulting from a 294 basis point decrease in the 2008 weighted average borrowing rate. The weighted average short-term interest rate including fees was 2.39% and 5.33% in 2008 and 2007, respectively. Also contributing to the lower costs in 2008 was an 8.6% reduction in the average level of borrowed funds as compared to 2007
- Increased interest income of $14.8 million related to higher regulatory asset balances related to uncollected transition charges that are deferred and will be collected through future rates

These decreases were offset by:

- Lower interest income on income tax matters of $4.5 million

**2007 compared to 2006**

*Executive Summary*

NSTAR achieved several positive performance results in 2007:

- EPS increased $0.14 from $1.93 to $2.07. This 7.3% increase reflects the positive impact of the second year of our seven-year Rate Settlement Agreement and higher electric and gas sales
- The Company's common share dividend was increased in 2007 by 7.7%, outperforming the industry average of 5.4%
- NSTAR Gas was upgraded to a credit rating of "AA-" while all other entities maintained credit ratings at "A" level

Earnings per common share were as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | % Change |
| Basic | $ 2.07 | $ 1.94 | 6.7 |
| Diluted | $ 2.07 | $ 1.93 | 7.3 |

Net income was $221.5 million for 2007 compared to $206.8 million for 2006. Major factors (after tax) that contributed to the $14.7 million, or 7.1%, increase included:

- Higher electric distribution revenues primarily as a result of the Rate Settlement Agreement and increased sales of 1.8% ($30.5 million)
- Higher firm gas revenues due to higher sales of 12.7% primarily caused by colder weather (heating degree-days increased by 11.3%) ($7.7 million)
- Higher transmission revenues primarily as a result of increased investment in the Company's transmission infrastructure, most notably the 345kV project ($9.3 million)
- Interest on certain tax matters ($6.5 million)

These increases in earnings factors were partially offset by:

- Higher operations and maintenance expenses in 2007 most notably related to the absence of a pre-tax adjustment of $6.9 million that reduced bad debt expense recorded in 2006 to reflect the implementation of a rate recovery mechanism, higher current year bad debt expense (exclusive of the 2006 adjustment) and increased labor costs ($18.6 million)

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- Lower earnings from NSTAR's unregulated operations primarily due to gains realized in 2006 from non-monetary transactions ($4.7 million)
- Higher depreciation and amortization expense in 2007 related to higher depreciable electric and gas distribution plant in service ($5.9 million)
- Higher short-term interest expense as a result of increased borrowing rates and an increase in the average borrowing levels ($4.4 million)

Significant cash flow events during 2007 included the following:

- Cash flows from operating activities provided $491 million, a decrease of $42 million as compared to 2006. This decrease primarily reflects the timing of the collection of basic service (energy costs) from customers
- NSTAR invested approximately $360 million in capital projects to improve capacity and system reliability
- NSTAR paid approximately $139 million in common share dividends and retired approximately $237 million in long-term and securitized debt
- On November 19, 2007, NSTAR Electric closed on the sale of $300 million, ten-year, fixed rate (5.625%) Debentures. The proceeds of the sale were used to repay short-term debt balances. This transaction was completed as part of the Company's approved financing plan as filed with the DPU and its approved shelf registration with the SEC to allow issuance of up to $400 million in debt securities

**Nonmonetary Transactions - 2006**

In 2006, NSTAR's unregulated subsidiary, AES, recognized the impact of several nonmonetary transactions. As part of an agreement executed with a vendor, AES received new equipment with a fair value of $4.1 million, at no cost, to compensate AES for incremental costs incurred resulting from equipment installation problems experienced during 2003 and 2004. This resulting nonmonetary gain, representing the fair value of the new equipment, was primarily recognized as a reduction in purchased power expense on the accompanying Consolidated Statements of Income.

In addition, in separate transactions in 2006, two agreements were executed between AES and other parties, which required AES to relinquish its rights under existing easements and other assets owned by AES located on development sites. In exchange, AES received title to new steam and chilled water pipelines with greater capacity and replacement easements. As a result of these new assets, AES anticipates achieving higher future sales. Therefore, the transactions were recorded at the fair value of the assets received and resulted in a $5.5 million nonmonetary gain recorded to other income on the accompanying Consolidated Statements of Income.

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*Energy Sales*

The following is a summary of retail electric and firm gas energy sales for the years indicated:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | % Change Increase/(decrease) |
| Retail Electric Sales - MWH | | | |
| Residential | 6,575,587 | 6,481,929 | 1.4 |
| Commercial, Industrial, and Other | 15,079,661 | 14,798,078 | 1.9 |
| Total retail sales | 21,655,248 | 21,280,007 | 1.8 |

| | Years ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | % Change Increase/(decrease) |
| Firm Gas Sales and Transportation - BBtu | | | |
| Residential | 21,792 | 19,283 | 13.0 |
| Commercial and Industrial | 21,788 | 19,311 | 12.8 |
| Municipal | 2,885 | 2,625 | 9.9 |
| Total firm sales | 46,465 | 41,219 | 12.7 |

Electric residential and commercial customers represented approximately 30% and 62%, respectively, of NSTAR's total electric sales mix in 2007 and provided 40% and 54% of distribution and transmission revenues, respectively. Gas residential and commercial customers represented approximately 47% and 36%, respectively, of NSTAR's total gas sales mix in 2007. Industrial sales were primarily influenced by national and local economic conditions. Refer to the *"Electric Revenues"* and *"Gas Revenues"* sections below for a more detailed discussion.

*Weather Conditions*

| | 2007 | 2006 | Normal 30-Year Average |
|---|---|---|---|
| Heating degree-days | 6,782 | 6,094 | 6,815 |
| Percentage colder (warmer) than prior year | 11.3% | (10.0)% | |
| Percentage (warmer) than 30-year average | (0.5)% | (10.6)% | |
| Cooling degree-days | 907 | 803 | 777 |
| Percentage warmer (cooler) than prior year | 13.0% | (10.1)% | |
| Percentage warmer than 30-year average | 16.7% | 3.3% | |

The 1.8% or 375,214 MWh energy sales increase in 2007 primarily reflected colder winter temperatures and warmer weather in late August and September of 2007. NSTAR Electric's retail peak demand for 2007 was 4,554 MW measured on August 3, 2007. This was 8.2% less than the all-time high peak demand of 4,959 MW reached on August 2, 2006. Industrial sales continued to lag due to the weak manufacturing segment of the economy. The 12.7% increase in firm gas and transportation sales was due to the colder winter weather during 2007 and the shift of commercial and industrial customers that returned to using natural gas from fuel oil. All gas customer segments showed positive sales growth despite continued customer conservation efforts. However, even with the higher energy usage, revenues and the cost of that energy (which is also included in revenues) reflected the sustained high levels in global energy costs.

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**Operating Revenues**

Operating revenues for 2007 decreased 8.8% from 2006 as follows:

| (in millions) | 2007 | 2006 | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---|---|---|---|---|
| Electric revenues | | | | |
| Retail distribution and transmission | $ 957.0 | $ 1,013.2 | $ (56.2) | (5.5) |
| Energy, transition and other | 1,605.9 | 1,898.9 | (293.0) | (15.4) |
| Total electric revenues | 2,562.9 | 2,912.1 | (349.2) | (12.0) |
| Gas revenues | | | | |
| Firm and transportation | 152.0 | 139.5 | 12.5 | 9.0 |
| Energy supply and other | 408.4 | 378.4 | 30.0 | 7.9 |
| Total gas revenues | 560.4 | 517.9 | 42.5 | 8.2 |
| Unregulated operations revenues | 138.5 | 147.7 | (9.2) | (6.2) |
| Total operating revenues | $ 3,261.8 | $ 3,577.7 | $ (315.9) | (8.8) |

*Electric Revenues*

NSTAR's largest earnings sources are the revenues derived from distribution and transmission rates approved by the DPU and FERC. Electric retail distribution revenues primarily represent charges to customers for recovery of the Company's capital investment, including a return component, and operation and maintenance costs related to its electric distribution infrastructure. The transmission revenue component represents charges to customers for the recovery of similar costs to move the electricity over high voltage lines from the generator to the Company's substations.

The decrease in retail distribution and transmission revenues reflects:

- Lower transmission revenues related to decreased regional RMR costs of $141 million reflecting a refund from the ISO-NE of previously billed RMR costs. NSTAR Electric lowered its retail transmission rates effective on March 1, 2007 in order to refund amounts previously over-collected from customers and to match the amount to be paid to generators. These RMR costs are fully reconciled and therefore there is no earnings impact.

This decrease in retail distribution and transmission revenues was partially offset by:

- Increased NSTAR Electric distribution rates by an annual rate of $30 million effective May 1, 2006 and by an annual inflation-adjusted rate increase effective January 1, 2007, with a corresponding reduction in transition charges. This rate increase reflects the impact of the 2005 Rate Settlement Agreement. These factors and an 1.8% increase in energy sales resulted in increased distribution revenues of $51.2 million for 2007 as compared to 2006. In addition, higher transmission revenues as a result of increased investment in the Company's transmission infrastructure, most notably the 345kV project, also offset the overall decrease.

Energy, transition and other revenues primarily represent charges to customers for the recovery of costs incurred by the Company in order to acquire the energy supply on behalf of its customers and a transition charge for recovery of the Company's prior investments in generating plants and the costs related to long-term purchase power contracts. The energy revenues relate to customers being provided energy supply under Basic Service. These revenues are fully reconciled to the costs incurred and have no impact on the NSTAR's consolidated net income. Energy, transition, and other revenues also reflect revenues related to the Company's ability to effectively reduce stranded costs (incentive entitlements), rental revenue from electric property, and annual cost reconciliation true-up adjustments. The $293 million decrease in energy, transition, and other revenues is

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primarily attributable to a $264 million decrease in energy supply costs and to a reduction in transition rates in accordance with the Rate Settlement Agreement. These amounts were partially offset by an increase in non-retail related regional transmission revenues of $22.5 million that are used to support NSTAR Electric's transmission assets. Uncollected transition charges as a result of the reductions in transition rates are being deferred and collected through future rates with a carrying charge.

*Gas Revenues*

Firm and transportation gas revenues primarily represent charges to customers for the Company's recovery of costs of its capital investment in its gas infrastructure, including a return component, and for the recovery of costs for the ongoing operation and maintenance of that infrastructure. The transportation revenue component represents charges to customers for the recovery of costs to move the natural gas over pipelines from gas suppliers to take stations located within the Company's service area. The $12.5 million increase in firm and transportation revenues is primarily attributable to colder winter weather conditions during 2007 and customers switching back to natural gas from alternate fuel sources as a result of higher energy price concerns. These factors resulted in the increase in sales volumes of 12.7% through December 31, 2007.

NSTAR Gas' sales are impacted by heating season weather because a substantial portion of its customer base uses natural gas for space heating purposes.

Energy supply and other gas revenues primarily represent charges to customers for the recovery of costs to the Company in order to acquire the natural gas in the marketplace and a charge for recovery of the Company's gas supplier service costs. The energy supply and other revenues increase of $30.0 million primarily reflects the impact of the 12.7% increase in energy sales offset by a 9% decline in the cost of gas per therm purchased. These revenues are fully reconciled with the costs currently recognized by the Company and, as a result, do not have an effect on the Company's earnings.

*Unregulated Operations Revenues*

Unregulated operating revenues are derived from NSTAR's district energy and telecommunications operations. Unregulated revenues were $138.5 million through December 31, 2007 compared to $147.7 million in 2006, a decrease of $9.2 million, or 6.2%. The decrease is primarily the result of lower electricity, steam and chilled water revenues.

*Operating Expenses*

**Purchased power and transmission costs** were $1,390.6 million in 2007 compared to $1,783.9 million in 2006, a decrease of $393.3 million, or 22%. Despite higher energy sales of 1.8%, the decrease in expense reflects lower basic service energy supply costs of $264 million for both NSTAR's regulated and unregulated companies. In addition, transmission costs declined $107.1 million as a result of a $141 million decline in transmission-related congestion costs partially offset by higher regional network support costs of $37 million. NSTAR Electric adjusts its rates to collect the costs related to energy supply and transmission from customers on a fully reconciling basis. Due to these rate adjustment mechanisms, changes in the amount of energy supply and transmission expense have no impact on earnings.

**Cost of gas sold**, representing NSTAR Gas' supply expense, was $375.8 million in 2007 compared to $344.6 million in 2006, an increase of $31.2 million, or 9%. The increase in cost reflects the 12.7% increase in firm gas sales and an increase in the settlement of cash flow hedging contracts during 2007 of $20.9 million offset by a lower cost of gas supply per therm. NSTAR Gas adjusts its rates to collect costs related to gas supply from customers on a fully reconciling basis and therefore changes in the amount of energy supply expense have no impact on earnings.

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**Operations and maintenance expense** was $446.8 million in 2007 compared to $431.4 million in 2006, an increase of $15.4 million, or 3.6%. This increase primarily relates to higher bad debt expense due to the absence of a $6.9 million reduction in bad debt expense recorded in 2006 to reflect the implementation of a recovery rate mechanism and to higher bad debt expenses. In addition, higher material costs and higher labor costs related to ongoing electric and gas system operations contributed to this increase.

**Depreciation and amortization expense** was $369.6 million in 2007 compared to $362.2 million in 2006, an increase of $7.4 million or 2%. The increase primarily reflects higher depreciable distribution and transmission plant in service.

**DSM and renewable energy programs expense** was $70.9 million in 2007 compared to $67.9 million in 2006, an increase of $3 million, or 4.4%, which are consistent with the collection of conservation and renewable energy revenues. These costs are in accordance with program guidelines established by the DPU and are collected from customers on a fully reconciling basis plus a small incentive return.

**Property and other taxes** were $93.7 million in 2007 compared to $93.9 million in 2006, a decrease of $0.2 million, or 0.2% reflecting slightly lower overall property tax rates.

**Income tax expense** attributable to operations was $130.4 million in 2007 compared to $119.3 million in 2006, an increase of $11.1 million, or 9.3%, primarily reflecting the higher pre-tax operating income in 2007.

*Other income (deductions):*

**Other income, net** was approximately $10.1 million in 2007 compared to $13.6 million in 2006, a decrease of $3.5 million. The decrease primarily reflects the absence in 2007 of after-tax gains realized on nonutility nonmonetary transactions of $3.6 million.

**Other deductions, net** were approximately $3.0 million in 2007 compared to $1.5 million in 2006. The $1.5 million increase primarily reflects a higher level of charitable contributions in 2007.

*Interest charges (income):*

**Long-term debt and transition property securitization certificate interest charges** were $155 million in 2007 compared to $167.3 million in 2006, a decrease of $12.3 million, or 7.3%. The decrease in interest charges reflects:

- Lower interest costs of $8.4 million as a result of the redemption of all debt of the former Commonwealth Electric and Cambridge Electric subsidiaries' long-term debt on January 2, 2007 and the fourth quarter of 2006, respectively
- Lower interest costs on transition property securitization debt of $8.4 million due to current maturities. Securitization interest represents interest on securitization certificates of BEC Funding, BEC Funding II and CEC Funding that are collateralized by the future income stream associated primarily with NSTAR's stranded costs

These decreases were partially offset by:

- Interest charges of $4.4 million associated with NSTAR Electric's $200 million and $300 million Debentures issued in March 2006 and November 2007, respectively

**Short-term debt and other interest charges (income), net** were $16.3 million in 2007 compared to $17.5 million in 2006, a decrease of $1.2 million, or 6.9%. The decrease is due to lower net interest expense on income tax deficiencies of $10.7 million primarily as a result of recognizing, in the current year, interest income of $4.7 million on uncertain tax positions. Also contributing to this decrease was higher interest income on the regulatory

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deferrals. Significantly offsetting these decreases was a higher average level of borrowed funds as compared to 2006. Interest rates on short-term borrowings in 2007 were nearly level with the rates in 2006. The weighted average short-term interest rates including fees were 5.33% and 5.32% in 2007 and 2006, respectively. The higher average borrowing during 2007 reflects the impact of NSTAR Electric financing the redemption of $77.7 million in long-term debt in January 2007 with short-term debt.

**Liquidity, Commitments and Capital Resources**

Financial Market Impact

The current disruption in the financial markets may adversely impact the availability of credit and the cost of credit to NSTAR and its subsidiary companies. NSTAR and its subsidiaries utilize the commercial paper market to meet their short-term cash requirements. NSTAR and NSTAR Electric currently have Revolving Credit Agreements in place through December 2012. These Credit Agreements serve as backup to the commercial paper program. Short-term commercial paper debt obligations are commonly refinanced to long-term obligations with fixed-rate bonds or notes as needed and when interest rates are considered favorable. Refer to the accompanying Item 1A, *"Risk Factors,"* for a further discussion.

As a result of the current uncertainty in the financial markets and its impact on NSTAR's Pension and PBOP Plan investments, NSTAR is currently evaluating the extent to which it may make additional cash contributions. Should NSTAR elect to increase the level of its funding to these plans, NSTAR believes it has adequate access to capital resources to support its contributions.

Capital Expenditures and Contractual Obligations

The most recent estimates of capital expenditures for 2009 and the years 2010-2013 are as follows:

| (in millions) | 2009 | 2010-2013 |
|---|---|---|
| Capital expenditures | $ 365 | $ 1,255 |

In the five-year period 2009 through 2013, plant expenditures are forecasted to be used for system reliability and performance improvements, customer service enhancements and capacity expansion to meet expected growth in the NSTAR service territory. Capital expenditures increased $62 million from $360 million in 2007 to $422 million in 2008 primarily due to the completion and placement in service of the last phase of NSTAR Electric's 345kV transmission project. This project ensures continued reliability of electric service and improvement of power import capability in the Northeast Massachusetts area. A substantial portion of the cost of this project will be shared by other utilities in New England based on ISO-NE's approval and will be recovered by NSTAR through wholesale and retail transmission rates. Of the $365 million planned expenditures for 2009, approximately $100 million is for transmission system improvements.

Management continuously reviews its capital expenditure and financing programs. These programs and the estimates included in this Form 10-K are subject to revision due to changes in regulatory requirements, operating requirements, environmental standards, availability and cost of capital, interest rates and other assumptions.

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In addition to plant expenditures, NSTAR enters into a variety of contractual obligations and other commitments in the course of ordinary business activities. The following table summarizes NSTAR's significant contractual cash obligations as of December 31, 2008:

| (in millions) | 2009 | 2010 | 2011 | 2012 | 2013 | Years Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Long-term debt maturities | $ 6 | $ 632 | $ 7 | $ 408 | $ 8 | $ 966 | $ 2,027 |
| Interest obligations on long-term debt | 127 | 102 | 77 | 76 | 56 | 427 | 865 |
| Securitization obligations | 92 | 119 | 84 | 84 | 44 | — | 423 |
| Interest obligations on transition property securitization | 21 | 13 | 8 | 5 | 1 | — | 48 |
| Lease buyout of equipment | 28 | — | — | — | — | — | 28 |
| Purchase obligations | 34 | 1 | 1 | — | — | — | 36 |
| Pension and PBOP obligations | 55 | 70 | 45 | 45 | 45 | — | 260 |
| Electric capacity obligations | 2 | 2 | 2 | 2 | 3 | 14 | 25 |
| Gas transportation & storage agreements | 52 | 52 | 48 | 30 | 17 | 19 | 218 |
| Decommissioning of nuclear generating units | 7 | 8 | 9 | 9 | 8 | 15 | 56 |
| Electric interconnection agreement | 2 | 3 | 3 | 3 | 3 | 48 | 62 |
| Purchase power buy-out obligations | 142 | 140 | 75 | 32 | 27 | 72 | 488 |
| Total obligations (a) | $ 568 | $ 1,142 | $ 359 | $ 694 | $ 212 | $ 1,561 | $ 4,536 |

(a) Management has not included its FIN 48 liability as the timing of a payment, if any, cannot be reasonably estimated. As of December 31, 2008, $15 million has been recorded as a FIN 48 liability. Refer to Note F, *"Income Taxes,"* in the accompanying Notes to the Consolidated Financial Statements.

Transition property securitization payments reflect securities issued in 1999 by BEC Funding LLC, and in 2005, additional transition property securitization bonds issued through BEC Funding II, LLC and CEC Funding, LLC. These funding entities recover the principal and interest obligations for their transition property securitization bonds from customers of NSTAR Electric, through a component of NSTAR Electric's transition charges and, as a result, these payment obligations do not affect NSTAR's overall cash flow.

Lease buyout of capital equipment - NSTAR was unilaterally notified by one of its lessors of its vehicle fleet operating lease agreement that the leasing relationship would terminate effective November 13, 2009. Management is presently exploring financing and/or leasing options with respect to its vehicle fleet.

Purchase obligations relate to transmission and distribution equipment, computer software and equipment, and various supplies.

Management cannot estimate projected Pension and PBOP contributions beyond 2013. Refer to Note G, *"Pension and Other Postretirement Benefits,"* in the accompanying Notes to the Consolidated Financial Statements.

Electric capacity and gas transportation and storage obligations reflect obligations for purchased power and the cost of gas, respectively, and are fully recoverable. As a result, these payment obligations do not affect NSTAR's results of operations.

Obligations related to the decommissioning of nuclear generating units are based on estimates from the Yankee Companies' management and reflect the total remaining approximate cost for decommissioning and/or security or protection of the three units in which NSTAR Electric has equity investments.

The electric interconnection agreement relates to a single interconnection with a municipal utility for additional capacity into NSTAR Electric's service territory.

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The purchase power buy-out obligation relates to NSTAR Electric's execution of several agreements to buy-out or restructure certain long-term purchase power contracts. NSTAR Electric fully recovers these payments through its transition charge. These amounts represent payments by NSTAR Electric for these agreements.

*Current Cash Flow Activity*

NSTAR's primary uses of cash in 2008 included capital expenditures, dividend payments, long-term and securitized debt redemptions and contributions to the Pension and PBOP plans. NSTAR's primary sources of cash in 2008 included cash from electric and gas operations and issuance of approximately $179.5 million in notes payable.

*Operating Activities*

The net cash generated by operating activities in 2008, as compared to 2007, increased by approximately $51.7 million primarily due to an increase in operating income driven by increased electric distribution revenues and increased earnings from unregulated subsidiaries, favorable changes in various working capital balances, and lower income tax payments. These were offset by higher Pension plan contributions during 2008.

During 2006 and 2007, NSTAR did not contribute to the qualified Pension plan due to sufficient funding levels. As the deterioration of overall financial markets continued in the second half of 2008, NSTAR elected to make $70 million in cash contributions to the Pension Plan. For 2009, NSTAR anticipates making a $25 million contribution to the Pension Plan and $30 million to the PBOP Plan.

*Investing Activities*

The net cash used in investing activities in 2008 was $417.6 million, compared to $358.2 million during 2007. The majority of these expenditures were for system reliability improvements and capacity expansion to meet expected growth in the NSTAR service territory. The second phase of NSTAR's 345kV Transmission Project was put into service ahead of schedule in December 2008.

*Financing Activities*

Net cash used in financing activities in 2008 was $137.6 million compared to $115.2 million in 2007. Uses of cash primarily reflect long-term and securitized debt redemptions of $159.6 million in 2008 compared to $236.9 million in 2007, and dividend payments of $149.5 million in 2008 compared to $138.9 million in 2007. Sources of cash in 2008 included approximately $179.5 million in proceeds from notes payable primarily in the form of commercial paper. Proceeds from notes payable were used primarily to finance the Company's capital expenditures. Sources of cash during 2007 included proceeds from NSTAR Electric's issuance of $300 million in ten-year fixed-rate (5.625%) Debentures that were used to pay down short-term debt.

*Long-Term Financing Activities*

On November 19, 2007, NSTAR Electric sold $300 million of ten-year fixed rate (5.625%) Debentures. The net proceeds were used to repay outstanding short-term debt balances. This transaction was completed as part of the Company's approved financing plan as filed with the DPU and its approved shelf registration with the SEC to allow issuance of up to $400 million in debt securities.

On January 2, 2007, NSTAR Electric retired $77.7 million of long-term debt. The redemption included a make-whole premium and accrued interest payment of $17.6 million and $1.5 million, respectively.

On March 16, 2006, NSTAR Electric sold $200 million of thirty-year fixed rate (5.75%) Debentures. The net proceeds were primarily used to repay outstanding short-term debt balances.

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On September 1, 2006, NSTAR Electric redeemed the entire $5 million aggregate principal amount of its 8.7%, Series H Notes, due March 1, 2007, at a price of 101.439% of the principal amount plus accrued interest.

On November 1, 2006, NSTAR Electric redeemed the entire outstanding balance of $20 million aggregate principal balance of its 7.62% seven-year Notes.

*Short-Term Financing Activities*

NSTAR's short-term debt increased by $179.5 million to $582.9 million at December 31, 2008 compared to $403.4 million at December 31, 2007. The increase resulted primarily from the issuance of commercial paper.

The banking arrangements in place require NSTAR and its subsidiaries to make daily cash transfers to fund vendor checks that are presented for payment. These banking arrangements do not permit the right of offset among the Company's subsidiaries' cash accounts. In the event of a credit book balance in any one of the Company's cash accounts resulting from uncleared checks, the Company will adjust its disbursement cash account accordingly. Changes in the balances of the disbursement cash accounts are reflected in financing activities in the accompanying Consolidated Statements of Cash Flows.

*Income Tax Payments*

During 2008, 2007 and 2006, NSTAR made income tax payments of $124.5 million, $151.6 million, and $199.4 million, respectively.

*Refundable Income Tax*

As a result of recent developments, the refundable income tax of $129.1 million related to the SSCM is probable to be fully refunded to NSTAR including interest, by December 31, 2009. Refer to Note F, *"Income Taxes,"* in the accompanying Notes to the Consolidated Financial Statements for additional details.

**Sources of Additional Capital and Financial Covenant Requirements**

With the exception of bond indemnity agreements, NSTAR has no financial guarantees, commitments, debt or lease agreements that would require a change in terms and conditions, such as acceleration of payment obligations, as a result of a change in its credit rating. However, in addition to the bond indemnity agreements, NSTAR's subsidiaries could be required to provide additional security for energy supply contract performance obligations, such as a letter of credit for their pro-rata share of the remaining value of such contracts.

NSTAR and NSTAR Electric have no financial covenant requirements under their respective long-term debt arrangements. Pursuant to a revolving credit agreement, NSTAR Electric must maintain a total debt to capitalization ratio no greater than 65% at all times, excluding Transition Property Securitization Certificates and excluding accumulated other comprehensive income (loss) from common equity. NSTAR Gas was in compliance with its financial covenant requirements including a minimum equity requirement, under its long-term debt arrangements at December 31, 2008 and 2007. NSTAR's long-term debt other than its secured debt, issued by NSTAR Gas and MATEP, is unsecured.

NSTAR (Holding Company) currently has a $175 million revolving credit agreement that expires December 31, 2012. At December 31, 2008 and 2007, there were no amounts outstanding under the revolving credit agreement. This credit facility serves as a backup to NSTAR's $175 million commercial paper program that, at December 31, 2008 and 2007, had $175 million and $4 million outstanding, respectively. Under the terms of the credit agreement, NSTAR is required to maintain a maximum total consolidated debt to total capitalization ratio of not greater than 65% at all times, excluding Transition Property Securitization Certificates, and excluding

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accumulated other comprehensive income (loss) from common equity. Commitment fees must be paid on the total agreement amount. At December 31, 2008 and 2007, NSTAR was in full compliance with the aforementioned covenant as the ratios were 60.2% and 58.2%, respectively.

On May 18, 2007, NSTAR Electric filed with the DPU for approval to issue up to $400 million of long-term debt securities from time to time through December 31, 2008. The DPU approved this financing plan on August 9, 2007. Also on May 18, 2007, in connection with this filing, NSTAR Electric filed a registration statement on Form S-3 with the SEC to issue up to $400 million in debt securities. This registration statement became effective on June 1, 2007. On November 19, 2007, NSTAR Electric sold $300 million of ten-year fixed-rate (5.625%) Debentures. NSTAR Electric used the proceeds of the issuance of these securities to finance capital expenditures, repay short-term debt, and/or general working capital purposes. On November 25, 2008, the DPU allowed NSTAR Electric to extend the period of its financing plan with additional time to issue the remaining $100 million in long-term debt securities to no later than December 31, 2009.

On December 2, 2008, NSTAR Electric filed a two-year financing plan with the DPU to issue an additional $500 million in long-term debt securities, and awaits approval of this filing.

NSTAR Electric has approval from the FERC to issue short-term debt securities from time to time on or before October 22, 2010, with maturity dates no later than October 21, 2011, in amounts such that the aggregate principal does not exceed $655 million at any one time. NSTAR Electric has a five-year, $450 million revolving credit agreement that expires December 31, 2012. However, unless NSTAR Electric receives necessary approvals from the DPU, the credit agreement will expire 364 days from the date of the first draw under the agreement. At December 31, 2008 and 2007, there were no amounts outstanding under the revolving credit agreement. This credit facility serves as backup to NSTAR Electric's $450 million commercial paper program that had $354.6 million and $257 million outstanding balances at December 31, 2008 and 2007, respectively. Under the terms of the revolving credit agreement, NSTAR Electric is required to maintain a consolidated maximum total debt to capitalization ratio of not greater than 65% at all times, excluding Transition Property Securitization Certificates, and excluding accumulated other comprehensive income (loss) from common equity. At December 31, 2008 and 2007, NSTAR Electric was in full compliance with its covenants in connection with its short-term credit facilities, as the ratios were 47.6% and 46.2%, respectively.

As of December 31, 2008, NSTAR Gas has a $100 million line of credit ($200 million as of December 31, 2007). This line of credit is due to expire on December 11, 2009. As of December 31, 2008 and 2007, NSTAR Gas had $53.3 million and $142.4 million outstanding, respectively.

Historically, NSTAR and its subsidiaries have had a variety of external sources of financing available, as previously indicated, at favorable rates and terms to finance its external cash requirements. However, the availability of such financing at favorable rates and terms depends heavily upon prevailing market conditions and NSTAR's or its subsidiaries' financial condition and credit ratings.

NSTAR's goal is to maintain a capital structure that preserves an appropriate balance between debt and equity. As of December 31, 2008, NSTAR's subsidiaries could declare and pay dividends of up to approximately $1.2 billion of their total common equity (approximately $2.3 billion) to NSTAR and remain in compliance with debt covenants. Based on NSTAR's key cash resources available as previously discussed, management believes its liquidity and capital resources are sufficient to meet its current and projected requirements.

**Commitments and Contingencies**

NSTAR is exposed to uncertain tax positions and regulatory matters as discussed in this MD&A under the caption *"Critical Accounting Policies and Estimates,"* and as disclosed in Note N, *"Commitments and Contingencies,"* in the accompanying Notes to the Consolidated Financial Statements.

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**Performance Assurances from Electricity and Gas Supply Agreements**

*Electric Agreements*

NSTAR Electric continuously enters into power purchase agreements to meet its entire basic service supply obligations. Most of NSTAR Electric's power suppliers are either investment grade companies or are subsidiaries of larger companies with investment grade or better credit ratings. In accordance with NSTAR's Internal Credit Policy, and to minimize NSTAR Electric risk in the event the supplier encounters financial difficulties or otherwise fails to perform, NSTAR has financial assurances and guarantees that include both parental guarantees and letters of credit in place from the parent company of the supplier. In addition, under these agreements, in the event that the supplier (or its parent guarantor) fails to maintain an investment grade credit rating, it is required to provide additional security for performance of its obligations. In view of current volatility in the energy supply industry, NSTAR Electric is unable to determine whether its suppliers (or their parent guarantors) will become subject to financial difficulties, or whether these financial assurances and guarantees are sufficient. In the event the supplier (or its guarantor) does not provide the required additional security within the required time frames, NSTAR Electric may then terminate the agreement. In such event, NSTAR may be required to secure alternative sources of supply at higher or lower prices than provided under the terminated agreements. Some of these agreements include a reciprocal provision, where in the event that NSTAR Electric is downgraded below investment grade, it could be required to provide additional security for performance, such as a letter of credit. Likewise, suppliers could be required to provide additional security in the event they are downgraded at any level depending on the value of their contract relative to prevailing market prices.

*Gas Agreements*

NSTAR Gas continually evaluates the financial stability of current and prospective gas suppliers. Both parties are required to have and maintain investment grade credit ratings or financial assurances and guarantees that include both parental guarantees and letters of credit in place from the parent company of the supplier. The firm gas supply agreements allow either party to require financial assurance, or, if necessary, contract termination in the event that either party is downgraded below investment grade level and is unable to provide financial assurance acceptable to NSTAR Gas. Additionally, the hedging agreements that NSTAR Gas enters into related to its gas purchases have a termination clause for either party in the event the credit rating of the other falls below a stipulated level.

Virtually all of NSTAR Gas' firm gas supply agreements are short-term (one year or less) and utilize market-based, monthly indexed pricing mechanisms so the financial risk to the Company would be minimal if a supplier were to fail to perform. However, in the event that a firm supplier does fail to perform under its firm gas supply agreement, the Company would be entitled to any positive difference between the monthly supply price and the cost of replacement supplies. The cost of gas procured for firm gas sales customers is recovered through a cost of gas adjustment mechanism which is updated semi-annually. Under DPU regulations, interim adjustments to the cost of gas are required when the actual costs of gas supply vary from projections by more than 5%.

**Financial and Performance Guarantees**

On a limited basis, NSTAR and certain of its subsidiaries may enter into agreements providing financial assurance to third parties. Such agreements include letters of credit, surety bonds, and other guarantees.

At December 31, 2008, outstanding guarantees totaled $29.3 million as follows:

| **(in thousands)** | |
|---|---|
| Letter of Credit | $ 5,560 |
| Surety Bonds | 17,631 |
| Other Guarantees | 6,075 |
| Total Guarantees | $29,266 |

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*Letter of Credit*

NSTAR has issued a $5.6 million letter of credit for the benefit of a third party, as trustee in connection with Advanced Energy System's 6.924% Notes. The letter of credit is available if the subsidiary has insufficient funds to pay the debt service requirements. As of December 31, 2008, there have been no amounts drawn under its letter of credit.

*Surety Bonds*

As of December 31, 2008, certain of NSTAR's subsidiaries have purchased a total of $1.4 million of performance surety bonds for the purpose of obtaining licenses, permits and rights-of-way in various municipalities. In addition, NSTAR and certain of its subsidiaries have purchased approximately $16.2 million in workers' compensation self-insurer bonds. These bonds support the guarantee by NSTAR and its employer subsidiaries to the Commonwealth of Massachusetts, required as part of the Company's workers' compensation self-insurance program. NSTAR and its employer subsidiaries have indemnity agreements to provide additional financial security to its bond company in the form of a contingent letter of credit to be triggered in the event of a downgrade in the future of NSTAR's Senior Note rating to below BBB+ by S&P and/or to below Baa1 by Moody's. These Indemnity Agreements cover both the performance surety bonds and workers' compensation bonds.

*Other*

NSTAR and its subsidiaries have also issued $6.1 million of residual value guarantees related to its equity interest in the Hydro-Quebec transmission companies.

Management believes the likelihood that NSTAR would be required to perform or otherwise incur any significant losses associated with any of these guarantees is remote.

**Contingencies**

*Environmental Matters*

NSTAR subsidiaries face possible liabilities as a result of involvement in several multi-party disposal sites, state-regulated sites or third party claims associated with contamination remediation. NSTAR generally expects to have only a small percentage of the total potential liability for the majority of these sites. As of December 31, 2008 and 2007, NSTAR had a liability of approximately $0.8 million for these environmental sites. This estimated recorded liability is based on an evaluation of all currently available facts with respect to these sites.

NSTAR Gas is participating in the assessment or remediation of certain former MGP sites and alleged MGP waste disposal sites to determine if and to what extent such sites have been contaminated and whether NSTAR Gas may be responsible to undertake remedial action. The DPU permits recovery of costs associated with MGP sites over a 7-year period, without carrying costs. As of December 31, 2008 and 2007, NSTAR had a liability of approximately $13.3 million and $10.1 million, respectively, as an estimate for site cleanup costs for several MGP sites for which NSTAR Gas was identified as a potentially responsible party. A corresponding regulatory asset was recorded that reflects the future rate recovery for these costs.

Estimates related to environmental remediation costs are reviewed and adjusted as further investigation and assignment of responsibility occurs and as either additional sites are identified or NSTAR's responsibilities for such sites evolve or are resolved. NSTAR's ultimate liability for future environmental remediation costs may vary from these estimates. Based on NSTAR's current assessment of its environmental responsibilities, existing legal requirements, and regulatory policies, NSTAR does not believe that these environmental remediation costs will have a material adverse effect on NSTAR's consolidated results of operations, financial position, or cash flows.

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**Fair Value of Financial Instruments**

Carrying amounts and fair values of long-term indebtedness (excluding notes payable, including current maturities) as of December 31, 2008 and 2007 were as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| (in thousands) | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term indebtedness (including current maturities) | $ 2,441,700 | $ 2,474,960 | $ 2,599,931 | $ 2,680,240 |

As discussed in the following section, NSTAR's exposure to financial market risk results primarily from fluctuations in interest rates.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

**Risk Management**

NSTAR's Energy Procurement Policy governs all energy-related transactions for its regulated electric and gas subsidiaries. This Policy is reviewed annually and is administered by NSTAR's Risk Committee. The Committee is chaired by NSTAR's chief executive officer and includes other senior officers. Items covered by this Policy and approved by the Committee are all new energy supply transactions, authorization limits, energy related derivative and hedging transactions, and counter-party credit profiles.

**Commodity and Credit Risk**

Although NSTAR has material energy commodity purchase contracts, any potential market risk, including counter-party credit risk, should not have an adverse impact on NSTAR's results of operations, cash flows, or financial position. NSTAR's electric and gas distribution subsidiaries have rate-making mechanisms that allow for the recovery of energy supply costs from those customers who make commodity purchases from NSTAR's electric and gas subsidiaries rather than from the competitive market supplier. All energy supply costs incurred by NSTAR Electric and NSTAR Gas in providing energy to their retail customers are recovered on a fully reconciling basis.

In addition, NSTAR has minimal cash flow risk due to the short-term nature of these contracts and the rate-making mechanics that permit recovery of these costs in a timely manner. The majority of NSTAR's electric and gas commodity purchase contracts range in term from three to twelve months. NSTAR Electric has the ability to seek cost recovery and adjust its rates as frequently as every three months for its large commercial and industrial customers and every six months for its residential customers. NSTAR Gas has the ability to seek cost recovery as required if costs exceed 5% of the current projected cost recovery level. Both NSTAR Electric and NSTAR Gas earn a carrying charge on under-collected commodity balances that would mitigate any incremental short-term borrowings costs. NSTAR believes it is unlikely that it would be exposed to a liquidity risk resulting from significant market price increases based on the recovery mechanisms currently in place.

To mitigate the cash flow and cost variability related to the commodity price risk on approximately one-third of its natural gas purchases, NSTAR Gas purchases financial futures contracts on behalf of its customers. NSTAR Gas has a rate-making mechanism that provides for recovery of the actual settlement value of these contracts on a fully reconciling basis. Refer to the accompanying *Notes to Consolidated Financial Statements, Note E, "Derivative Instruments - Hedging Agreements,"* for a further discussion.

**Interest Rate Risk**

NSTAR believes its interest risk primarily relates to short-term debt obligations and anticipated future long-term debt financing requirements to fund its capital programs. These short-term debt obligations are typically refinanced with fixed-rate long-term notes as needed and when market interest rates are favorable. The Company is exposed to changes in interest rates primarily based on levels of short-term commercial paper outstanding. The weighted average interest rates, including fees for short-term indebtedness, were 2.4% and 5.3% for 2008 and 2007, respectively. On a long-term basis, NSTAR mitigates its interest rate risk through the issuance of mostly fixed rate debt of various maturities.

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**Item 8. Financial Statements and Supplementary Data**

**NSTAR**
**Consolidated Statements of Income**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (in thousands, except per share amounts) | | |
| Operating revenues | $ 3,345,387 | $ 3,261,784 | $ 3,577,702 |
| Operating expenses: | | | |
| Purchased power and transmission | 1,430,439 | 1,390,610 | 1,783,860 |
| Cost of gas sold | 372,389 | 375,839 | 344,573 |
| Operations and maintenance | 459,089 | 446,807 | 431,375 |
| Depreciation and amortization | 379,761 | 369,642 | 362,222 |
| Demand side management and renewable energy programs | 73,269 | 70,877 | 67,890 |
| Property and other taxes | 100,442 | 93,748 | 93,925 |
| Income taxes | 143,884 | 130,424 | 119,342 |
| Total operating expenses | 2,959,273 | 2,877,947 | 3,203,187 |
| Operating income | 386,114 | 383,837 | 374,515 |
| Other income (deductions), net of income taxes: | | | |
| Other income | 8,957 | 10,070 | 13,582 |
| Other deductions | (3,623) | (3,030) | (1,506) |
| Total other income | 5,334 | 7,040 | 12,076 |
| Interest charges (income): | | | |
| Long-term debt | 133,369 | 118,717 | 122,570 |
| Transition property securitization | 28,120 | 36,287 | 44,692 |
| Short-term debt and other, net | (7,707) | 16,279 | 17,482 |
| AFUDC | (1,841) | (3,881) | (6,887) |
| Total interest charges | 151,941 | 167,402 | 177,857 |
| Preferred stock dividends of subsidiary | 1,960 | 1,960 | 1,960 |
| Net Income | $ 237,547 | $ 221,515 | $ 206,774 |
| Weighted average common shares outstanding: | | | |
| Basic | 106,808 | 106,808 | 106,808 |
| Diluted | 107,045 | 107,122 | 107,125 |
| Earnings per common share: | | | |
| Basic | $ 2.22 | $ 2.07 | $ 1.94 |
| Diluted | $ 2.22 | $ 2.07 | $ 1.93 |
| Dividends declared per common share | $ 1.425 | $ 1.325 | $ 1.535 |

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

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**NSTAR**
**Consolidated Statements of Comprehensive Income**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (in thousands) | | |
| Net income | $ 237,547 | $ 221,515 | $ 206,774 |
| Other comprehensive income, net: | | | |
| Pension and postretirement costs | (1,585) | (867) | (725) |
| Deferred income taxes benefit | 653 | 292 | 284 |
| Comprehensive income | $ 236,615 | $ 220,940 | $ 206,333 |

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

**NSTAR**
**Consolidated Statements of Retained Earnings**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (in thousands) | | |
| Balance at the beginning of the year, as previously reported | $ 790,926 | $ 664,323 | $ 621,500 |
| Adoption of FIN 48 | — | 46,610 | — |
| Adjusted balance at the beginning of the year | 790,926 | 710,933 | 621,500 |
| Add: | | | |
| Net income | 237,547 | 221,515 | 206,774 |
| Subtotal | 1,028,473 | 932,448 | 828,274 |
| Deduct: | | | |
| Dividends declared: | | | |
| Common shares | 152,202 | 141,522 | 163,951 |
| Balance at the end of the year | $ 876,271 | $ 790,926 | $ 664,323 |

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

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**NSTAR**
**Consolidated Balance Sheets**

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| | (in thousands) | |
| **Assets** | | |
| **Utility plant:** | | |
| Electric and gas plant in service, at original cost | $ 5,694,537 | $ 5,350,795 |
| Less: accumulated depreciation | 1,418,429 | 1,321,013 |
| | 4,276,108 | 4,029,782 |
| Construction work in progress | 122,294 | 112,513 |
| Net utility plant | 4,398,402 | 4,142,295 |
| **Other property and investments:** | | |
| Nonutility property, net | 139,764 | 143,930 |
| Electric equity investments | 6,701 | 7,067 |
| Other investments | 72,475 | 83,664 |
| | 218,940 | 234,661 |
| **Current assets:** | | |
| Cash and cash equivalents | 21,984 | 34,121 |
| Restricted cash | 9,581 | 3,938 |
| Accounts receivable, net of allowance of $32,859 and $29,426, respectively | 332,465 | 328,651 |
| Accrued unbilled revenues | 61,892 | 59,859 |
| Regulatory assets | 439,914 | 423,284 |
| Inventory, at average cost | 93,684 | 120,251 |
| Refundable income taxes | 129,120 | — |
| Other | 32,721 | 14,369 |
| | 1,121,361 | 984,473 |
| **Deferred debits:** | | |
| Regulatory assets | 2,466,018 | 2,145,698 |
| Other | 64,768 | 123,298 |
| | 2,530,786 | 2,268,996 |
| Refundable income taxes | — | 129,120 |
| **Total assets** | $ 8,269,489 | $ 7,759,545 |

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

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**NSTAR**
**Consolidated Balance Sheets**

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| | (in thousands) | |
| **Capitalization and Liabilities** | | |
| **Common equity:** | | |
| Common shares, par value $1 per share, 200,000,000 shares authorized, 106,808,376 issued and outstanding | $ 106,808 | $ 106,808 |
| Premium on common shares | 818,601 | 818,674 |
| Retained earnings | 876,271 | 790,926 |
| Accumulated other comprehensive loss | (13,525) | (12,593) |
| | 1,788,155 | 1,703,815 |
| **Long-term debt and preferred stock:** | | |
| Long-term debt | 2,012,467 | 2,017,439 |
| Transition property securitization | 331,209 | 483,961 |
| Cumulative non-mandatory redeemable preferred stock of subsidiary, par value $100 per share, 2,890,000 shares authorized, 430,000 shares outstanding | 43,000 | 43,000 |
| | 2,386,676 | 2,544,400 |
| **Current liabilities:** | | |
| Long-term debt | 5,444 | 5,124 |
| Transition property securitization | 92,580 | 93,407 |
| Notes payable | 582,883 | 403,400 |
| Income taxes | 87,880 | 80,144 |
| Accounts payable | 291,012 | 310,640 |
| Power contract obligations | 155,815 | 147,841 |
| Accrued interest | 31,073 | 30,956 |
| Dividends payable | 40,380 | 37,710 |
| Accrued expenses | 19,251 | 16,850 |
| Other | 88,664 | 93,947 |
| | 1,394,982 | 1,220,019 |
| **Deferred credits:** | | |
| Accumulated deferred income taxes | 1,130,437 | 1,116,073 |
| Unamortized investment tax credits | 18,437 | 20,100 |
| Power contract obligations | 345,993 | 467,932 |
| Pension and other postretirement liability | 749,774 | 248,508 |
| Regulatory liability - cost of removal | 264,959 | 258,948 |
| Other | 190,076 | 179,750 |
| | 2,699,676 | 2,291,311 |
| Commitments and contingencies | | |
| **Total capitalization and liabilities** | $8,269,489 | $7,759,545 |

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

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**NSTAR**
**Consolidated Statements of Cash Flows**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (in thousands) | | |
| **Operating activities:** | | | |
| Net income | $ 237,547 | $ 221,515 | $ 206,774 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization (including securitized debt amortization) | 386,566 | 377,001 | 368,925 |
| Deferred income taxes | 12,973 | (7,060) | 2,086 |
| Gain on sale of nonutility property | — | — | (4,144) |
| Impact of nonmonetary transactions | — | — | (9,630) |
| Noncash stock-based compensation | 9,773 | 8,910 | 8,228 |
| Premium paid on long-term debt redemption | — | (17,647) | — |
| Net changes in: | | | |
| Accounts receivable and accrued unbilled revenues | (5,847) | (17,850) | (5,819) |
| Inventory, at average cost | 26,567 | 4,622 | (3,950) |
| Other current assets | (147,852) | 2,286 | 50,592 |
| Accounts payable | (22,655) | (3,921) | 4,239 |
| Other current liabilities | (8,881) | 47,195 | (11,016) |
| Regulatory assets | (17,815) | 103,478 | 5,183 |
| Net change from other miscellaneous operating activities | 72,712 | (227,149) | (78,007) |
| Net cash provided by operating activities | 543,088 | 491,380 | 533,461 |
| **Investing activities:** | | | |
| Plant expenditures (including AFUDC) | (422,224) | (360,130) | (426,146) |
| Decrease (increase) in restricted cash | (5,643) | 3,049 | (238) |
| Proceeds from sale of properties | 2,175 | — | 13,295 |
| Net change in other investment activities | 8,072 | (1,137) | 1,571 |
| Net cash used in investing activities | (417,620) | (358,218) | (411,518) |
| **Financing activities:** | | | |
| Long-term debt redemptions | (6,019) | (84,943) | (34,455) |
| Transition property securitization redemptions | (153,579) | (151,932) | (153,349) |
| Issuance of long-term debt, net of discount | — | 298,694 | 197,886 |
| Debt issue costs | — | (2,301) | (1,750) |
| Net change in notes payable | 179,483 | (33,000) | 18,900 |
| Change in disbursement accounts | (1,963) | 6,921 | (7,272) |
| Common share dividends paid | (149,532) | (138,851) | (129,239) |
| Cash received for exercise of equity compensation | 4,846 | 10,948 | 17,383 |
| Cash used to settle equity compensation | (11,585) | (23,247) | (33,488) |
| Windfall tax effect of settlement of equity compensation | 744 | 2,538 | 3,961 |
| Net cash used in financing activities | (137,605) | (115,173) | (121,423) |
| Net (decrease) increase in cash and cash equivalents | (12,137) | 17,989 | 520 |
| Cash and cash equivalents at the beginning of the year | 34,121 | 16,132 | 15,612 |
| Cash and cash equivalents at the end of the year | $ 21,984 | $ 34,121 | $ 16,132 |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid during the year for: | | | |
| Interest, net of amounts capitalized | $ 166,623 | $ 178,500 | $ 167,168 |
| Income taxes | $ 124,478 | $ 151,619 | $ 199,408 |
| Non-cash investing activity: | | | |
| Plant additions included in ending accounts payable | $ 52,359 | $ 47,369 | $ 41,969 |

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

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**Notes to Consolidated Financial Statements**

**Note A. Business Organization and Summary of Significant Accounting Policies**

1. About NSTAR

NSTAR (or the Company) is a holding company engaged through its subsidiaries in the energy delivery business serving approximately 1.4 million customers in Massachusetts, including approximately 1.1 million electric distribution customers in 81 communities and approximately 300,000 natural gas distribution customers in 51 communities. NSTAR's retail electric transmission and distribution utility subsidiaries are NSTAR Electric and NSTAR Gas, respectively. NSTAR's nonutility, unregulated operations include district energy operations primarily through its AES subsidiary, telecommunications operations (NSTAR Com) and a liquefied natural gas service company (Hopkinton). Harbor Electric Energy Company, a wholly-owned subsidiary of NSTAR Electric, provides distribution service and ongoing support to its only customer, the Massachusetts Water Resources Authority. Utility operations accounted for approximately 96% of consolidated operating revenues in 2008, 2007 and 2006.

NSTAR consolidates three-wholly owned special purpose subsidiaries, BEC Funding LLC, established in 1999, BEC Funding II, LLC and CEC Funding, LLC, both established in 2004. These entities were created to complete the sale of electric rate reduction certificates to a special purpose trust created by two Massachusetts state agencies. These financing transactions securitized the costs incurred related to the divestiture of generation assets and long-term power contracts.

2. Basis of Consolidation and Accounting

The accompanying Consolidated Financial Statements reflect the results of operations, comprehensive income, retained earnings, financial position and cash flows of NSTAR and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Certain immaterial reclassifications have been made to prior year amounts to conform to the current year's presentation. These include the classification of a portion of regulatory assets as of December 31, 2007 from current to non-current on the accompanying Consolidated Balance Sheets.

NSTAR's utility subsidiaries follow accounting policies prescribed by the FERC and the DPU. In addition, NSTAR and its subsidiaries are subject to the accounting and reporting requirements of the SEC. The accompanying Consolidated Financial Statements conform to accounting principles in conformity with GAAP. The utility subsidiaries are subject to SFAS No. 71, *"Accounting for the Effects of Certain Types of Regulation"* (SFAS 71). The application of SFAS 71 results in differences in the timing of recognition of certain revenues and expenses from those of other businesses and industries. The distribution and transmission businesses are subject to rate-regulation that is based on cost recovery and meets the criteria for application of SFAS 71. Refer to Note D, *"Regulatory Assets,"* for more information.

3. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management of NSTAR and its subsidiaries to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Revenues

Utility revenues are based on authorized rates approved by the DPU and the FERC. Estimates of distribution and transition revenues for electricity and natural gas delivered to customers but not yet billed are accrued at the end of each accounting period.

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Revenues for NSTAR's nonutility subsidiaries are recognized when services are rendered or when the energy is delivered. Revenues are based, for the most part, on long-term contractual rates.

NSTAR records sales taxes collected from its customers on a net basis (excluded from operating revenues).

5. Utility Plant

Utility plant is stated at original cost. The cost of replacements of property units is capitalized. Maintenance, repairs and replacements of certain items are expensed as incurred. The original cost of property retired, net of salvage value, is charged to accumulated depreciation. The incurred related cost of removal is charged against the Regulatory liability - cost of removal in the accompanying Consolidated Balance Sheets. The following is a summary of utility property and equipment, at cost, at December 31:

| (in thousands) | 2008 | 2007 |
|---|---|---|
| Electric - | | |
| Transmission | $ 1,117,464 | $ 956,841 |
| Distribution | 3,640,778 | 3,482,584 |
| General | 212,556 | 223,752 |
| Electric utility plant | 4,970,798 | 4,663,177 |
| Gas - | | |
| Transmission and distribution | 631,321 | 597,930 |
| General | 92,418 | 89,688 |
| Gas utility plant | 723,739 | 687,618 |
| Total utility plant in service | $ 5,694,537 | $ 5,350,795 |

6. Nonutility Property

Nonutility property is stated at cost or its net realizable value. The following is a summary of nonutility property, plant and equipment, at cost less accumulated depreciation, at December 31:

| (in thousands) | 2008 | 2007 |
|---|---|---|
| Land | $ 11,318 | $ 11,318 |
| Energy production and storage equipment | 160,188 | 158,174 |
| Telecommunications equipment | 42,619 | 40,662 |
| Buildings and improvements | 3,464 | 3,464 |
| | 217,589 | 213,618 |
| Less: accumulated depreciation | (77,825) | (69,688) |
| Total nonutility property, net | $ 139,764 | $ 143,930 |

7. Depreciation and Amortization

Depreciation of utility plant is computed on a straight-line basis using composite rates based on the estimated useful lives of the various classes of property. The composite rates are subject to the approval of the DPU and the FERC. The overall composite depreciation rates for utility property were 3.03%, 3.03% and 3.02% in 2008, 2007 and 2006, respectively. The rates include a cost of removal component, which is collected from customers during the service life of the property. Depreciation and amortization expense on utility plant for 2008, 2007 and 2006 was $168.8 million, $159.3 million, and $149.9 million, respectively.

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Depreciation and amortization of nonutility property is computed on a straight-line basis over the estimated life of the asset. The estimated depreciable service lives (in years) of the major components of nonutility property and equipment are as follows:

| Plant Component | Depreciable Life (Years) |
|---|---|
| Energy production and storage equipment | 25-35 |
| Telecommunications equipment | 15 |
| Buildings and improvements | 40 |

Depreciation and amortization expense on nonutility property and equipment was $12.3 million, $11.5 million, and $12.8 million for 2008, 2007 and 2006, respectively.

8. Allowance for Borrowed Funds Used During Construction (AFUDC)

AFUDC represents the estimated costs to finance utility plant construction. In accordance with regulatory accounting, AFUDC is included as a cost of utility plant and a reduction of current interest charges. Although AFUDC is not a current source of cash income, the costs are recovered from customers over the service life of the related plant in the form of increased revenues collected as a result of higher depreciation expense. Average AFUDC rates in 2008, 2007 and 2006 were 2.38%, 5.27%, and 5.26%, respectively, and represented only the costs of short-term debt. The 2008 rate decrease is directly related to decreases in short-term borrowing rates.

9. Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash at December 31, 2008 and 2007 are comprised of liquid securities with maturities of 90 days or less when purchased. Restricted cash represents the funds held by a trustee in connection with Advanced Energy System's Note Agreement.

NSTAR's banking arrangements provide for daily cash transfers to its disbursement accounts as vendor checks are presented for payment. These banking arrangements do not permit the right of offset amongst subsidiaries' cash accounts. As a result, credit balances of certain subsidiary disbursement accounts in the amounts of $19.7 million and $21.7 million, respectively, at December 31, 2008 and 2007 are included in Accounts payable on the accompanying Consolidated Balance Sheets. Changes in the balances of the disbursement accounts are reflected in financing activities in the accompanying Consolidated Statements of Cash Flows.

10. Use of Fair Value

NSTAR uses the fair value hierarchy of SFAS No. 157, *"Fair-Value Measurements,"* which gives the highest priority to quoted prices in active markets, and is applicable to fair value measurements of derivative contracts and other instruments that are subject to mark-to-market accounting. Refer to Note K, *"Fair Value,"* for more information.

The fair value of financial instruments is estimated based on market trading information, where available. Absent published market values for an instrument or other assets, management uses observable market data to arrive at its estimates of fair value. For its long-term debt, management estimates are based in part on quotations from broker/dealers or interest rate information for similar instruments. The carrying amount of cash and temporary investments, accounts receivable, accounts payable, short-term borrowings and other current liabilities approximates fair value because of the short maturity and/or frequent repricing of those instruments.

In addition, the Company applies the fair value recognition provisions of SFAS No. 123(R), *"Share Based Payment,"* to estimate the fair value of its stock-based compensation.

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11. Income Taxes

Income taxes are accounted for in accordance with SFAS No. 109 (SFAS 109), *"Accounting for Income Taxes."* Income tax expense includes the current tax obligation or benefit and the change in deferred income tax liability for the period. Deferred income taxes result from temporary differences between financial and tax bases of certain assets and liabilities. Uncertain tax positions are accounted for in accordance with FASB Interpretation No. 48 (FIN 48), *"Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109, Accounting for Income Taxes."* Refer to Note F, *"Income Taxes,"* for more information.

12. Equity Method of Accounting

NSTAR uses the equity method of accounting for investments in corporate joint ventures in which it does not have a controlling interest. Under this method, it records as income or loss the proportionate share of the net earnings or losses of the joint ventures with a corresponding increase or decrease in the carrying value of the investment. The investment is reduced as cash dividends are received. NSTAR participates in several corporate joint ventures in which it has investments, principally its 14.5% equity investment in two companies that own and operate transmission facilities to import electricity from the Hydro-Quebec System in Canada, and its equity investments ranging from 4% to 14% in three regional nuclear facilities (CY, MY and YA), all of which have been decommissioned in accordance with the federal NRC procedures.

13. Other Income (Deductions), net of income taxes

Major components of other income, net were as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| **(in thousands)** | **2008** | **2007** | **2006** |
| Equity earnings, dividends and other investment income | $ 820 | $ 1,495 | $ 644 |
| Interest, dividend and rental income | 6,612 | 9,226 | 8,492 |
| Environmental settlement proceeds | 4,750 | — | — |
| Nonmonetary gain | — | — | 5,494 |
| Sales of nonutility property | — | — | 4,144 |
| Miscellaneous other income, (includes applicable income tax expense) | (3,225) | (651) | (5,192) |
| Total other income, net | $ 8,957 | $ 10,070 | $ 13,582 |

Major components of other deductions, net were as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| **(in thousands)** | **2008** | **2007** | **2006** |
| Charitable contributions | $ (860) | $ (1,730) | $ (449) |
| Minor property costs | (433) | — | — |
| Miscellaneous other deductions, (includes applicable income tax benefit) | (2,330) | (1,300) | (1,057) |
| Total other deductions, net | $ (3,623) | $ (3,030) | $ (1,506) |

14. Short-Term Debt Interest Charges (Income), net

Major components of interest charges (income) related to short-term debt and other, net were as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| **(in thousands)** | **2008** | **2007** | **2006** |
| Short-term debt | $ 10,259 | $ 25,525 | $ 15,344 |
| Regulatory assets | (17,012) | (2,216) | (1,574) |
| Income tax deficiencies | (4,607) | (9,114) | 1,548 |
| Other | 3,653 | 2,084 | 2,164 |
| Total interest (income) charges | $ (7,707) | $ 16,279 | $ 17,482 |

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15. Purchase and Sales Transactions with ISO-NE

During 2004 and 2005, NSTAR Electric successfully completed several buy-out and restructuring agreements for substantially all of its long-term purchase power contracts. For the remaining long-term power contract, NSTAR Electric sells its power entitlement through ISO-NE at daily market prices and the contract is not used to satisfy its Basic Service energy requirements. NSTAR Electric is prohibited by the DPU from executing new long-term energy supply agreements without prior approval of the DPU. During 2008, 2007, and 2006, NSTAR recorded an offset for these sales revenues as a reduction to Purchased power and transmission expense of $251.9 million, $212.8 million, and $175.1 million, respectively, on the accompanying Consolidated Statements of Income.

16. New Accounting Standard

SFAS No. 161

On March 19, 2008, the FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities,"* (SFAS 161) which is intended to improve financial reporting about derivatives and hedging activities by requiring enhanced disclosures. This standard became effective on January 1, 2009. NSTAR anticipates that SFAS 161 will not have a significant impact on its current disclosures.

**Note B. Earnings Per Common Share**

Basic EPS is calculated by dividing net income, which includes a deduction for preferred dividends of a subsidiary, by the weighted average common shares outstanding during the respective period. Diluted EPS is similar to the computation of basic EPS except that the weighted average common shares are increased to include the impact of potential (nonvested) shares and stock options granted, such as stock-based compensation, in accordance with NSTAR's Long Term Incentive Plan.

The following table summarizes the reconciling amounts between basic and diluted EPS:

| (in thousands, except per share amounts) | 2008 | 2007 | 2006 |
|---|---|---|---|
| Net income | $ 237,547 | $ 221,515 | $ 206,774 |
| Basic EPS | $ 2.22 | $ 2.07 | $ 1.94 |
| Diluted EPS | $ 2.22 | $ 2.07 | $ 1.93 |
| Weighted average common shares outstanding for basic EPS | 106,808 | 106,808 | 106,808 |
| Effect of dilutive shares: | | | |
| Weighted average dilutive potential common shares | 237 | 314 | 317 |
| Weighted average common shares outstanding for diluted EPS | 107,045 | 107,122 | 107,125 |

The following table summarizes potential common shares that are excluded from the calculation of diluted EPS as their effect would be anti-dilutive:

| (in thousands) | 2008 | 2007 | 2006 |
|---|---|---|---|
| Deferred shares | 97 | 151 | — |
| Stock options | 706 | 306 | 907 |
| Performance shares | — | N/A | N/A |

**Note C. Asset Retirement Obligations**

The FASB Interpretation No. 47, *"Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS No. 143"* (FIN 47), *"Accounting for Asset Retirement Obligations"* (SFAS 143), requires entities to record the fair value of a liability for an ARO in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

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The recognition of an ARO within NSTAR's regulated utility businesses has no impact on its earnings. For its rate-regulated utilities, NSTAR establishes a regulatory asset to recognize future recoveries through depreciation rates for the recorded ARO. NSTAR has certain plant assets in which this condition exists and is related to both plant assets containing hazardous materials and legal requirements to undertake remediation efforts upon retirement.

For NSTAR's regulated utility businesses, the ultimate cost to remove utility plant from service (cost of removal) is recognized as a component of depreciation expense in accordance with approved regulatory treatment. As of December 31, 2008 and 2007, the estimated amount of the cost of removal included in regulatory liabilities was approximately $265 million and $259 million, respectively, based on the estimated cost of removal component in current depreciation rates. At December 31, 2008, NSTAR has an asset retirement cost in utility plant of $3 million, an asset retirement liability of $26 million and a regulatory asset of $21 million.

**Note D. Regulatory Assets**

Regulatory assets represent costs incurred that are expected to be collected from customers through future rates in accordance with agreements with regulators. These costs are expensed when the corresponding revenues are received in order to appropriately match revenues and expenses.

Regulatory assets consisted of the following:

| | December 31, | |
|---|---|---|
| **(in thousands)** | **2008** | **2007** |
| Energy contracts (including Yankee units) | $ 501,808 | $ 615,773 |
| Goodwill | 618,220 | 638,379 |
| Securitized and other energy-related costs | 637,803 | 731,485 |
| Retiree benefit costs | 946,682 | 406,815 |
| Income taxes, net | 29,235 | 30,249 |
| Purchased energy costs (over)/under collection | (17,257) | 14,250 |
| Redemption premiums | 25,737 | 28,233 |
| Other | 163,704 | 103,798 |
| Total current and long-term regulatory assets | $ 2,905,932 | $ 2,568,982 |

Under the traditional revenue requirements model, electric and gas rates are based on the cost of providing energy delivery service. Under this model, NSTAR Electric and NSTAR Gas are subject to certain accounting standards that are not applicable to other businesses and industries in general. The application of SFAS 71 requires companies to defer the recognition of certain costs when incurred if future rate recovery of these costs is probable. This is applicable to NSTAR's electric and gas distribution and transmission operations.

Amortization expense recorded to Depreciation and amortization on the accompanying Consolidated Statements of Income on certain regulatory assets for 2008, 2007 and 2006 was $198.7 million, $198.8 million, and $199.5 million, respectively. The amortization of other regulatory assets is recorded to Purchased power and transmission expense on the accompanying Consolidated Statements of Income.

Energy contracts

At December 31, 2008 and 2007, respectively, $412.7 million and $540.8 million represent the recognition of certain purchase power contract buy-out agreements that NSTAR Electric executed in 2004 and their future recovery through NSTAR Electric's transition charges. Refer to Note M, *"Contracts for the Purchase of Energy,"* for further details. Since no cash outlay was incurred by NSTAR to create the regulatory asset, NSTAR does not earn a return on this regulatory asset. NSTAR recognized this regulatory asset as a result of recording the contract termination liability in accordance with SFAS 146, *"Accounting for Costs Associated with Exit or Disposal Activities."* The contracts' termination payments will occur over time and will be collected from customers through NSTAR's transition charge over the same time period. The cost recovery period of these terminated contracts is through September, 2016.

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In addition, the unamortized balance of the costs to decommission the CY, YA and MY nuclear power plants was $56.2 million and $64.5 million at December 31, 2008 and 2007, respectively. All three nuclear units were notified by the NRC that their respective former plant sites were decommissioned in accordance with NRC procedures and regulations. NSTAR's liability for CY decommissioning and its recovery ends at the earliest in 2015, for YA in 2014 and for MY in 2013. However, should the actual costs exceed current estimates, NSTAR could have an obligation beyond these periods that would be fully recoverable. These costs are recovered through NSTAR Electric's transition charge. NSTAR does not earn a return on decommissioning costs, but a return is included in rates charged to NSTAR by these plants. Refer to Note N, *"Commitments and Contingencies,"* for further discussion.

The remaining balances at December 31, 2008 and 2007 of $32.9 million and $10.5 million, respectively, represent the recognition of the future recoverability of a derivative liability recorded related to contracts structured to hedge a portion of NSTAR Gas' future supply purchases. NSTAR Gas does not earn a return on these balances. Refer to Note E, *"Derivative Instruments,"* for further details. Settled amounts would be refunded or collected from customers no later than 18 months from the settlement date.

Goodwill

The Company's goodwill originated from the merger that created NSTAR in 1999. As a result of a rate order from the DPU approving the merger, the Company is recovering goodwill from its customers and, therefore, NSTAR has determined that this rate structure allows for amortization of goodwill over the collection period. Goodwill along with related deferred income taxes is being amortized over 40 years, through 2039, without a carrying charge.

Securitized and other energy-related costs

A portion of these energy-related regulatory assets are collateralized with the Transition Property Securitization Certificates held by NSTAR Electric's subsidiaries, BEC Funding LLC, BEC Funding II, LLC and CEC Funding, LLC. The collateralized amounts at December 31, 2008 and 2007 were $434 million and $586.9 million, respectively. The certificates are non-recourse to NSTAR Electric.

Also included are other costs related to purchase power contract divestitures and certain costs related to NSTAR Electric's former generation business that are recovered with a return through the transition charge and amounted to $164.8 million and $94.8 million at December 31, 2008 and 2007, respectively. These cost recoveries primarily occur through September, 2016 for NSTAR Electric and are subject to adjustment by the DPU.

The remaining energy-related regulatory assets consist of other transition costs and other recoverable charges of $39 million and $49.8 million at December 31, 2008 and 2007, respectively.

Retiree benefit costs

The retiree benefit regulatory asset at December 31, 2008 and 2007 of $946.7 million and $406.8 million, respectively, is primarily related to the application of SFAS No. 158, *"Employers' Accounting for Deferred Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements Nos. 87, 88, 106, and 132(R)"* (SFAS 158). (Refer to Note G, *"Pension and Other Postretirement Benefits,"* for further details.) During 2008, the funded status of NSTAR's Pension and PBOP plans was significantly impacted by the declines in the over-all financial markets. This change in funded status resulted in a liability which was offset by a corresponding increase in the retiree benefit costs regulatory asset. The remaining balance reflects the deferred pension and PBOP costs and over-recoveries of these costs. In accordance with the PAM, these amounts are amortized and collected from or returned to customers over three years. At December 31, 2008 and 2007, a deferred over-recovery of costs amounted to $23.8 million and $8.0 million, respectively. NSTAR recovers its qualified pension and PBOP expenses through this reconciling rate mechanism, thereby removing the

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volatility in earnings that may have resulted from requirements of existing accounting standards and provides for an annual filing and rate adjustment with the DPU. NSTAR earns a carrying charge on $324.7 million of the retiree benefit regulatory asset under the PAM regulatory mechanism.

Income taxes, net

The principal holder of this regulatory asset is NSTAR Electric. This regulatory asset balance reflects deferred tax reserve deficiencies that are currently being recovered from customers and excludes a return component. Offsetting these amounts is a regulatory liability associated with unamortized investment tax credits relating to NSTAR Electric and NSTAR Gas.

Purchased energy costs

The purchased energy costs at December 31, 2008 and 2007 relate to deferred electric Basic Service and gas supply costs. Basic Service is the electricity that is supplied by NSTAR Electric when a customer has chosen not to receive service from a competitive supplier. The market price for Basic Service and gas supply costs may fluctuate based on the average market price for energy. Amounts incurred for Basic Service and cost of gas supply are recovered on a fully reconciling basis without a return.

Redemption premiums

These amounts reflect the unamortized balance of redemption premiums on NSTAR Electric Debentures that are amortized and recovered over the life of the respective debentures pursuant to DPU approval. The decrease reflects the amortization of these redemption premiums. There is no return recognized on this balance.

Other

Amounts included consist of deferred transmission costs, other DPU costs, and merger-related costs. Deferred transmission costs represent the difference between the level of billed transmission revenues and the current period costs incurred to provide transmission-related services that will be recovered over a subsequent twelve-month period with carrying charges. The costs associated with a DPU-approved safety and reliability program and clean up costs related to former gas manufacturing sites that are recovered over a seven-year period without a return. The merger-related costs are collected from all NSTAR Electric and NSTAR Gas distribution customers as approved by DPU, and exclude a return component. Merger-costs are being amortized over a ten-year period ending in August, 2009.

**Note E. Derivative Instruments**

Energy Contracts

NSTAR accounts for its energy contracts in accordance with SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* (SFAS 133) and SFAS No. 149, *"Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities"* (SFAS 149). NSTAR has determined that its electricity supply contracts qualify for, and NSTAR has elected, the normal purchases and sales exception. As a result, these agreements are not reflected on the accompanying Consolidated Balance Sheets. NSTAR has only one significant gas supply contract. This contract is an all-requirements portfolio asset management contract that expires in October, 2009. This contract contains market based pricing terms and therefore no financial statement adjustments are required. Gas supply costs incurred related to this contract were $259 million and $224 million for the years ended December 31, 2008 and 2007, respectively, and have been recorded to Cost of gas sold on the accompanying Consolidated Statements of Income. Refer to the accompanying Item 7A, *"Quantitative and Qualitative Disclosures About Market Risk,"* for a further discussion.

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Hedging Agreements

In accordance with a DPU order, NSTAR Gas purchases financial contracts based upon NYMEX natural gas futures in order to reduce cash flow variability associated with the purchase price for approximately one-third of its natural gas purchases. This practice attempts to minimize the impact of fluctuations in prices to NSTAR's firm gas customers. These financial contracts do not procure gas supply. These contracts qualify as derivative financial instruments under SFAS 133, as amended by SFAS 149. Accordingly, the fair value of these instruments is recognized on the accompanying Consolidated Balance Sheets as an asset or liability representing amounts due from or payable to the counter parties of NSTAR Gas, as if such contracts were settled as of the balance sheet date. All actual costs incurred or benefits realized are included in the CGAC of NSTAR Gas. As a result, NSTAR Gas records an offsetting regulatory asset or liability for the market price changes, in lieu of recording an adjustment to Other Comprehensive Income. Currently, these derivative contracts extend through April 2010. As of December 31, 2008 and 2007, NSTAR had recorded a liability and a corresponding regulatory asset of $32.9 million and $10.5 million, respectively, to reflect the fair value of these contracts. During the years ended December 31, 2008 and 2007, $16 million and $30 million, respectively, of these financial contracts were settled and were recognized as additional charges to Cost of gas sold on the accompanying Consolidated Statements of Income.

**Note F. Income Taxes**

Income taxes are accounted for in accordance with SFAS No. 109, *"Accounting for Income Taxes"* (SFAS 109) and FASB Interpretation No. 48 (FIN 48), *"Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS 109."* SFAS 109 requires the recognition of deferred tax assets and liabilities for the future tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. In accordance with SFAS 71 and SFAS 109, net regulatory assets of $29.2 million and $30.2 million and corresponding net increases in accumulated deferred income taxes were recorded as of December 31, 2008 and 2007, respectively. The regulatory assets represent the additional future revenues to be collected from customers for deferred income taxes.

Accumulated deferred income taxes and unamortized investment tax credits consisted of the following:

| | December 31, | |
|---|---|---|
| **(in thousands)** | **2008** | **2007** |
| Deferred tax liabilities: | | |
| Depreciation | $ 713,044 | $ 668,771 |
| Goodwill | 242,497 | 250,404 |
| Power contracts | 147,620 | 183,049 |
| Purchased power | 88,039 | 51,008 |
| Transition costs | 32,510 | 60,376 |
| Pension expense | 98,229 | 89,024 |
| Other | 64,265 | 54,576 |
| | 1,386,204 | 1,357,208 |
| Deferred tax assets: | | |
| Plant basis adjustment | 31,637 | 36,326 |
| Postretirement benefits | 31,336 | 18,773 |
| Other | 105,961 | 97,280 |
| | 168,934 | 152,379 |
| Net accumulated deferred income taxes | 1,217,270 | 1,204,829 |
| Accumulated unamortized investment tax credits | 18,437 | 20,100 |
| | $ 1,235,707 | $ 1,224,929 |

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Investment tax credits are amortized over the estimated remaining lives of the property that generated the credits.

Components of income tax expense were as follows:

| (in thousands) | 2008 | 2007 | 2006 |
|---|---|---|---|
| Current income tax expense | $ 131,365 | $ 138,108 | $ 119,827 |
| Deferred income tax expense (benefit) | 14,182 | (5,999) | 1,207 |
| Investment tax credit amortization | (1,663) | (1,685) | (1,692) |
| Income taxes charged to operations | 143,884 | 130,424 | 119,342 |
| Tax expense on other income, net: | | | |
| Current income tax expense | 2,770 | 2,348 | 4,964 |
| Deferred income tax expense | 454 | 624 | 2,571 |
| Income tax expense on other income, net | 3,224 | 2,972 | 7,535 |
| Total income tax expense | $ 147,108 | $ 133,396 | $ 126,877 |

The effective income tax rates reflected in the accompanying consolidated financial statements and the reasons for their differences from the statutory federal income tax rate were as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Statutory tax rate | 35% | 35% | 35% |
| State income tax, net of federal income tax benefit | 5 | 5 | 5 |
| Investment tax credits | (1) | (1) | (1) |
| Other | (1) | (1) | (1) |
| Effective tax rate | 38% | 38% | 38% |

*Uncertain Tax Positions*

FASB Interpretation No. 48 (FIN 48), *"Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109, "Accounting for Income Taxes"* establishes criteria for the recognition of income tax benefits. FIN 48 requires the financial statement recognition of an income tax benefit when the company determines that it is more-likely-than-not that the tax position will be ultimately sustained.

NSTAR adopted FIN 48 effective January 1, 2007. NSTAR's tax accounting policy prior to the adoption of FIN 48 was to recognize uncertain tax positions taken on its income tax returns only if the likelihood of prevailing was probable. FIN 48 establishes a recognition standard of more-likely-than-not, which is a lower threshold than NSTAR's previous tax recognition policy.

Upon the adoption, and in accordance with FIN 48, NSTAR recognized the cumulative effect of approximately $46.6 million as an increase to its beginning retained earnings related to the deduction from the loss on the abandonment of NSTAR's investment in the stock of RCN Corporation (RCN) and the deduction of construction-related costs. This adjustment consisted primarily of $39.6 million representing the net unrecognized benefit of the RCN share abandonment. This adjustment also included the reversal of previously accrued interest expense on the RCN deduction and interest income accrued on the deduction of construction-related costs, as discussed further in this Note, which combined netted to $7 million after tax. NSTAR's assessment of the RCN tax position has consistently been that it is more-likely-than-not of prevailing.

The following is a reconciliation of the unrecognized tax benefits that have been recognized as FIN 48 liabilities on the accompanying Consolidated Balance Sheets included in Deferred Credits - Other:

| (in millions) | 2008 | 2007 |
|---|---|---|
| Balance at beginning of year | $ 15 | $ 12 |
| Additions for current year tax positions | — | 3 |
| Balance at end of year | $ 15 | $ 15 |

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As of December 31, 2008 and 2007, there were no unrecognized tax benefits of a permanent tax nature that if recognized would have an impact on the Company's effective tax rate.

RCN Share Abandonment Tax Treatment

On December 24, 2003, NSTAR exited its investment in RCN by formally abandoning its 11.6 million shares of RCN common stock. NSTAR determined that the abandonment at that time was the most tax efficient, cost effective and expedient means to exit its RCN investment. NSTAR also determined that the abandonment at that time outweighed any benefit that it would likely realize from any other alternative, including the future sale of such shares in an orderly fashion consistent with all laws, rules and regulations. Based on NSTAR's assessment and its tax accounting policy at that time, NSTAR accrued a tax reserve so as not to recognize the tax benefit of the uncertain tax position.

As of December 31, 2006, the potential tax loss contingency was approximately $39.6 million. Upon the adoption of FIN 48, as previously discussed, NSTAR recognized the entire amount as an adjustment to its January 1, 2007 retained earnings balance.

Construction-Related Costs

In 2004, NSTAR filed an amended 2002 Federal income tax return to change the method of accounting for certain construction-related overhead costs previously capitalized to plant to the Simplified Service Cost Method (SSCM). Under SSCM, certain costs which were previously capitalized for tax purposes are deducted in the year incurred. NSTAR has claimed additional deductions related to the tax accounting method change in its 2002-2004 returns of $368.9 million. In 2005, NSTAR received formal notification from the IRS that the claim on its amended income tax return would be denied. NSTAR did not receive the requested refund amount due.

In August 2005, the IRS issued Revenue Ruling 2005-53 and Treasury Regulations under Code Section 263A related to the SSCM to curtail these levels of construction-related cost deductions by utilities and others. Under this Regulation, the SSCM is not available for the majority of NSTAR's constructed property for the years 2005 and forward. NSTAR was required to make a cash tax payment to the IRS of $129.1 million in late 2006 representing the disallowed SSCM deductions taken for 2002-2004 even though the tax refund was never received. This payment will be fully refunded with interest to NSTAR, once this tax position is resolved. As a result of recent developments, as of December 31, 2008, this refund has been recorded as a current refundable income tax on the accompanying Consolidated Balance Sheets; at December 31, 2007, it was recorded as non-current.

Prior to the adoption of FIN 48, NSTAR assessed its tax position related to this tax benefit as less than more-likely-than-not. However, in measuring the benefit in conjunction with the adoption of FIN 48 as of January 1, 2007, NSTAR recognized $2.3 million, net of tax, of interest income to its January 1, 2007 retained earnings balance.

IRS Appeals and Examinations

As of December 31, 2008, the 2001 through 2007 federal and state tax years remain open. Years 2001 through 2004 (which include the SSCM and RCN Share Abandonment matters) are at the IRS Office of Appeals and years 2005 through 2007 are under examination by the IRS. The 2008 Federal income tax return is being examined under the IRS Compliance Assurance Process (CAP). This program accelerates the examination of the return in an attempt to resolve issues before the tax return is filed. NSTAR expects that ongoing IRS audits will not have a material effect on its financial statements. However, the outcome of any audit and the timing of audit settlement are subject to significant uncertainty.

Interest on Tax Positions

NSTAR recognizes interest accrued related to uncertain tax positions in Interest charges: Short-term debt and other and related penalties, if applicable, in Other deductions, net on the accompanying Consolidated Statements of Income. This accounting policy is consistent with the recognition of these items prior to the adoption of FIN 48. For the years ended December 31, 2008 and 2007, the amount of interest income, net,

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recognized on the accompanying Consolidated Statements of Income was $4.6 million and $9.1 million, respectively, and the total amount of accrued interest receivable on the accompanying Consolidated Balance Sheets was $17.8 million and $13.2 million, respectively. No penalties were recognized during 2008 and 2007.

In addition to its FIN 48 tax liability, NSTAR has unrecognized benefits associated with interest on construction-related uncertain tax positions. These unrecognized benefits were $9 million as of December 31, 2008 and 2007. It is possible that the amount of unrecognized tax benefits relating to the deduction for construction-related costs in the form of interest income could significantly change within twelve months from December 31, 2008. This would occur if NSTAR were to reach a final resolution with the IRS Office of Appeals on this issue. The estimated range of the unrecognized potential change is zero to approximately $9 million as of December 31, 2008.

**Note G. Pension and Other Postretirement Benefits**

NSTAR accounts for the funded status of its Pension and PBOP Plans in accordance with the provisions of SFAS 158. This standard amended SFAS Nos. 87, 88, 106 and 132(R). SFAS 158 requires an employer with a defined benefit plan or other postretirement plan to recognize an asset or liability on its balance sheet for the over funded or under funded status of the plan as defined by SFAS 158. The pension asset or liability is the difference between the fair value of the pension plan's assets and the projected benefit obligation as of year-end. For other postretirement benefit plans, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation as of year-end. As a result of NSTAR's approved regulatory rate mechanism for recovery of pension and postretirement costs, NSTAR has recognized a regulatory asset for the majority of its pension and postretirement costs in lieu of taking a charge to AOCI.

1. Pension

NSTAR sponsors a defined benefit retirement plan, the NSTAR Pension Plan (the Plan), that covers substantially all employees. Retirement benefits are based on various final average pay formulae. NSTAR also maintains a non-qualified retirement plan for certain management employees.

The Plans use December 31st for the measurement date to determine their projected benefit obligation and fair value of plan assets for the purposes of determining the Plans' funded status and the net periodic benefit costs for the following year.

The following tables for NSTAR's Pension benefit plans present the change in benefit obligation, change in the Plans' assets, the funded status, the components of net periodic benefit cost and key assumptions used:

| | Years Ended December 31, | |
|---|---|---|
| **(in thousands)** | **2008** | **2007** |
| Change in benefit obligation: | | |
| Benefit obligation, beginning of the year | $ 1,057,406 | $ 1,075,001 |
| Service cost | 21,273 | 21,530 |
| Interest cost | 63,642 | 62,154 |
| Plan participants' contributions | 24 | 32 |
| Actuarial gain | (7,663) | (25,397) |
| Settlement payments | (11,669) | (21,471) |
| Benefits paid | (54,621) | (54,443) |
| Projected benefit obligation, end of the year | $ 1,068,392 | $ 1,057,406 |
| Change in Plan assets: | | |
| Fair value of Plan assets, beginning of the year | $ 1,049,378 | $ 1,029,059 |
| Actual return on Plan assets, net | (338,990) | 93,906 |
| Employer contribution | 72,588 | 2,295 |
| Plan participants' contributions | 24 | 32 |
| Settlement payments | (11,669) | (21,471) |
| Benefits paid | (54,621) | (54,443) |
| Fair value of Plan assets at end of the year | $ 716,710 | $ 1,049,378 |
| Funded status at end of year - (under funded) | $ (351,682) | $ (8,028) |

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Source of change in other comprehensive income:

| (in thousands) | Years Ended December 31, 2008 | 2007 |
|---|---|---|
| Net loss arising during period | $ (2,320) | $ (2,553) |
| Amortization: | | |
| Prior service cost | 1,005 | 1,186 |
| Actuarial loss | 872 | 905 |
| Total other comprehensive loss recognized during the year | $ (443) | $ (462) |

The market-related value of NSTAR's pension plans' assets is determined based on the actual fair value as of the balance sheet date for all classes of assets. Therefore, the entire difference between the actual and expected return on Plan assets is reflected as a component of unrecognized actuarial net gain or loss.

Amounts recognized in the accompanying Consolidated Balance Sheets consisted of:

| (in thousands) | December 31, 2008 | 2007 |
|---|---|---|
| Deferred debits - other | $ — | $ 37,144 |
| Current liabilities - other | (2,500) | (2,825) |
| Deferred credits - pension and other postretirement liabilities | (349,182) | (42,347) |
| | $ (351,682) | $ (8,028) |
| Amounts not yet reflected in net periodic benefit cost and included in AOCI and regulatory asset: | | |
| Prior service credit | $ 2,698 | $ 2,678 |
| Accumulated actuarial loss | (688,885) | (287,479) |
| Cumulative employer contributions in excess of net periodic benefit cost | 334,505 | 276,773 |
| Net unrecognized periodic pension benefit cost reflected on the accompanying Consolidated Balance Sheets | $ (351,682) | $ (8,028) |

The estimated prior service cost and net actuarial loss that will be amortized from AOCI and regulatory assets into net periodic benefit cost in 2009 are $20,000 and $16.2 million, respectively.

The accumulated benefit obligation for the qualified pension plan as of December 31, 2008 and 2007 were $969.6 million and $962.9 million, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the non-qualified retirement plan were $46 million, $42.1 million and $0, respectively, as of December 31, 2008 and were $45.2 million, $41.7 million and $0, respectively, as of December 31, 2007.

Weighted average assumptions were as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Discount rate at the end of the year | 6.25% | 6.25% | 6.0% |
| Expected return on Plan assets for the year | 9.0% | 9.0% | 9.0% |
| Rate of compensation increase at the end of the year | 4.0% | 4.0% | 4.0% |

The Plans' discount rates are based on a rate modeling of a bond portfolio that approximates the Plan liabilities. In addition, management considers rates of high quality corporate bonds of appropriate maturities as published

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by nationally recognized rating agencies consistent with the duration of the Company's plans and through periodic bond portfolio matching. The Plans' long-term rates of return are based on past performance and economic forecasts for the types of investments held in the Plans as well as the target allocation of the investments over a long-term period. Actuarial assumptions also include an assumed rate for administrative expenses and investment expenses, which have averaged approximately 0.6% for 2008, 2007 and 2006.

Components of net periodic benefit cost were as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| (in thousands) | 2008 | 2007 | 2006 |
| Service cost | $ 21,273 | $ 21,530 | $ 20,865 |
| Interest cost | 63,642 | 62,154 | 59,507 |
| Expected return on Plan assets | (86,278) | (83,434) | (78,013) |
| Amortization of prior service cost | 20 | 20 | 129 |
| Recognized actuarial loss | 16,199 | 21,133 | 27,437 |
| Net periodic benefit cost | $ 14,856 | $ 21,403 | $ 29,925 |

The following reflects the weighted average asset allocation percentage of the fair value of the Pension Plan's assets for each major type of asset as of December 31st as well as the targeted ranges:

| | Plan Assets | | Current Targeted | |
|---|---|---|---|---|
| Asset Category | 2008 | 2007 | Ranges | Typical Benchmark |
| Equity securities | 29% | 43% | 20% - 30% | CITI BMI World |
| Debt securities | 28 | 14 | 20% - 30% | Barclays Aggregate |
| Real Estate | 20 | 25 | 10% - 20% | NCREIF Property Index |
| Alternative | 23 | 18 | 20% - 30% | HFRI Fund of Funds Composite Index |
| Total | 100% | 100% | | |

The alternative asset category consists of hedge funds and common/collective trusts.

The primary investment goal of the Plans is to achieve a total annualized return of 9% (before expenses) over the long-term and to minimize unsystematic risk so that no single security or class of securities will have a disproportionate impact on the Plans. Risk is regularly evaluated, compared and benchmarked to plans with a similar investment strategy. Other benchmarks are also considered. NSTAR currently uses 22 asset managers to manage its plans' assets. Assets are diversified by several asset classes (i.e., equities, bonds) and within these classes (i.e., economic sector, industry), such that, for each asset manager:

- No more than 6% of an asset manager's equity portfolio market value may be invested in one company
- Each equity portfolio should be invested in at least 20 different companies in different industries
- No more than 50% of each equity portfolio's market value may be invested in one industry sector, and
- No more than 5% of a fixed income manager's portfolio may be invested in the security of an issuer, except the U.S. Government and its agencies.

Employer contributions in 2008 of $70 million were made to the qualified plan and $2.6 million of contributions in the form of funding benefit payments from the non-qualified plan. NSTAR anticipates making contributions to its qualified Pension Plan in 2009 of approximately $25 million.

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The estimated benefit payments for the next 10 years are as follows:

| (in thousands) | |
|---|---|
| 2009 | $ 70,420 |
| 2010 | 71,718 |
| 2011 | 73,887 |
| 2012 | 76,896 |
| 2013 | 78,174 |
| 2014 - 2018 | 423,112 |
| Total | $794,207 |

2. Other Postretirement Benefits

NSTAR also provides health care and other benefits to retired employees who meet certain age and years of service eligibility requirements. These benefits include health and life insurance coverage. Under certain circumstances, eligible retirees are required to contribute to the cost of postretirement benefits.

NSTAR's other postretirement benefits are not vested and the Company has the right to modify any benefit provision, including contribution requirements, with respect to any current or former employee, dependent or beneficiary, subject to applicable laws at that time.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was adopted by NSTAR assuming continuation of prescription drug benefits to retirees that are at least actuarially equivalent to the benefits provided under Medicare Part D. For employers like NSTAR that continue to provide prescription drug programs for eligible former employees age 65 and over, there are subsidies available that are contained in the Act in the form of direct tax-exempt cash payments. The subsidy reduces service cost when it is recognized as a component of net periodic postretirement benefits cost, and it reduced NSTAR's net periodic postretirement benefit cost by approximately $12 million and $12.1 million in 2008 and 2007, respectively. However, as a result of the PAM, these reductions do not have a material impact on reported earnings.

NSTAR's other postretirement plans use December 31st for the measurement date to determine its benefit obligation and fair value of plan assets for the purposes of determining the plans' funded status and the net periodic benefit costs for the following year.

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The following tables for NSTAR's postretirement plans present the change in benefit obligation, change in the plans' assets, the funded status, the components of net periodic benefit cost and key assumptions used:

| (in thousands) | Years ended December 31, 2008 | 2007 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation, beginning of the year | $ 595,793 | $ 574,800 |
| Service cost | 5,853 | 5,812 |
| Interest cost | 36,287 | 35,611 |
| Plan participants' contributions | 2,839 | 2,625 |
| Plan amendments | (121) | 222 |
| Actuarial loss | 18,206 | 6,498 |
| Benefits paid | (32,214) | (31,653) |
| Federal subsidy | 2,429 | 1,878 |
| Benefit obligation, end of the year | $ 629,072 | $ 595,793 |
| Change in the plans' assets: | | |
| Fair value of the plans' assets, beginning of the year | $ 360,188 | $ 353,434 |
| Actual return on plans' assets | (117,435) | 20,729 |
| Employer contribution | 15,041 | 15,053 |
| Plan participants' contributions | 2,839 | 2,625 |
| Benefits paid | (32,214) | (31,653) |
| Fair value of the plans' assets, end of the year | $ 228,419 | $ 360,188 |

The plans' funded status was as follows:

| (in thousands) | December 31, 2008 | 2007 |
|---|---|---|
| Funded status at end of year - (under funded) | $ (400,653) | $ (235,605) |
| Amounts recognized in the accompanying Consolidated Balance Sheet: | | |
| Current liabilities - other | $ (61) | $ (29,444) |
| Deferred credits - pension and other postretirement liabilities | (400,592) | (206,161) |
| | $ (400,653) | $ (235,605) |
| Amounts not yet reflected in net periodic benefit cost and included in AOCI and regulatory assets: | | |
| Transition obligation | $ (3,254) | $ (4,065) |
| Prior service credit | 10,365 | 11,810 |
| Accumulated actuarial loss | (313,640) | (158,424) |
| Cumulative net periodic benefit costs in excess of employee contributions | (94,124) | (84,926) |
| Net amount recognized in statement of financial position | $ (400,653) | $ (235,605) |

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Source of change in other comprehensive income:

| (in thousands) | Years ended December 31, 2008 | 2007 |
|---|---|---|
| Net loss arising during period | $ (1,237) | $ (553) |
| Amortization: | | |
| Transition obligation | 5 | 5 |
| Prior service credit | (105) | (10) |
| Actuarial loss | 195 | 153 |
| Total other comprehensive loss recognized during the year | $ (1,142) | $ (405) |

The estimated transition obligation, prior service credit and net actuarial loss that will be amortized from AOCI and regulatory assets into net periodic benefit costs in 2008 are $0.8 million, $1.4 million and $20.6 million, respectively.

Weighted average assumptions were as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Discount rate at the end of the year | 6.10% | 6.25% | 6.0% |
| Expected return on the plans' assets for the year | 9.0% | 9.0% | 9.0% |

For measurement purposes, a 9.0% weighted annual rate increase in per capita cost of covered medical claims was assumed for 2008. This rate is assumed to decrease gradually to 5% in 2015 and remain at that level thereafter. Dental claims are assumed to increase at a weighted annual rate of 4%.

A 1% change in the assumed health care cost trend rate would have the following effects:

| (in thousands) | One-Percentage-Point Increase | Decrease |
|---|---|---|
| Effect on total service and interest cost components for 2008 | $ 6,937 | $ (5,501) |
| Effect on December 31, 2008 postretirement benefit obligation | $ 93,270 | $ (75,480) |

Components of net periodic benefit cost were as follows:

| (in thousands) | Years ended December 31, 2008 | 2007 | 2006 |
|---|---|---|---|
| Service cost | $ 5,853 | $ 5,813 | $ 5,490 |
| Interest cost | 36,287 | 35,611 | 32,890 |
| Expected return on plans' assets | (28,482) | (28,186) | (27,015) |
| Amortization of prior service cost | (1,567) | (1,472) | 13 |
| Amortization of transition obligation | 811 | 812 | 812 |
| Recognized actuarial loss | 8,909 | 11,028 | 10,691 |
| Net periodic benefit cost | $ 21,811 | $ 23,606 | $ 22,881 |

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NSTAR anticipates making an estimated contribution of approximately $30 million to its other postretirement benefit plans in 2009.

The estimated future cash flows for the years after 2008 are as follows:

| (in thousands) | Gross estimated benefit payments | Estimated expected cash inflows from Medicare subsidy |
|---|---|---|
| 2009 | $ 32,651 | $ 2,879 |
| 2010 | 34,555 | 3,150 |
| 2011 | 36,579 | 3,409 |
| 2012 | 37,957 | 3,719 |
| 2013 | 39,493 | 3,989 |
| 2014 - 2018 | 218,335 | 23,517 |
| Total | $ 399,570 | $ 40,663 |

The following reflects the weighted average asset allocation percentages of the fair value of the PBOP Plan assets for each major type of assets as of December 31st as well as the targeted ranges:

| Asset Category | Plan Assets 2008 | Plan Assets 2007 | Current Targeted Percentage | Typical Benchmark |
|---|---|---|---|---|
| Equity securities | 38% | 47% | 50% | MSCI World Index |
| Debt securities | 29 | 27 | 30% | Barclays Aggregate |
| Real Estate | 16 | 12 | 10% | NCREIF Property Index |
| Alternative | 17 | 14 | 10% | HFRI Fund of Funds Composite Index |
| Total | 100% | 100% | 100% | |

The alternative asset category consists primarily of hedge funds.

The assets of NSTAR's PBOP Plan are held in voluntary employees' beneficiary association trusts and in the Pension Plan 401(h) account which is a subset of the Pension Plan assets and are not reflected as a component of the Pension Plan assets.

The Plan's primary investment goal is to outperform the return of the composite benchmark. The portfolio also seeks a level of volatility, which approximates that of the composite benchmark returns. Other benchmarks are also considered.

3. Savings Plan

NSTAR also provides a defined contribution 401(k) plan for substantially all employees. Matching contributions (which are equal to 50% of the employees' deferral up to 8% of eligible base and cash incentive compensation subject to statutory limits) included in the accompanying Consolidated Statements of Income amounted to $9.4 million, $8.9 million and $9 million in 2008, 2007 and 2006, respectively. The election available to participants to reinvest dividends paid on the NSTAR Common Share Fund or receive the dividends in cash is subject to a freeze period beginning seven days prior to the date any dividend is paid. During this period, participants cannot change their election. NSTAR dividends are paid to this plan four times a year in February, May, August and November.

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**Note H. Stock-Based Compensation**

NSTAR accounts for its equity-based compensation in accordance with the provisions of SFAS 123(R), *"Stock-Based Compensation."*

The NSTAR 2007 Long Term Incentive Plan (the 2007 Plan) permits a variety of stock and stock-based awards, including stock options, deferred stock awards and performance share units granted to key employees. Subject to adjustment for stock-splits and similar events, the aggregate number of common shares that are available for award under the 2007 Plan is 3.5 million. The Plan limits the terms of awards to ten years and prohibits the granting of awards beyond ten years after its effective date. In general, stock options and deferred shares vest over a three-year period from date of grants. Performance share units vest only at the end of a three year performance period if performance conditions are met. The Executive Personnel Committee (EPC) of the Board of Trustees approves stock-based awards for all executives and other key employees. However, the Chief Executive Officer (CEO)'s award must also be approved by the independent members of the Board of Trustees. The EPC and Board of Trustees established that the date of grant for annual stock-based awards under the Plan is the date each year on which the Board of Trustees approves the CEO's stock award. This date is when all participants are notified of their awards. Options are granted at the full market price of the common shares on the date of grant. The aggregate remaining number of common shares available for award under the Plan as of December 31, 2008 is 3,597,703 unissued shares and includes unvested shares from NSTAR's 1997 Share Incentive Plan.

Stock-based compensation activities of the Plans were as follows:

*Stock Options:*

| | 2008 Activity | 2008 Weighted Average Exercise Price | 2007 Activity | 2007 Weighted Average Exercise Price |
|---|---|---|---|---|
| Options outstanding at January 1 | 2,234,202 | $ 28.06 | 2,265,333 | $ 25.66 |
| Options granted | 329,000 | $ 32.45 | 422,000 | $ 36.89 |
| Options exercised | (185,334) | $ 26.15 | (453,131) | $ 24.29 |
| Options forfeited | (50,834) | $ 33.82 | — | $ — |
| Options outstanding at December 31 | 2,327,034 | $ 28.71 | 2,234,202 | $ 28.06 |

Summarized information regarding stock options outstanding at December 31, 2008:

| | Options Outstanding | | | | Options Exercisable (Vested) | | | |
|---|---|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Aggregate Intrinsic Value (000's) | Number Exercisable | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Aggregate Intrinsic Value (000's) |
| $22.19 | 30,200 | 1.40 | $ 22.19 | $ 432 | 30,200 | 1.40 | $ 22.19 | $ 432 |
| $19.85 | 10,000 | 2.40 | $ 19.85 | $ 166 | 10,000 | 2.40 | $ 19.85 | $ 166 |
| $22.06-$22.67 | 62,000 | 3.30 | $ 22.47 | $ 870 | 62,000 | 3.30 | $ 22.47 | $ 870 |
| $21.60 | 282,000 | 4.33 | $ 21.60 | $ 4,199 | 282,000 | 4.33 | $ 21.60 | $ 4,199 |
| $24.21 | 387,000 | 5.33 | $ 24.21 | $ 4,754 | 387,000 | 5.33 | $ 24.21 | $ 4,754 |
| $29.60 | 442,667 | 6.44 | $ 29.60 | $ 3,050 | 442,667 | 6.44 | $ 29.60 | $ 3,050 |
| $27.73 | 404,667 | 7.32 | $ 27.73 | $ 3,545 | 238,677 | 7.32 | $ 27.73 | $ 2,091 |
| $36.89 | 397,500 | 8.34 | $ 36.89 | — | 114,760 | 8.34 | $ 36.89 | — |
| $32.45 | 311,000 | 9.08 | $ 32.45 | $ 1,256 | — | — | — | — |
| | 2,327,034 | 6.66 | $ 28.71 | $ 18,272 | 1,567,304 | 5.81 | $ 26.59 | $ 15,562 |

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There were 1,567,304, 1,287,092, and 1,175,393 stock options exercisable as of December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008, 2007 and 2006, the associated weighted average exercise price of these exercisable options is $26.59, $22.38, and $23.75, respectively. The total intrinsic value (the market price of the common shares on the date exercised, less the option exercise prices) of options exercised during the years ended December 31, 2008, 2007 and 2006 was $1.4 million, $5.3 million, and $9.7 million, respectively.

The stock options granted in 2008, 2007 and 2006 have a grant date fair value of $3.76, $4.79, and $3.86, respectively. The fair value was estimated using the Black-Scholes option-pricing model that uses the assumptions in the table below. The expected option lives are based on the average historical time frame that options are expected to remain unexercised. Expected volatilities are based on the historical performance of NSTAR's stock price. The risk-free interest rate is based on the U.S. Treasury Strip in effect on grant date. The fair values were computed using the following range of assumptions for NSTAR's stock options for the years ended December 31:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Expected life (years) | 6.0 | 6.0 | 6.0 |
| Risk-free interest rate | 3.17% | 4.56% | 4.91% |
| Volatility | 16.4% | 14.6% | 16.0% |
| Dividends | 3.81% | 3.85% | 4.06% |

*Deferred Shares:*

| | 2008 Activity | 2008 Weighted Average Grant Date Fair Value Price | 2007 Activity | 2007 Weighted Average Grant Date Fair Value Price |
|---|---|---|---|---|
| Nonvested deferred shares at January 1 | 544,063 | $ 31.39 | 585,519 | $ 28.28 |
| Deferred shares granted | 125,250 | $ 32.45 | 173,100 | $ 36.89 |
| Deferred shares vested | (187,934) | $ 31.02 | (205,356) | $ 27.14 |
| Deferred shares forfeited | (18,166) | $ 33.06 | (9,200) | $ 32.01 |
| Nonvested deferred shares at December 31 | 463,213 | $ 31.76 | 544,063 | $ 31.39 |

The fair value of deferred shares vested during 2008 and 2007 was $6.2 million and $7.2 million, respectively.

*Performance Share Units:*

| | 2008 Activity | Weighted Average Grant Date Fair Value Price |
|---|---|---|
| Performance share units at January 1 | — | $ — |
| Performance share units granted | 70,350 | $ 32.70 |
| Performance share units vested | — | $ — |
| Performance share units forfeited | (3,213) | $ 32.70 |
| Nonvested performance share units outstanding at December 31 | 67,137 | $ 32.70 |

Performance share unit awards under the 2007 Plan contain performance criteria that affect the number of shares that ultimately vest. Restrictions on performance share unit awards lapse after a three-year period contingent on achievement of certain earnings growth performance measures. These awards grant the right to receive, at the

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end of the performance period, a variable number of shares based on the level of NSTAR's earnings growth and a total shareholder return that is compared to companies in the EEI Index. This variable range extends from 0% to 170% of the granted awards. The 2008 performance awards grant date fair value was estimated to be $32.70 for the targeted performance level using a binomial option-pricing model. No performance share awards were granted during 2007 or 2006.

Management evaluates the probability of meeting the performance criteria at each balance sheet date and related compensation cost is amortized over the performance period on a straight-line basis. If the performance is not achieved, no compensation cost is recognized and any previously recognized compensation cost is reversed. No performance share units vested during 2008.

*Total Stock-Based Compensation*

As of December 31, 2008, the total stock-based compensation cost related to nonvested stock options, deferred share awards and performance share units not yet recognized was $9.6 million. The remaining weighted average period over which total stock-based compensation will be recognized is 1.61 years.

Total stock-based compensation cost recognized in the accompanying Consolidated Statements of Income in 2008, 2007 and 2006 was $9.7 million, $8.9 million, and $8.2 million, respectively. Approximately $1.9 million, $1.7 million and $1.5 million of costs related to stock options are included in the 2008, 2007 and 2006 stock-based compensation totals, respectively.

*2009 Awards*

On January 22, 2009, NSTAR granted awards, under the terms of the 2007 Plan, of 352,000 stock options, 134,050 deferred shares and 78,750 performance based share units to executives and senior managers.

Stock options, deferred shares and performance share units granted on January 22, 2009 have a grant date fair value of $3.64, $34.02 and $33.85, respectively. The grant date fair value of deferred shares and the exercise price of stock options are equal to the closing price of the Company's common shares on January 22, 2009.

**Note I. Capital Stock and Accumulated Other Comprehensive Income**

NSTAR's Board of Trustees declared dividends per common share of $1.425, $1.325, and $1.535 in 2008, 2007, and 2006, respectively. As a result of a change in NSTAR's Board of Trustees' meetings schedule in 2005, the fourth quarter dividend that typically would have been declared in December 2005, was approved on January 26, 2006 at $0.3025 per share, and therefore dividends declared during 2006 include the fourth quarter of 2005. The dividend payment schedule remained unchanged.

1. Common Shares

Common share and accumulated other comprehensive income activity in 2008 and 2007 was as follows:

| (in thousands) | Number of Shares | Total Par Value | Premium on Common Shares | Accumulated Other Comprehensive Income |
|---|---|---|---|---|
| Balance at December 31, 2006 | 106,808 | $ 106,808 | $ 823,450 | $ (12,018) |
| Equity compensation plans (Note H) | — | — | (4,776) | — |
| Pension and postretirement benefit costs, net | — | — | — | (575) |
| Balance at December 31, 2007 | 106,808 | 106,808 | 818,674 | (12,593) |
| Equity compensation plans (Note H) | — | — | (73) | — |
| Pension and postretirement benefit costs, net | — | — | — | (932) |
| Balance at December 31, 2008 | 106,808 | $ 106,808 | $ 818,601 | $ (13,525) |

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2. Cumulative Preferred Stock of Subsidiary

Non-mandatory redeemable series:

Par value $100 per share, 2,890,000 shares authorized and 430,000 shares issued and outstanding:

**(in thousands, except per share amounts)**

| Series | Current Shares Outstanding | Redemption Price/Share | December 31, 2008 | December 31, 2007 |
|---|---|---|---|---|
| 4.25% | 180,000 | $103.625 | $ 18,000 | $ 18,000 |
| 4.78% | 250,000 | $102.80 | 25,000 | 25,000 |
| Total non-mandatory redeemable series | | | $ 43,000 | $ 43,000 |

NSTAR Electric has two outstanding series of non-mandatory redeemable preferred stock. Both series are part of a class of NSTAR Electric's Cumulative Preferred Stock. Upon any liquidation of NSTAR Electric, holders of the Cumulative Preferred stock are entitled to receive the liquidation preference for their shares before any distribution to the holder of the common stock. The liquidation preference for each outstanding series of Cumulative Preferred Stock is equal to the par value ($100.00 per share), plus accrued and unpaid dividends.

**Note J. Indebtedness**

1. Long-Term Debt

NSTAR's long-term debt consisted of the following:

| (in thousands) | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Mortgage Bonds/Notes, collateralized by property of operating subsidiaries: | | |
| **NSTAR Gas** | | |
| 7.04%, due September 2017 | $ 25,000 | $ 25,000 |
| 9.95%, due December 2020 | 25,000 | 25,000 |
| 7.11%, due December 2033 | 35,000 | 35,000 |
| **AES** | | |
| 6.924%, due June 2021 | 91,512 | 95,949 |
| Notes: | | |
| **NSTAR** | | |
| 8.0%, due February 2010 | 500,000 | 500,000 |
| **NSTAR Electric** | | |
| Debentures: | | |
| 7.80%, due May 2010 | 125,000 | 125,000 |
| 4.875%, due October 2012 | 400,000 | 400,000 |
| 4.875%, due April 2014 | 300,000 | 300,000 |
| 5.625%, due November 2017 | 300,000 | 300,000 |
| 5.75%, due March 2036 | 200,000 | 200,000 |
| Bonds: | | |
| Massachusetts Industrial Finance Agency (MIFA) bonds | | |
| 5.75%, due February 2014 | 15,000 | 15,000 |
| **HEEC** | | |
| Sewage facility revenue bonds, due through 2015 | 9,988 | 11,571 |
| **Funding Companies** | | |
| Transition Property Securitization Certificates: | | |
| 3.78%, due through September 2008 | — | 21,776 |
| 7.03%, due through March 2010 | 75,554 | 144,365 |
| 4.13%, due through September 2011 | 203,475 | 266,477 |
| 4.40%, due through September 2013 | 144,771 | 144,771 |
| | 2,450,300 | 2,609,909 |
| Unamortized debt discount | (8,600) | (9,978) |
| Amounts due within one year | (98,024) | (98,531) |
| Total long-term debt | $ 2,343,676 | $ 2,501,400 |

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Consistent with the recovery in utility rates, discounts, redemption premiums and related costs associated with the issuance and redemption of long-term debt are deferred and amortized as an addition to interest expense over the life of the original or replacement debt.

On May 18, 2007, NSTAR Electric filed with the DPU for approval to issue up to $400 million of long-term debt securities from time to time through December 31, 2008. On May 18, 2007, in connection with this filing, NSTAR Electric filed a registration statement on Form S-3 with the SEC to issue up to $400 million in debt securities. This registration statement became effective on June 1, 2007. The DPU approved this financing plan on August 9, 2007. On November 19, 2007, NSTAR Electric sold $300 million of ten-year fixed rate (5.625%) Debentures. NSTAR Electric used the proceeds from the issuance of these securities to finance its capital expenditures, for repayment of short-term debt, and for general working capital purposes. On November 25, 2008, the DPU allowed NSTAR Electric to extend the period of its financing plan with additional time to issue the remaining $100 million in long-term debt securities to no later than December 31, 2009.

Sewage facility revenue bonds are tax-exempt, subject to annual mandatory sinking fund redemption requirements and mature through 2015. Scheduled redemptions of $1.65 million were made in 2008 and 2007. The interest rate of the bonds was 7.375% for both 2008 and 2007.

The 5.75% tax-exempt unsecured MIFA bonds due 2014 are currently redeemable at par.

The aggregate principal amounts of NSTAR is long-term debt (including securitization certificates and sinking fund requirements) due in the five years subsequent to 2008 are approximately $98 million in 2009, $751 million in 2010, $91 million in 2011, $492 million in 2012, $52 million in 2013 and $966 million thereafter.

The Transition Property Securitization Certificates held by NSTAR Electric's subsidiaries, BEC Funding LLC, BEC Funding II, LLC and CEC Funding, LLC (Funding companies), are each collaterized with separate securitized regulatory assets with combined balances of $434 million and $586.9 million as of December 31, 2008 and 2007, respectively. NSTAR Electric, as servicing agent for the Funding companies, collected $179.9 million and $185.1 million in 2008 and 2007, respectively. Funds collected from the companies' respective customers are transferred to each Funding companies' Trust on a daily basis. These Certificates are non-recourse to NSTAR Electric.

On March 16, 2006, NSTAR Electric sold $200 million of thirty-year fixed rate (5.75%) Debentures. The net proceeds were primarily used to repay outstanding short-term debt balances.

2. Financial Covenant Requirements and Lines of Credit

NSTAR and NSTAR Electric have no financial covenant requirements under their respective long-term debt arrangements. NSTAR Gas has financial covenant requirements including a minimum equity requirement under its long-term debt arrangements and was in compliance at December 31, 2008 and 2007. NSTAR's long-term debt other than the secured debt of NSTAR Gas and MATEP, is unsecured.

NSTAR currently has a $175 million revolving credit agreement that expires December 31, 2012. At December 31, 2008 and 2007, there were no amounts outstanding under the revolving credit agreement. This credit facility serves as a backup to NSTAR's $175 million commercial paper program that, at December 31, 2008 and 2007, had $175 million and $4 million outstanding, respectively. Under the terms of the credit agreement, NSTAR is required to maintain a maximum total consolidated debt to total capitalization ratio of not greater than 65% at all times, excluding Transition Property Securitization Certificates, and excluding accumulated other comprehensive income (loss) from common equity. Commitment fees must be paid on the total agreement amount. At December 31, 2008 and 2007, NSTAR was in full compliance with the aforementioned covenant as the ratios were 60.2% and 58.2%, respectively.

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NSTAR Electric has approval from the FERC to issue short-term debt securities from time to time on or before October 22, 2010, with maturity dates no later than October 21, 2011, in amounts such that the aggregate principal does not exceed $655 million at any one time. NSTAR Electric has a five-year, $450 million revolving credit agreement that expires December 31, 2012. However, unless NSTAR Electric receives necessary approvals from the DPU, the credit agreement will expire 364 days from the date of the first draw under the agreement. At December 31, 2008 and 2007, there were no amounts outstanding under the revolving credit agreement. This credit facility serves as backup to NSTAR Electric's $450 million commercial paper program that had $354.6 million and $257 million outstanding balances at December 31, 2008 and 2007, respectively. Under the terms of the revolving credit agreement, NSTAR Electric is required to maintain a consolidated maximum total debt to capitalization ratio of not greater than 65% at all times, excluding Transition Property Securitization Certificates, and excluding accumulated other comprehensive income (loss) from common equity. At December 31, 2008 and 2007, NSTAR Electric was in full compliance with its covenants in connection with its short-term credit facilities, as the ratios were 47.6% and 46.2%, respectively.

As of December 31, 2008, NSTAR Gas had a $100 million line of credit ($200 million as of December 31, 2007). This line of credit is due to expire on December 11, 2009. As of December 31, 2008 and 2007, NSTAR Gas had $53.3 million and $142.4 million outstanding, respectively.

Historically, NSTAR and its subsidiaries have had a variety of external sources of financing available, as indicated above, at favorable rates and terms to finance its external cash requirements. However, the availability of such financing at favorable rates and terms depends heavily upon prevailing market conditions and NSTAR's or its subsidiaries' financial condition and credit ratings.

NSTAR's goal is to maintain a capital structure that preserves an appropriate balance between debt and equity. Based on NSTAR's key cash resources available as discussed above, management believes its liquidity and capital resources are sufficient to meet its current and projected requirements.

Interest rates on the outstanding short-term borrowings generally are money market rates and averaged 2.31% and 5.24% in 2008 and 2007, respectively. In aggregate, short-term borrowings totaled $582.9 million and $403.4 million at December 31, 2008 and 2007, respectively.

On December 2, 2008, NSTAR Electric filed a two-year financing plan with the DPU to issue an additional $500 million in long-term debt securities, and awaits approval of this filing.

**Note K. Fair Value**

*Fair Value Measurements - FAS 157*

SFAS No. 157, as amended, *"Fair Value Measurements"* (SFAS 157), defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. While the standard does not expand the use of fair value, it has applicability to several current accounting standards that require or permit measurement of assets and liabilities at fair value. The Company prospectively adopted SFAS 157 on January 1, 2008, with no impact to its results of operations, financial position, or cash flows.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to determine fair value and requires the Company to classify assets and liabilities carried at fair value based on the observability of these inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy defined by SFAS 157 are:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date. Financial assets utilizing Level 1 inputs include active exchange-traded equity securities.

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Level 2 - Quoted prices available in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are directly observable, and inputs derived principally from market data.

Level 3 - Unobservable inputs from objective sources. These inputs may be based on entity-specific inputs. Level 3 inputs include all inputs that do not meet the requirements of Level 1 or Level 2.

The following represents the fair value hierarchy of NSTAR's financial assets and liabilities that were recognized at fair value on a recurring basis as of December 31, 2008. As required by SFAS 157, financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

Recurring Fair Value Measures

| (in millions) | Level 1 | Level 2 | Total |
|---|---|---|---|
| Assets: | | | |
| Government Money Market Securities (a) | $ 10 | $ — | $ 10 |
| Deferred Compensation Assets (b) | 27 | — | 27 |
| Investments (b) | 13 | — | 13 |
| Total | $ 50 | $ — | $ 50 |
| Liabilities: | | | |
| Gas Hedges (c) | $ — | $ 32 | $ 32 |
| Total | $ — | $ 32 | $ 32 |

(a) - Included in "Cash and cash equivalents" on the accompanying Consolidated Balance Sheets

(b) - Included in "Other investments" on the accompanying Consolidated Balance Sheets

(c) - Included in "Current liabilities: Other" on the accompanying Consolidated Balance Sheets

*Financial Instruments - FAS 107*

The carrying amounts for cash and cash equivalents, net accounts receivable, other current assets, certain current liabilities, and notes payable as of December 31, 2008 and 2007, respectively, approximate fair value due to the short-term nature of these securities.

The fair values of long-term indebtedness (excluding notes payable) are based on the quoted market prices of similar issues. Carrying amounts and fair values as of December 31, 2008 and 2007 were as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| (in thousands) | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term indebtedness (including current maturities) | $ 2,441,700 | $ 2,474,960 | $ 2,599,931 | $ 2,680,240 |

**Note L. Segment and Related Information**

For the purpose of providing segment information, NSTAR's principal operating segments, are its traditional core businesses of electric and natural gas retail transmission and distribution utilities that provide energy delivery services in 107 cities and towns in Massachusetts. The unregulated operating segment engages in business activities that include district energy operations, telecommunications, and a liquefied natural gas service. Amounts shown on the following table for 2008, 2007 and 2006 include the allocation of NSTAR's (Holding Company) results of operations (primarily interest costs) and assets to each business segment, net of inter-company transactions that primarily consist of interest charges and investment assets, respectively. The allocation of Holding Company charges is based on an indirect allocation of the Holding Company's investment relating to these various business segments.

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Financial data for the operating segments were as follows:

| (in thousands) | 2008 | 2007 | 2006 |
|---|---|---|---|
| Operating revenues | | | |
| Electric utility operations | $ 2,639,637 | $ 2,562,850 | $ 2,912,115 |
| Gas utility operations | 553,680 | 560,478 | 517,855 |
| Unregulated operations | 152,070 | 138,456 | 147,732 |
| Consolidated total | $ 3,345,387 | $ 3,261,784 | $ 3,577,702 |
| Depreciation and amortization | | | |
| Electric utility operations | $ 339,236 | $ 330,325 | $ 323,701 |
| Gas utility operations | 26,494 | 26,144 | 24,051 |
| Unregulated operations | 14,031 | 13,173 | 14,470 |
| Consolidated total | $ 379,761 | $ 369,642 | $ 362,222 |
| Operating income tax expense | | | |
| Electric utility operations | $ 122,154 | $ 114,729 | $ 103,634 |
| Gas utility operations | 11,636 | 9,370 | 6,368 |
| Unregulated operations | 10,094 | 6,325 | 9,340 |
| Consolidated total | $ 143,884 | $ 130,424 | $ 119,342 |
| Equity income in investments accounted for by the equity method (a) | | | |
| Electric utility operations | $ 820 | $ 1,495 | $ 644 |
| Interest charges | | | |
| Electric utility operations | $ 127,947 | $ 137,027 | $ 145,987 |
| Gas utility operations | 16,300 | 22,140 | 22,932 |
| Unregulated operations | 7,694 | 8,235 | 8,938 |
| Consolidated total | $ 151,941 | $ 167,402 | $ 177,857 |
| Segment net income | | | |
| Electric utility operations | $ 199,631 | $ 189,984 | $ 174,898 |
| Gas utility operations | 20,887 | 18,843 | 14,184 |
| Unregulated operations | 17,029 | 12,688 | 17,692 |
| Consolidated total | $ 237,547 | $ 221,515 | $ 206,774 |
| Expenditures for property | | | |
| Electric utility operations | $ 366,398 | $ 320,234 | $ 378,709 |
| Gas utility operations | 43,395 | 36,423 | 38,761 |
| Unregulated operations | 12,431 | 3,473 | 8,676 |
| Consolidated total | $ 422,224 | $ 360,130 | $ 426,146 |
| Segment assets | | | |
| Electric utility operations | $ 7,214,780 | $ 6,760,380 | $ 6,764,098 |
| Gas utility operations | 855,555 | 799,768 | 805,635 |
| Unregulated operations | 199,154 | 199,397 | 199,358 |
| Consolidated total | $ 8,269,489 | $ 7,759,545 | $ 7,769,091 |

(a) The equity income from equity investments is included in other income, net on the accompanying Consolidated Statements of Income.

## Note M. Contracts for the Purchase of Energy

1. NSTAR Electric Purchase Power Agreements

As a Massachusetts distribution company, NSTAR Electric is required to obtain and resell power to retail customers through Basic Service for those who choose not to buy energy from a competitive energy supplier. Basic Service rates are reset every six months (every three months for large commercial and industrial customers). The price of Basic Service is intended to reflect the average competitive market price for power. For basic service power supply, NSTAR Electric makes periodic market solicitations consistent with DPU

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regulations. NSTAR Electric enters into short-term power purchase agreements to meet its Basic Service supply obligation, ranging in term from three to twelve months. NSTAR Electric fully recovers its payments to suppliers through DPU-approved rates billed to customers.

The Rate Settlement Agreement required NSTAR Electric to design a policy for the procurement of Basic Service supply for residential customers effective July 1, 2006, permitting NSTAR Electric to execute energy supply contracts for one, two and three-years procuring fifty, twenty-five and twenty-five percent, respectively, of its total energy load requirements for residential customers. NSTAR Electric, after working with the AG and a low-income support organization, developed a schedule to implement this provision. In 2007, NSTAR Electric entered into two longer-term renewable energy supply contracts with 10-year terms, which were filed with the DPU for approval. In April 2008, the DPU approved the contracts and the recovery of costs through Basic Service rates.

2. NSTAR Gas Firm Transportation and Storage Agreements

NSTAR Gas purchases transportation, storage, and balancing services from Tennessee Gas Pipeline Company and Algonquin Gas Transmission Company, as well as other upstream pipelines that bring gas from major producing regions in the U.S., Gulf of Mexico, and Canada to the final delivery points in the NSTAR Gas service area. NSTAR Gas purchases all of its gas supply from third-party vendors. Most of the supplies are purchased under a firm portfolio management contract with a term of one year. NSTAR Gas has one multiple year contract, which is used for the purchase of its Canadian supplies for up to 4,500 MMbtu per day. Based on its firm pipeline transportation capacity entitlements, NSTAR Gas contracts for up to 139,214 MMbtu per day of domestic production.

NSTAR Gas has various contractual agreements covering the transportation of natural gas and underground natural gas storage facilities, which are recoverable from customers under the DPU-approved rates, through its CGAC. The contracts expire at various times from 2009 to 2016. NSTAR Gas' firm contract demand charges associated with firm pipeline transportation and storage capacity contracts in 2008, 2007, and 2006 were approximately $51.5 million, $51.8 million, and $50.6 million, respectively. Refer to Note N, *"Commitments and Contingencies," "Energy Supply"* section for NSTAR Gas' firm contract demand charges at current rates under these contracts for the years after 2008.

**Note N. Commitments and Contingencies**

1. Service Quality Indicators

SQI are established performance benchmarks for certain identified measures of service quality relating to customer service and billing performance, safety and reliability and consumer division statistics performance for all Massachusetts utilities. NSTAR Electric and NSTAR Gas are required to report annually to the DPU concerning their performance as to each measure and are subject to maximum penalties of up to two percent (two and a half percent beginning in 2009) of total transmission and distribution revenues should performance fail to meet the applicable benchmarks.

NSTAR monitors its service quality continuously to determine if a liability has been triggered. If it is probable that a liability has been incurred and is estimable, a liability is accrued. Annually, each NSTAR utility subsidiary makes a service quality performance filing with the DPU. Any settlement or rate order that would result in a different liability level from what has been accrued would be adjusted in the period that the DPU issues an order determining the amount of any such liability.

On March 1, 2007, NSTAR Electric and NSTAR Gas filed their 2006 Service Quality Reports with the DPU that demonstrated the Companies achieved sufficient levels of performance. The reports indicate that no penalty was assessable for 2006. The DPU approved both filings but did not approve NSTAR Electric's benchmarks due to

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outstanding DPU decisions relating to changes in the calculation of reliability measures for the duration and frequency of service interruptions. On September 25, 2008, the DPU issued an order clarifying these requirements, and NSTAR Electric will file recalculated benchmarks in 2009.

On February 29, 2008, NSTAR Electric and NSTAR Gas filed their 2007 Service Quality Reports with the DPU that demonstrated the Companies achieved sufficient levels of performance. The NSTAR Electric report did not include 2007 results for reliability measures for the duration and frequency of service interruptions due to the outstanding DPU decisions. The filed reports indicate that no penalty was assessable for 2007 for non-reliability measurements. On May 16, 2008, the DPU issued an order that approved the NSTAR Gas 2007 Service Quality Report, as filed. The September 2008 order clarified the outstanding issues pertaining to calculating reliability measures for the duration and frequency of service interruptions. NSTAR Electric will now file its 2007 Service Quality Report for reliability performance information in 2009.

In addition, the May and September 2008 DPU orders established new requirements for NSTAR Electric performance metrics related to poor performing circuits. These new performance metrics measure circuit performance over a three-year period that commenced on January 1, 2007. NSTAR Electric's performance level has not been in a penalty position as of December 31, 2008. NSTAR Electric will not be able to determine its final performance related to SQI circuit performance measurements until the end of 2009.

On July 2, 2008, the Massachusetts Legislature passed the *"Green Communities Act"* (GCA), an energy policy legislation. Among other things, the GCA increased the potential maximum service quality performance penalties provision from 2% to 2.5% of total transmission and distribution revenues effective for the 2009 performance year.

2. Contractual Commitments

Leases

NSTAR has leases for facilities and equipment, including agreements for use of transmission facilities of other providers. The estimated minimum rental commitments under non-cancellable operating leases for the years after 2008 are as follows:

| **(in thousands)** | |
|---|---|
| 2009 | $17,062 |
| 2010 | 8,594 |
| 2011 | 7,834 |
| 2012 | 7,718 |
| 2013 | 7,299 |
| Years thereafter | 12,615 |
| Total lease commitments | $61,122 |

NSTAR was notified by one of its lessors of vehicle fleet operating leases that the agreement will terminate on November 13, 2009. As a result, a $28 million one-time payment is anticipated to be made by November 13, 2009 to buyout of this agreement. This obligation is not included in the above schedule.

The total expense for both leases and transmission agreements was $26.7 million in 2008, $24.7 million in 2007, and $26.8 million in 2006, net of capitalized expenses of $2.6 million in 2008, $2.4 million in 2007, and $2.3 million in 2006.

Transmission

As a member of ISO-NE, NSTAR Electric is subject to the terms and conditions of the ISO-NE tariff through February 2010, as NSTAR Electric is obligated to remain a member through this period. NSTAR Electric is

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obligated to pay for regional network services through that period to support the pooled transmission facilities requirements of other New England transmission owners whose facilities are used by NSTAR Electric. These payments amounted to $134.6 million, $130.2 million, and $89.4 million in 2008, 2007 and 2006, respectively. This membership also obligates NSTAR Electric, along with other transmission owners and market participants, to fund a proportionate share of the RTO's operating and capital expenditures.

Energy Commitments

NSTAR is currently recovering payments it is making to suppliers from its customers and has financial and performance assurances and financial guarantees in place with those suppliers to protect NSTAR from risk in the unlikely event any of its suppliers encounter financial difficulties or fail to maintain an investment grade credit rating. This condition principally relates to NSTAR Electric's energy supply contract to provide Basic Service to its customers. In connection with certain of these agreements, in the event NSTAR Electric should receive a credit rating below investment grade, it would be required to obtain certain financial commitments, including but not limited to, letters of credit. Refer to Note M, *"Contracts for the Purchase of Energy"* for a further discussion.

The following represents NSTAR's long-term energy related contractual commitments:

| (in millions) | 2009 | 2010 | 2011 | 2012 | 2013 | Years Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Electric capacity obligations | $ 2 | $ 2 | $ 2 | $ 2 | $ 3 | $ 14 | $ 25 |
| Gas transportation and storage obligations | 52 | 52 | 48 | 30 | 17 | 19 | 218 |
| Purchase power buy-out obligations | 142 | 140 | 75 | 32 | 27 | 72 | 488 |
| Electric interconnection agreement | 2 | 3 | 3 | 3 | 3 | 48 | 62 |
| | $ 198 | $ 197 | $ 128 | $ 67 | $ 50 | $ 153 | $ 793 |

Electric capacity obligations represent remaining capacity costs of long-term contracts that reflect NSTAR Electric's proportionate share of capital and fixed operating costs of certain generating units. These contracts expire in 2012 and 2019. In 2008 and 2007, these costs were attributed to 47.9 MW of capacity purchased. Energy costs are paid to generators based on a price per kWh actually received into NSTAR Electric's distribution system and are in addition to the costs above.

Gas transportation and storage obligations represent agreements covering the transportation of natural gas and underground natural gas storage facilities that are recoverable from customers under the DPU-approved CGAC. These contracts expire at various times from 2009 through 2016.

Purchase power buy-out obligations represent the buy-out/restructuring agreements for contract termination costs that reduce the amount of above-market costs that NSTAR Electric will collect from its customers through its transition charges. These agreements require NSTAR Electric to make monthly payments through September, 2016.

The electric interconnection agreement relates to a single interconnection with a municipal utility for additional capacity into NSTAR Electric's service territory.

3. Electric Equity Investments and Joint Ownership Interest

NSTAR has an equity investment of approximately 14.5% in two companies that own and operate transmission facilities to import electricity from the Hydro-Quebec system in Canada. As an equity participant, NSTAR Electric is required to guarantee, in addition to its own share, the obligations of those participants who do not meet certain credit criteria. NEH and NHH have agreed to use their best efforts to limit their equity investment to 40% of their total capital during the time NEH and NHH have outstanding debt in their capital structure.

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NSTAR Electric collectively has an equity ownership of 14% in CY, 14% in YA, and 4% in MY, (collectively, the "Yankee Companies"). CY, YA and MY plant sites have been decommissioned in accordance with NRC procedures. Amended licenses continue to apply to the ISFSI's where spent nuclear fuel is stored at these sites. CY, YA and MY remain responsible for the security and protection of the ISFSI and are required to maintain radiation monitoring programs at the sites.

The accounting for decommissioning and/or security or protection costs of these three decommissioned nuclear power plants involves estimates from Yankee Companies' management and reflect total remaining costs of approximately $56 million to be incurred for CY, YA and MY. Changes in these estimates will not affect NSTAR's results of operations or cash flows because these costs will be collected from customers through NSTAR Electric's transition charge filings with the DPU.

Yankee Companies Spent Fuel Litigation

In October, 2006, the U.S. Court of Federal Claims issued a judgment in a spent nuclear fuel litigation, in the amounts of $34.2 million, $32.9 million and $75.8 million for CY, YA and MY, respectively. This judgment in favor of these Yankee companies relates to the alleged failure of the DOE to provide for a permanent facility to store spent nuclear fuel for years prior to 2001 for CY and YA, and prior to 2002 for MY. NSTAR Electric's portion of the judgment amounts to $4.8 million, $4.6 million and $3 million, respectively. On December 4, 2006, the DOE filed its notice of appeal of the trial court's decision. As a result, the Yankee Companies have not recognized the damage awards on their books, and therefore, NSTAR Electric has not recognized its portion. On December 14, 2007, the Yankee companies filed complaints against the DOE seeking damages from 2001 for CY and YA, and from 2002 for MY, through a future trial date. On August 7, 2008, a federal appeals court reversed and remanded the U.S. Court of Federal Claims judgment based on an error in the measurement of the award calculation. NSTAR cannot predict the ultimate outcome of this decision on appeal or the subsequent complaints. However, should NSTAR Electric ultimately prevail, proceeds received would be refunded to customers.

4. Financial and Performance Guarantees

On a limited basis, NSTAR and certain of its subsidiaries may enter into agreements providing financial assurance to third parties. Such agreements include letters of credit, surety bonds, and other guarantees.

At December 31, 2008, outstanding guarantees totaled $29.3 million as follows:

| **(in thousands)** | |
|---|---|
| Letter of Credit | $ 5,560 |
| Surety Bonds | 17,631 |
| Hydro-Quebec Guarantees | 6,075 |
| Total Guarantees | $29,266 |

Letter of Credit

NSTAR has issued a $5.6 million letter of credit for the benefit of a third party, as trustee in connection with Advanced Energy System's 6.924% Notes. The letter of credit is available if the subsidiary has insufficient funds to pay the debt service requirements. As of December 31, 2008, there have been no amounts drawn under its letter of credit.

Surety Bonds

As of December 31, 2008, certain of NSTAR's subsidiaries have purchased a total of $1.4 million of performance surety bonds for the purpose of obtaining licenses, permits and rights-of-way in various municipalities. In addition, NSTAR and certain of its subsidiaries have purchased approximately $16.2 million in

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workers' compensation self-insurer bonds. These bonds support the guarantee by NSTAR and certain of its subsidiaries to the Commonwealth of Massachusetts, required as part of the Company's workers' compensation self-insurance program. NSTAR and certain of its subsidiaries have indemnity agreements to provide additional financial security to its bond company in the form of a contingent letter of credit to be triggered in the event of a downgrade in the future of NSTAR's Senior Note rating to below BBB by S&P and/or to below Baa1 by Moody's. These Indemnity Agreements cover both the performance surety bonds and workers' compensation bonds.

Hydro-Quebec Guarantees

NSTAR and its subsidiaries have also issued approximately $6.1 million of residual value guarantees related to its equity interest in the Hydro-Quebec transmission companies.

5. Environmental Matters

NSTAR subsidiaries face possible liabilities as a result of involvement in several multi-party disposal sites, state-regulated sites or third party claims associated with contamination remediation. NSTAR generally expects to have only a small percentage of the total potential liability for the majority of these sites. As of December 31, 2008 and 2007, NSTAR had a liability of approximately $0.8 million for these environmental sites. This estimated recorded liability is based on an evaluation of all currently available facts with respect to these sites.

NSTAR Gas is participating in the assessment or remediation of certain former MGP sites and alleged MGP waste disposal sites to determine if and to what extent such sites have been contaminated and whether NSTAR Gas may be responsible to undertake remedial action. The DPU permits recovery of costs associated with MGP sites over a 7-year period, without carrying costs. As of December 31, 2008 and 2007, NSTAR had a liability of approximately $13.3 million and $10.1 million, respectively, as an estimate for site cleanup costs for several MGP sites for which NSTAR Gas was identified as a potentially responsible party. A corresponding regulatory asset was recorded that reflects the future rate recovery for these costs.

Estimates related to environmental remediation costs are reviewed and adjusted as further investigation and assignment of responsibility occurs and as either additional sites are identified or NSTAR's responsibilities for such sites evolve or are resolved. NSTAR's ultimate liability for future environmental remediation costs may vary from these estimates. Based on NSTAR's current assessment of its environmental responsibilities, existing legal requirements, and regulatory policies, NSTAR does not believe that these environmental remediation costs will have a material adverse effect on NSTAR's consolidated results of operations, financial position, or cash flows.

6. Regulatory and Legal Proceedings

DPU Rate Settlement Agreement

The DPU approved a seven-year Rate Settlement Agreement (Rate Settlement Agreement) between NSTAR, the AG, and several interveners. For 2006, the Rate Settlement Agreement required NSTAR Electric to lower its transition rates by $20 million, effective January 1, 2006, and by an additional $30 million, effective May 1, 2006, from what would otherwise have been billed in 2006. Effective May 1, 2006, NSTAR Electric increased its distribution rates by $30 million. Beginning January 1, 2007 and continuing through 2012, the Rate Settlement Agreement establishes annual inflation-adjusted distribution rate increases (SIP of 1.74%, 2.68%, and 2.64% effective January 1, 2009, 2008, and 2007, respectively). These increases are generally offset by an equal and corresponding reduction in transition rates. Uncollected transition charges as a result of the reductions in transition rates are deferred and collected through future rates with a carrying charge. The Rate Settlement Agreement implemented a 50%/50% earnings sharing mechanism based on NSTAR Electric's distribution return on equity (excluding incentives) should it exceed 12.5% or fall below 8.5%. Should the return on equity fall below 7.5%, NSTAR Electric may file a request for a general rate increase.

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Wholesale Power Cost Savings Initiatives

The Rate Settlement Agreement encourages NSTAR Electric to continue its efforts to advocate on behalf of customers at the FERC to mitigate wholesale electricity cost inefficiencies that would be borne by regional customers. If NSTAR Electric's efforts to reduce customers' costs are successful, it is allowed to retain a portion of those savings as an incentive, as well as recover related litigation costs. Under the terms of the Rate Settlement Agreement, NSTAR Electric was to share in 25% of the savings applicable to its customers. The recovery of NSTAR Electric's share of benefits is to be collected over three years. As a result of its role in two RMR cases, NSTAR Electric had sought to collect $9.8 million annually for three years and began recognizing and collecting some of these incentive revenues from its customers effective January 1, 2007, subject to final DPU approval. Public hearings were held by the DPU in early 2007 to investigate the basis and support for the incentive payments. After these hearings, NSTAR Electric began discussions with the staff of the newly elected AG and a revised Settlement Agreement was executed on July 23, 2007. This revised Settlement Agreement allowed NSTAR Electric to collect $6.3 million of the savings annually for three years effective January 1, 2007 and it stipulated that NSTAR Electric would share 12.5% of the savings applicable to its customers in its future efforts related to new wholesale energy cost savings cases. On February 29, 2008, the DPU issued an order that did not approve the revised Settlement Agreement. The DPU re-established a procedural schedule and final briefs were filed in early May 2008. Through December 31, 2008, $12.6 million has been collected from customers for the Wholesale Power Cost Savings Initiatives.

NSTAR is unable to predict the timing or ultimate outcome of this proceeding. In the event an adverse decision is issued, it would not have a material impact on the Company's results of operations. However, such a decision could have an impact on future results of operations and cash flows.

DPU Safety and Reliability programs (CPSL)

As part of the 2005 rate settlement, NSTAR Electric is allowed to recover incremental spending for the double pole inspection, replacement/restoration and transfer program and the underground electric safety program, which includes stray-voltage remediation and manhole inspections, repairs, and upgrades. Recovery of these CPSL costs is subject to DPU review and approval. NSTAR Electric incurred incremental costs of $11.1 million and $13.1 million in 2006 and 2007, respectively. This includes incremental operations and maintenance and revenue requirements on capital investments. The final reconciliation of 2006 and 2007 CPSL costs recovery is currently under review by the DPU. The incremental costs for the year 2008 are currently under review by the Company and are estimated to be approximately $15 million. NSTAR anticipates filing with the DPU its final 2008 CPSL cost recovery reconciliation in the second quarter of 2009. NSTAR cannot predict the timing of these pending filings. Should an adverse decision be issued that would disallow CPSL cost recovery, it could have a material adverse impact to NSTAR's results of operations, financial position, and cash flows.

Basic Service Bad Debt Adder

On July 1, 2005, in response to a generic DPU order that required electric utilities in Massachusetts to recover the energy-related portion of bad debt costs in their Basic Service rates, NSTAR Electric increased its Basic Service rates and reduced its distribution rates for those bad debt costs. In furtherance of this generic DPU order, NSTAR Electric included a bad debt cost recovery mechanism as a component of its Rate Settlement Agreement. This recovery mechanism (bad debt adder) allowed NSTAR Electric to recover its Basic Service bad debt costs on a fully reconciling basis. These rates were implemented, effective January 1, 2006, as part of NSTAR Electric's Rate Settlement Agreement.

On February 7, 2007, NSTAR Electric filed its 2006 Basic Service reconciliation with the DPU proposing an adjustment related to the increase of its Basic Service bad debt charge-offs. This proposed rate adjustment was anticipated to be implemented effective July 1, 2007. On June 28, 2007, the DPU issued an order approving the implementation of a revised Basic Service rate. However, the DPU required NSTAR Electric to reduce distribution rates by the increase in its Basic Service bad debt charge-offs. Such action would result in a further

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reduction to distribution rates from the adjustment NSTAR Electric made when it implemented the Settlement Agreement. This adjustment to NSTAR Electric's distribution rates would eliminate the fully reconciling nature of the Basic Service bad debt adder.

NSTAR Electric has not implemented the components of the June 28, 2007 DPU order. Implementation of this order would require NSTAR Electric to write-off a previously recorded regulatory asset related to its Basic Service bad debt costs. NSTAR Electric filed a Motion for Reconsideration of the DPU's order on July 18, 2007. On December 14, 2007, the Motion for Reconsideration was granted and the DPU reopened the case to hear additional evidence. NSTAR Electric filed additional testimony in April 2008, an evidentiary hearing was held, and briefs were filed in June and early July 2008. NSTAR Electric believes its position is appropriate and that it is probable that it will ultimately prevail. However, in the event that it does not, NSTAR Electric intends to pursue all legal options. As of December 31, 2008, the potential impact to earnings of eliminating the bad debt adder would be approximately $17 million, pre-tax. NSTAR cannot predict the timing of this proceeding.

Other

Annually, in the fourth quarter of each year, NSTAR Electric files proposed distribution rate adjustments for effect on January 1 of the following year. These rate adjustments include a SIP rate factor and several other fully reconciling cost recovery items. Consistent with previous reconciliation filings, the 2008 filings include part actual/part forecast data for 2008 that NSTAR Electric will update early in 2009 with year-end data to allow a final investigation and reconciliation. There are several case years that remain outstanding at the DPU. These cases are pending decisions at the DPU and NSTAR cannot predict the timing or the ultimate outcome of these filings.

Wholesale Market and Transmission Changes

Regulatory Proceeding - FERC

On July 9, 2007, FERC approved NSTAR Electric's 2007 proposed consolidated transmission rates as filed on February 14, 2007, subject to refund, pending the conclusion of subsequent proceedings. As a result of these proceedings, NSTAR Electric reached an agreement with the FERC staff, the AG, and a wholesale customer. A final Settlement Agreement was filed on March 12, 2008 and approved by the FERC on June 19, 2008. The implementation of this Settlement Agreement did not have an impact on the Company's results of operations, financial position, or cash flows.

FERC Transmission ROE

Local Transmission Facilities

Effective retroactive to February 1, 2005, the FERC authorized, for the participating New England Transmission Owners, including NSTAR Electric, a base ROE on transmission facilities of 10.4%. This was increased to 11.14% effective on November 1, 2006. NSTAR earns this ROE on all local transmission facility investments.

Regional Transmission Facilities

The FERC also authorized a 50 basis point adder on regional facilities for joining a RTO effective February 1, 2005 (the RTO effective date). NSTAR joined ISO-New England on the RTO effective date, thereby qualifying for the adder. This brings the ROE on NSTAR's regional transmission facilities to 10.9% for the period from February 1, 2005 to October 31, 2006, and 11.64% thereafter. Customers of the ISO-NE participants benefit from this order because it responds to the need to enhance the New England transmission grid to alleviate congestion costs and reliability concerns.

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Additional Incentive Adders

Additional incentive adders are decided on a case by case basis according to FERC's most recent national transmission incentive rules. The FERC may grant a variety of financial incentives, including ROE basis point incentive adders for qualified investments made in new regional transmission facilities. New England projects that were included in ISO-NE's regional system plan and went into service prior to December 31, 2008 qualified for a 100 basis point ROE adder. This 100 basis point adder, when combined with the FERC's approved ROEs described above, results in a 12.64% ROE for qualified regional investments. The incentive is intended to promote and accelerate investment in transmission projects that can significantly reduce congestion costs and enhance reliability in the region. NSTAR's 345 kV Transmission Project, among others, has received this additional incentive adder.

Legal Matters

In the normal course of its business, NSTAR and its subsidiaries are involved in certain legal matters, including civil litigation. Management is unable to fully determine a range of reasonably possible court-ordered damages, settlement amounts, and related litigation costs (legal liabilities) that would be in excess of amounts accrued and amounts covered by insurance. Based on the information currently available, NSTAR does not believe that it is probable that any such legal liabilities will have a material impact on its consolidated financial position. However, it is reasonably possible that additional legal liabilities that may result from changes in circumstances could have a material impact on its results of operations, cash flows or financial condition.

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**Report of Independent Registered Public Accounting Firm**

To Shareholders and Trustees of NSTAR:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of NSTAR and its subsidiaries (the "Company") at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note F to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions in 2007.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

Boston, Massachusetts
February 9, 2009

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

No event that would be described in response to this item 9 has occurred with respect to NSTAR or its subsidiaries.

**Item 9A. Controls and Procedures**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under *Rule 13a-15(e)* promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

NSTAR is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal controls. This results in modifications to its processes throughout the Company. However, there has been no change in its internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Management's Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the *Exchange Act Rules 13a-15(f)*. A system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of management, including the principal executive officer and the principal financial officer, NSTAR management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2008 based on the criteria established in a report entitled "Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission" and the Interpretive Guidance issued by the SEC in Release 34-55929. Based on this evaluation, NSTAR management has evaluated and concluded that NSTAR's internal control over financial reporting was effective as of December 31, 2008.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as of December 31, 2008, as stated in their report which appears on page 89.

**Item 9B. Other Information**

None

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## Part III

The information required by Part III (Items 10(a), 11, 12, 13, and 14) will be included in NSTAR's 2009 Proxy Statement (as specified below) to be filed in connection with the Annual Meeting of Shareholders to be held on April 30, 2009 and is incorporated herein by reference. NSTAR's Proxy Statement will be filed with the Securities and Exchange Commission on or about March 13, 2009.

### Item 10. Trustees, Executive Officers and Corporate Governance

The information with respect to Trustees of NSTAR, information with respect to compliance with the reporting obligations under Section 16(a) of the Exchange Act, information concerning NSTAR's code of ethics applicable to senior management, information on NSTAR's compliance with corporate governance regulations, and information on NSTAR's Board of Trustees' Audit Committee, is incorporated herein by reference from disclosures contained in NSTAR's Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders to be held on April 30, 2009 under the captions *"Information about the NSTAR Board, Nominees and Incumbent Trustees," "Section 16(a) Beneficial Ownership Reporting Compliance,"* and *"Governance of the Company."* Information regarding NSTAR's executive officers found in the section captioned *"Executive Officers of the Registrant"* in Item 4A of Part 1 of this Report is also incorporated herein by reference into this Item 10.

### Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference from disclosures contained in NSTAR's Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders under the caption *"Executive Compensation,"* including NSTAR's *"Compensation Discussion and Analysis"* and *"Executive Personnel Committee Report."*

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding securities authorized for issuance under equity compensation plans located in Item 5, Section (d) of Part II hereof is also incorporated by reference into this Item 12. Other information required by this Item is incorporated herein by reference from disclosures contained in NSTAR's Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders under the captions *"2008 Trustee Compensation," "Beneficial Ownership Table,"* and *"Potential Payments Upon Termination or Change in Control.*"

### Item 13. Certain Relationships and Related Transactions, and Trustee Independence

The information required by this Item is incorporated herein by reference from disclosures contained in NSTAR's Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders under the captions *"Governance of the Company - Board Independence"* and *"NSTAR Policy on Related Persons Transactions."*

### Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference from disclosures contained in NSTAR's Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders under the caption *"Audit and Related Fees."*

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## Part IV

### Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Form 10-K:

1. Financial Statements:


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| Consolidated Statements of Income for the years ended December 31, 2008, 2007, and 2006 | 50 |
| Consolidated Statements of Comprehensive Income for the years ended December 31, 2008, 2007, and 2006 | 51 |
| Consolidated Statements of Retained Earnings for the years ended December 31, 2008, 2007, and 2006 | 51 |
| Consolidated Balance Sheets as of December 31, 2008 and 2007 | 52-53 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007, and 2006 | 54 |
| Notes to Consolidated Financial Statements | 55 |
| Selected Quarterly Consolidated Financial Data (Unaudited) | 18 |
| Report of Independent Registered Public Accounting Firm | 89 |
| 2. Financial Statement Schedules: | |
| Schedule I - Condensed Parent Company Financial Statements For the years ended December 31, 2008, 2007, and 2006 | 97 |
| Schedule II - Valuation and Qualifying Accounts For the years ended December 31, 2008, 2007, and 2006 | 100 |
| 3. Exhibits: | |


Refer to the exhibits listing beginning below.

*Incorporated herein by reference unless designated otherwise:*

**NSTAR and its subsidiaries**

| Exhibit 3 | Articles of Incorporation and By-Laws |
|---|---|
| 3.1 | Declaration of Trust of NSTAR (dated as of April 20, 1999, as amended April 28, 2005) (NSTAR Form 10-Q for the quarter ended June 30, 2005, File No. 001-14768) |
| 3.2 | Bylaws of NSTAR (Annex E to the Joint Proxy Statement/Prospectus, which forms part of the Registration Statement on Form S-4 of NSTAR (File No. 333-78285)) |
| 3.3 | NSTAR Electric Company, f.k.a. Boston Edison Company, Restated Articles of Organization (Form 10-Q for the quarter ended June 30, 1994, File No. 001-02301) |
| 3.4 | NSTAR Electric Company, f.k.a. Boston Edison Company, Bylaws dated April 19, 1977, as amended January 22, 1987, January 28, 1988, May 24, 1988, November 22, 1989, July 22, 1999, September 20, 1999, and January 2, 2007 (Form 10-K for the year ended December 31, 2007, File No. 001-02301) |
| Exhibit 4 | Instruments Defining the Rights of Security Holders, Including Indentures |
| 4.1 | Indenture dated as of January 12, 2000 between NSTAR and Bank One Trust Company N.A. (Exhibit 4.1 to NSTAR Registration Statement on Form S-3, File No. 333-94735) |

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|---|---|
| 4.2 | Votes of the Board of Trustees of NSTAR, dated January 27, 2000, supplementing the Indenture dated as of January 12, 2000 between NSTAR and Bank One Trust Company N. A. (NSTAR Form 10-K for the year ended December 31, 2002, File No. 001-14768) |
| 4.3 | Votes of the Board of Trustees of NSTAR, dated September 28, 2000 supplementing the Indenture dated as of January 12, 2000 between NSTAR and Bank One Trust Company N. A. (NSTAR Form 10-K for the year ended December 31, 2002, File No. 001-14768) |
| 4.4 | Indenture between Boston Edison Company and the Bank of New York (as successor to Bank of Montreal Trust Company)(Form 10-Q for the quarter ended September 30, 1988, File No. 001-02301) |
| 4.5 | Votes of the Pricing Committee of the Board of Directors of Boston Edison Company taken May 10, 1995 re 7.80% debentures due May 15, 2010 (Form 10-K for the year ended December 31, 1995, File No. 001-02301) |
| 4.6 | Votes of the Board of Directors of Boston Edison Company taken October 8, 2002 re $500 million aggregate principal amount of unsecured debentures ($400 million, 4.875% due in 2012 and $100 million, Floating rate due in 2005) (Form 8-K dated October 11, 2002, File No. 001-02301) |
| 4.7 | A Form of 4.875% Debenture Due April 15, 2014 (Boston Edison Company Form 8-K (Exh. 4.3) dated April 15, 2004, File No. 001-02301) |
| 4.8 | A Form of 5.75% Debenture Due March 15, 2036 (Boston Edison Company Form 8-K (Exh. 99.2) dated March 17, 2006, File No. 001-02301) |
| 4.9 | A Form of 5.625% Debenture Due November 15, 2017 (NSTAR Electric Company Form 8-K (Exh. 99.2) dated November 20, 2007, File No. 001-02301) |
| | Management agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any other agreements or instruments of NSTAR and its subsidiaries defining the rights of holders of any non-registered debt whose authorization does not exceed 10% of total assets. |
| Exhibit 10 | Material Contracts |
| | **Management, Executive Officers and Trustees Agreements** |
| 10.1 | NSTAR Excess Benefit Plan, effective August 25, 1999 (NSTAR Form 10-K/A for the year ended December 31, 1999, File No. 001-14768) |
| 10.1.1 | NSTAR Excess Benefit Plan, incorporating the NSTAR 409A Excess Benefit Plan, as amended and restated effective January 1, 2008, dated December 24, 2008 (filed herewith) |
| 10.2 | NSTAR Supplemental Executive Retirement Plan, effective August 25, 1999 (NSTAR Form 10-K/A for the year ended December 31, 1999, File No. 001-14768) |
| 10.2.1 | NSTAR Supplemental Executive Retirement Plan, incorporating the NSTAR 409A Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2008, dated December 24, 2008 (filed herewith) |
| 10.3 | Special Supplemental Executive Retirement Agreement between Boston Edison Company and Thomas J. May dated March 13, 1999, regarding Key Executive Benefit Plan and Supplemental Executive Retirement Plan (NSTAR Form 10-K/A for the year ended December 31, 1999, File No. 001-14768) |
| 10.4 | Executive Retirement Plan Agreement between NSTAR and Werner J. Schweiger dated as of February 25, 2002, regarding Supplemental Executive Retirement Plan (NSTAR Form 10-K for the year ended December 31, 2004, File No. 001-14768) |

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|---|---|
| 10.4.1 | Executive Retirement Plan Agreement, as amended and restated effective January 1, 2008, between NSTAR and Werner J. Schweiger, in connection with Section 409A of the IRS Code of 1986, as amended, dated December 24, 2008 (filed herewith) |
| 10.5 | Amended and Restated Change in Control Agreement by and between NSTAR and Thomas J. May dated November 15, 2007 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.6 | NSTAR Deferred Compensation Plan, (Restated Effective August 25, 1999) (NSTAR Form 10-K/A for the year ended December 31, 1999, File No. 001-14768) |
| 10.6.1 | NSTAR Deferred Compensation Plan, incorporating the NSTAR 409A Deferred Compensation Plan, as amended and restated effective January 1, 2008, dated December 24, 2008 (filed herewith) |
| 10.7 | NSTAR 1997 Share Incentive Plan, as amended June 30, 1999 and assumed by NSTAR effective August 28, 2000 (NSTAR Form 10-K/A for the year ended December 31, 1999, File No. 001-14768) |
| 10.7.1 | NSTAR 1997 Share Incentive Plan, as amended January 24, 2002 (NSTAR Form 10-K for the year ended December 31, 2002, File No. 001-14768) |
| 10.8 | NSTAR 2007 Long Term Incentive Plan, effective May 3, 2007 (NSTAR Form 8-K dated May 3, 2007, File No. 001-14768) |
| 10.8.1 | Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan, by and between NSTAR and Thomas J. May, dated January 24, 2008 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.8.2 | Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan, by and between NSTAR and James J. Judge, dated January 24, 2008 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.8.3 | Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan, by and between NSTAR and Douglas S. Horan, dated January 24, 2008 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.8.4 | Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan, by and between NSTAR and Joseph R. Nolan, Jr., dated January 24, 2008 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.8.5 | Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan, by and between NSTAR and Werner J. Schweiger, dated January 24, 2008 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.8.6 | Deferred Common Share/Dividend Equivalent Award, Stock Option Grant, Option Certificate and Performance Share Award/Dividend Equivalent Award Agreement Under the NSTAR 2007 Long Term Incentive Plan by and between NSTAR and NSTAR's other Senior Vice Presidents and Vice Presidents, dated January 24, 2008 (in form) (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.9 | Amended and Restated Change in Control Agreement by and between James J. Judge and NSTAR, dated November 15, 2007 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |

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| 10.10 | NSTAR Trustees' Deferred Plan (Restated Effective August 25, 1999), dated October 20, 2000 (NSTAR Form 10-Q for the quarter ended September 30, 2000, File No. 001-14768) |
| 10.10.1 | NSTAR Trustees' Deferred Plan, incorporating the 409A Trustees' Deferred Plan, effective January 1, 2008, dated December 24, 2008 (filed herewith) |
| 10.11 | Master Trust Agreement between NSTAR and State Street Bank and Trust Company (Rabbi Trust), effective August 25, 1999 (NSTAR Form 10-Q for the quarter ended September 30, 2000, File No. 001-14768) |
| 10.12 | Amended and Restated Change in Control Agreement by and between Douglas S. Horan and NSTAR, dated November 15, 2007 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.13 | Amended and Restated Change in Control Agreement by and between Joseph R. Nolan, Jr. and NSTAR, dated November 15, 2007 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.14 | Amended and Restated Change in Control Agreement by and between Werner J. Schweiger and NSTAR, dated November 15, 2007 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.15 | Amended and Restated Change in Control Agreement by and between NSTAR's other Senior Vice Presidents and NSTAR (in form), dated November 15, 2007 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.16 | Amended and Restated Change in Control Agreement between NSTAR's Vice Presidents and NSTAR (in form), dated November 15, 2007 (NSTAR Form 10-K for the year ended December 31, 2007, File No. 001-14768) |
| 10.17 | Amended and Restated NSTAR Annual Incentive Plan as of January 1, 2003 (NSTAR Form 10-K for the year ended December 31, 2004, File No. 001-14768) |
| | **Power Purchase Agreements** |
| 10.18 | Amended and Restated Power Purchase Agreement (NEA A PPA), dated August 19, 2004, by and between NSTAR Electric and Northeast Energy Associates L.P. (NSTAR Form 10-K for the year ended December 31, 2005, File No. 001-14768) |
| 10.19 | Amended and Restated Power Purchase Agreement (NEA B PPA), dated August 19, 2004, by and between NSTAR Electric and Northeast Energy Associates L.P. (NSTAR Form 10-K for the year ended December 31, 2005, File No. 001-14768) |
| 10.20 | Amended and Restated Power Purchase Agreement (CECO 1 PPA), dated August 19, 2004, by and between NSTAR Electric and Northeast Energy Associates L.P. (NSTAR Form 10-K for the year ended December 31, 2005, File No. 001-14768) |
| 10.21 | Amended and Restated Power Purchase Agreement (CECO 2 PPA), dated August 19, 2004, by and between NSTAR Electric and Northeast Energy Associates L.P. (NSTAR Form 10-K for the year ended December 31, 2005, File No. 001-14768) |
| 10.22 | The Bellingham Execution Agreement, dated August 19, 2004 between NSTAR Electric and Northeast Energy Associates L.P. (NSTAR Form 10-K for the year ended December 31, 2005, File No. 001-14768) |
| 10.23 | Purchase and Sale Agreement, dated June 23, 2004, between NSTAR Electric and Transcanada Energy Ltd. (Ocean State Power Contract) (NSTAR Form 10-K for the year ended December 31, 2005, File No. 001-14768) |

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| | |
|---|---|
| | **Transmission Agreements** |
| 10.24 | Second Restated NEPOOL Agreement among NSTAR Electric and various other electric utilities operating in New England, dated August 16, 2004 (NSTAR Form 10-K for the year ended December 31, 2005, File No. 001-14768) |
| 10.25 | Transmission Operating Agreement among NSTAR Electric and various other electric transmission providers in New England and ISO New England Inc., dated February 1, 2005 (NSTAR Form 10-K for the year ended December 31, 2005, File No. 001-14768) |
| 10.26 | Market Participants Service Agreement among NSTAR Electric, various other electric utilities operating in New England, NEPOOL and ISO New England Inc., dated February 1, 2005 (NSTAR Form 10-K for the year ended December 31, 2005, File No. 001-14768) |
| 10.27 | Rate Design and Funds Disbursement Agreement among NSTAR Electric and various other electric transmission providers in New England, dated February 1, 2005 (NSTAR Form 10-K for the year ended December 31, 2005, File No. 001-14768) |
| 10.28 | Participants Agreement among NSTAR Electric, various other electric utilities operating in New England, NEPOOL and ISO New England Inc., dated February 1, 2005 (NSTAR Form 10-K for the year ended December 31, 2006, File No. 001-14768) |
| Exhibit 21 | Subsidiaries of the Registrant |
| 21.1 | (filed herewith) |
| Exhibit 23 | Consent of Independent Registered Public Accounting Firm |
| 23.1 | (filed herewith) |
| Exhibit 31 | Rule 13a-15/15d-15(e) Certifications |
| 31.1 | Certification Statement of Chief Executive Officer of NSTAR pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.2 | Certification Statement of Chief Financial Officer of NSTAR pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| Exhibit 32 | Section 1350 Certifications |
| 32.1 | Certification Statement of Chief Executive Officer of NSTAR pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.2 | Certification Statement of Chief Financial Officer of NSTAR pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| Exhibit 99 | Additional Exhibits |
| 99.1 | Annual Reports on Form 11-K for certain employee savings plans for the years ended December 31, 2007, 2006, 2005, 2004 and 2003, as dated June 25, 2008, June 25, 2007, June 27, 2006, June 28, 2005, and June 25, 2004, respectively, (File No. 001-14768) |
| 99.2 | MDTE Order approving Rate Settlement Agreement dated December 31, 2005 (NSTAR Form 8-K for the event reported December 30, 2005, dated January 4, 2006, File No. 001-14768) |

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**SCHEDULE I**

**CONDENSED PARENT COMPANY FINANCIAL STATEMENTS**

**NSTAR (Holding Company)**
**Condensed Balance Sheets**

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | (in thousands) | |
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 399 | $ 825 |
| Notes receivable - subsidiary companies | 93,350 | 1,300 |
| Other | 6,214 | 4,086 |
| **Other assets:** | | |
| Receivable - subsidiary companies | 86,579 | 87,130 |
| Investment in subsidiaries | 2,315,369 | 2,142,919 |
| Other investments | 18,090 | 25,140 |
| Accumulated deferred income taxes | 4,906 | 5,184 |
| Other deferred debits | 793 | 1,272 |
| **Total assets** | $ 2,525,700 | $ 2,267,856 |
| **Capitalization and Liabilities** | | |
| **Current liabilities:** | | |
| Notes payable | $ 175,000 | $ 4,000 |
| Accrued interest | 15,563 | 15,563 |
| Dividends payable | 40,053 | 37,383 |
| Other | 181 | 46 |
| **Other liabilities:** | | |
| Long-term debt | 499,754 | 499,536 |
| Other deferred credits | 6,994 | 7,513 |
| **Common Equity:** | | |
| Common shares | 106,808 | 106,808 |
| Premium on common shares | 818,601 | 818,674 |
| Retained earnings | 876,271 | 790,926 |
| Accumulated other comprehensive loss | (13,525) | (12,593) |
| **Total capitalization and liabilities** | $ 2,525,700 | $ 2,267,856 |

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

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**NSTAR (Holding Company)**
**Condensed Statements of Income and Comprehensive Income**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | | (in thousands) | |
| Operating expenses | | | |
| Administrative, general and other | $ 4,354 | $ 4,242 | $ 4,114 |
| Operating loss | (4,354) | (4,242) | (4,114) |
| Other income (deductions) | 2,247 | 691 | 2,317 |
| Earnings from investments in subsidiaries | 264,102 | 250,750 | 237,197 |
| Interest expense | (44,214) | (46,561) | (49,833) |
| Income before income taxes | 217,781 | 200,638 | 185,567 |
| Income tax benefits | 19,766 | 20,877 | 21,207 |
| Net income | 237,547 | 221,515 | 206,774 |
| Other comprehensive income, net: | | | |
| Pension and postretirement costs | (1,585) | (867) | (725) |
| Deferred income taxes benefit | 653 | 292 | 284 |
| Comprehensive income | $ 236,615 | $ 220,940 | $ 206,333 |

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

**NSTAR (Holding Company)**
**Condensed Statements of Cash Flows**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | | (in thousands) | |
| **Cash flows from operating activities:** | | | |
| Net cash provided by operating activities | $ 70,866 | $ 198,174 | $ 141,369 |
| **Cash flows from investing activities:** | | | |
| Net change in notes receivable | (92,050) | 600 | 12,050 |
| Investments | 5,285 | (469) | 1,017 |
| Net cash (used in) provided by investing activities | (86,765) | 131 | 13,067 |
| **Cash flows from financing activities:** | | | |
| Net change in notes payable | 171,000 | (49,500) | (12,500) |
| Dividends paid | (149,532) | (138,851) | (129,239) |
| Cash received for exercise of equity options | 4,846 | 10,948 | 17,383 |
| Cash used to settle equity compensation | (11,585) | (23,247) | (33,488) |
| Windfall tax effect of settlement of equity compensation | 744 | 2,538 | 3,961 |
| Net cash provided by (used in) financing activities | 15,473 | (198,112) | (153,883) |
| Net (decrease) increase in cash and cash equivalents | (426) | 193 | 553 |
| Cash and cash equivalents at the beginning of the year | 825 | 632 | 79 |
| Cash and cash equivalents at the end of the year | $ 399 | $ 825 | $ 632 |

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

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**NSTAR (Holding Company)**
**Notes to Condensed Financial Statements**

1. Basis of Presentation

NSTAR (Holding Company) on a stand alone basis has accounted for its wholly-owned subsidiaries using the equity method basis of accounting. These financial statements are presented on a condensed basis. Additional disclosures relating to the Holding Company financial statements are included under the accompanying NSTAR Notes to Consolidated Financial Statements, and are incorporated herein by reference.

2. Use of Estimates

The preparation of condensed financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from these estimates.

3. Notes Payable

NSTAR (Holding Company) currently has a $175 million revolving credit agreement that expires December 31, 2012. At December 31, 2008 and 2007, there were no amounts outstanding under the revolving credit agreement. This credit facility serves as a back up to NSTAR's $175 million commercial paper program that, at December 31, 2008 and 2007, had $175 million and $4 million outstanding, respectively. Under the terms of the credit agreement, NSTAR is required to maintain a maximum total consolidated debt to total capitalization ratio and was in compliance with this ratio at December 31, 2008 and 2007. Commitment fees must be paid on the total agreement amount.

4. Long-Term Debt

NSTAR (Holding Company) had $500 million of 8% Notes outstanding as of December 31, 2008 and 2007. These Notes will mature and are due in February 2010.

Refer to Note J of the NSTAR Consolidated Financial Statements for a description and details of the Holding Company long-term debt.

5. Equity Transactions

NSTAR (Holding Company) received $85.6 million, $208.3 million, and $125.2 million of cash dividends from subsidiaries during 2008, 2007, and 2006, respectively. NSTAR also received returned capital of $5.7 million, $3.9 million, and $5.6 million from subsidiaries during 2008, 2007, and 2006, respectively.

6. Commitments, Contingencies and Guarantees

Refer to Note N of the NSTAR Consolidated Financial Statements for a description of any material commitments, contingencies or guarantees of the Holding Company.

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**SCHEDULE II**

**VALUATION AND QUALIFYING ACCOUNTS**

**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 and 2006**

**(in thousands)**

| | | Additions | | | |
|---|---|---|---|---|---|
| **Description** | **Balance at Beginning of Year** | **Provisions Charged to Operations** | **Recoveries** | **Deductions Accounts Written Off** | **Balance At End of Year** |
| **Allowance for Doubtful Accounts** | | | | | |
| Year Ended December 31, 2008 | $ 29,426 | $ 37,074 | $ 4,442 | $ 38,083 | $ 32,859 |
| Year Ended December 31, 2007 | $ 27,240 | $ 36,490 | $ 4,780 | $ 39,084 | $ 29,426 |
| Year Ended December 31, 2006 | $ 24,504 | $ 31,552 | $ 7,277 | $ 36,093 | $ 27,240 |

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | | |
|---|---|---|
| | | **NSTAR** |
| | | **(Registrant)** |
| Date: February 9, 2009 | By: | /s/ R. J. WEAFER, JR. |
| | | **Robert J. Weafer, Jr.** |
| | | **Vice President, Controller and** |
| | | **Chief Accounting Officer** |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of the 9th day of February 2009.

| Signature | Title |
|---|---|
| /s/ THOMAS J. MAY<br>**Thomas J. May** | Chairman, President, Chief Executive Officer and Trustee |
| /s/ JAMES J. JUDGE<br>**James J. Judge** | Senior Vice President, Treasurer and Chief Financial Officer |
| /s/ G. L. COUNTRYMAN<br>**Gary L. Countryman** | Trustee |
| /s/ DANIEL DENNIS<br>**Daniel Dennis** | Trustee |
| /s/ THOMAS G. DIGNAN, JR.<br>**Thomas G. Dignan, Jr.** | Trustee |
| /s/ CHARLES K. GIFFORD<br>**Charles K. Gifford** | Trustee |
| /s/ MATINA S. HORNER<br>**Matina S. Horner** | Trustee |
| /s/ PAUL LA CAMERA<br>**Paul A. La Camera** | Trustee |
| /s/ SHERRY H. PENNEY<br>**Sherry H. Penney** | Trustee |
| /s/ WILLIAM C. VAN FAASEN<br>**William C. Van Faasen** | Trustee |
| /s/ G. L. WILSON<br>**Gerald L. Wilson** | Trustee |

Exhibit 10.1.1

# NSTAR EXCESS BENEFIT PLAN

**(Amended and Restated Effective January 1, 2008)**

## INTRODUCTION

The NSTAR Excess Benefit Plan (the "Plan") is maintained by NSTAR (the "Company") for the benefit of certain members of the NSTAR Pension Plan, as amended from time to time (the "Pension Plan") described below (the "Participants"), and their beneficiaries. The Plan consists of two parts: Part A, which is the NSTAR 409A Excess Benefit Plan (the "409A Plan"), and Part B, which is the NSTAR Excess Benefit Plan as in effect on October 3, 2004 (the "Grandfathered Plan"). The effective date of this restated Plan is January 1, 2008.

The 409A Plan is intended to comply with the requirements of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and guidance issued thereunder and shall be interpreted and administered in a manner consistent with such requirements. For the avoidance of doubt, the terms of the 409A Plan shall apply to benefits accrued on or after January 1, 2005 and benefits accrued but not vested as of December 31, 2004 under the Grandfathered Plan.

All benefits accrued and vested as of December 31, 2004 (the "Grandfathered Benefit Amount") shall be grandfathered for purposes of Code section 409A and shall be governed by the Grandfathered Plan. The Grandfathered Plan is frozen as of December 31, 2004. No additional benefit shall thereafter accrue under the Grandfathered Plan after December 31, 2004 and no individual not a Participant as of December 31, 2004 shall thereafter become a Participant in the Grandfathered Plan. The Grandfathered Plan has not been amended or modified in any way since October 3, 2004, and a copy of the Grandfathered Plan as it was in effect on October 3, 2004 is attached as Part B. Also attached is an Appendix to the Grandfathered Plan (Part B) which memorializes the methodology for calculating, in accordance with applicable provisions of the Grandfathered Plan, the Grandfathered Benefit Amount credited to each Participant under the Grandfathered Plan.

**PART A**

**NSTAR 409A EXCESS BENEFIT PLAN**

**ARTICLE I**

The purpose of the 409A Plan is to provide retirement benefits with respect to those Participants who retire or have retired under the Pension Plan and whose Pension Plan benefits are, or will be, restricted by (i) the limitations imposed under section 415 of the Code, or (ii) the limitations imposed under Section 401(a)(17) of the Code. For purposes of this 409A Plan, the limitations described in the preceding sentence (the "Limitations") shall be deemed to include the corresponding limitations set forth in, or applicable under, the terms of the Pension Plan.

With respect to those Participants whose Pension Plan benefits are, or will be, restricted by the limitations imposed under section 415 of the Code, the 409A Plan is intended to be an "excess benefit plan" within the meaning of section 3(36) of the Employee Retirement Income Security Act of 1974, as amended from time to time ("ERISA"), and shall be administered in a manner consistent with that intent. With respect to those Participants whose Pension Plan benefits are, or will be, restricted by the limitations imposed under section 401(a)(17) of the Code, the 409A Plan is intended to be "a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3) and 401(a)(3) of ERISA, and shall be administered in a manner consistent with that intent.

Nothing in the 409A Plan shall be deemed to require the setting aside of any assets, in trust or otherwise, for the payment of 409A Plan benefits. Interests in the 409A Plan are non-assignable, and are not subject to alienation, anticipation, garnishment, attachment or any other legal process. A Participant's or beneficiary's rights to benefits under the 409A Plan shall be no greater than the rights of a general, unsecured creditor of the Company or its affiliates. However, the Company or any of its affiliates may

establish one or more trusts of which the Company or its affiliates is treated as the owner under Subpart E, Part I, of Subchapter J, Chapter 1 Subtitle A of the Code (a "grantor trust"), and may from time to time deposit funds with the Trustee of such grantor trust or trusts to facilitate payment of benefits under the 409A Plan. In the event the Company or any of its affiliates establishes such a grantor trust or trusts with respect to the 409A Plan and at the time of a Change of Control (as defined in Appendix A attached hereto) any such trust (i) has not been terminated or revoked and (ii) is not "fully funded" (as determined in its sole discretion by a majority of the individuals who were members of the Executive Personnel Committee as defined in the Pension Plan (the "EPC") immediately prior to such Change of Control), the Company or its affiliate shall within ten days of such Change of Control deposit in such grantor trust or trusts assets sufficient to cause the trust or trusts to be "fully funded" (as determined in its sole discretion by the majority of the individuals who were members of the EPC immediately prior to such Change of Control).

Nothing in this Plan shall give any Participant any right to be employed or to continue employment by the Company or its affiliates.

## ARTICLE II

Benefits

2.1 **Amount of Benefit**. Each Participant in the 409A Plan, or the surviving beneficiary of a deceased Participant, shall be entitled to a benefit, payable in accordance with Article III below, which is expressed as a single sum equal to the excess (if any) of: (a) minus (b), over (c), where

(a) is the Participant's or surviving beneficiary's single sum benefit under the Pension Plan, computed under the provisions of the Pension Plan without regard to the Limitations,

(b) is the Participant's or surviving beneficiary's single sum benefit under the Pension Plan, computed taking into account the Limitations, and

(c) is the single sum amount of the Participant's benefit under the Grandfathered Plan (if any).

2.2 **Adjustment Through the Payment Date**. The single sum benefit described in Section 2.1 above shall be increased with interest, as provided under the Crediting of Interest section of the Pension Plan, from the first day of the month following the month in which the applicable payment event described in Section 3.2 occurs, until the date payments commence in accordance with Section 3.2 below. If the form of payment elected by the Participant in accordance with Section 3.1(a) below is other than a single sum, the benefit payable in the elected form shall be calculated based on the single sum as of the date on which payments commence, in accordance with the provisions of the Pension Plan.

## ARTICLE III

Payment of Benefits

3.1 **Form of Payment**

(a) Participants as of December 31, 2007.

(i) With respect to any individual who is a Participant in the 409A Plan as of December 31, 2007, benefits payable under this 409A Plan shall be paid in the form selected by the Participant from among the forms offered by the Pension Plan. Such election shall be made in writing, on such form as the Company may require, prior to December 31, 2008, in a manner consistent with transition guidance under Code section 409A, and shall be available to Participants whose distribution date or dates would fall after December 31, 2008.

(ii) A Participant described in this Section 3.1(a) who has elected a life annuity form of distribution as defined in Treas. Reg. §1.409A-2(b)(2)(ii) may, at any time before any annuity payment has been made, elect to change such form of distribution to an actuarially equivalent life annuity of another type in accordance with Treas. Reg. §1.409A-2(b)(2)(ii).

(iii) A Participant described in this Section 3.1(a) may elect to change his or her election as to the form of distribution again after December 31, 2008, provided that: (a) the Participant has not previously made an election change under this Section 3.1(a)(iii); (b) such election change will not take effect until 12 months after the date on which the election change is made, (c) a Participant is an employee of the Company or its affiliates on the date such election is made; and (d) payment will be deferred for a period of five years from the date such payment would otherwise be made, in accordance with Treas. Reg. §1.409A-2(b)(1).

All elections under this Section 3.1(a) shall be made in accordance with rules and procedures established by the EPC.

(b) Participants After December 31, 2007.

With respect to any Participant who becomes a Participant on or after January 1, 2008, benefits payable under the 409A Plan shall be paid in a single sum.

3.2 **Timing of Payment**

(a) Separation from Service.

(i) Benefits paid on account of the Participant's Separation from Service shall be paid (or commence to be paid) on the first day of the seventh month following the date on which the Participant's Separation from Service occurs. However, if a Participant has made a subsequent change to his or her elected form of payment after December 31, 2008 pursuant to Section 3.1(a)(iii) above, payment shall commence on the five year anniversary of the date on which such payment would otherwise be made, in accordance with Treas. Reg. §1.409A-2(b)(1).

(ii) For purposes of this 409A Plan, the Participant's "Separation from Service" means a separation from service with the Company and its affiliates within the meaning of Treas. Reg. §1.409A-1(h). A Participant on medical leave for a period of more than twenty nine (29) months shall be deemed to have a Separation from Service on the day following the end of the 29th month of medical leave. For purposes of this paragraph, a medical leave is a leave of absence due to a medically determined physical or mental impairment that can be expected to result in death or to last for a continuous period of at least six months, where such impairment causes the employee to be unable to perform the duties of his or her position of employment or any substantially similar position of employment.

(b) Death.

(i) Pre-Retirement Death Benefit. If the Participant dies before his or her Separation from Service, benefits will be paid (or commence to be paid) in the applicable form under Section 3.1 as soon as reasonably practicable after the Participant's death, but in all events within 90 days after the Participant's death. For the avoidance of doubt, if such 90-day period ends in the taxable year following the taxable year in which the Participant's death occurs, neither the Participant nor any beneficiary shall have the right to designate the taxable year in which the benefits will be distributed.

(ii) Post-Retirement Death Benefit. If the Participant dies after Separation from Service but before payments commence under Section 3.2(a) above, his or her beneficiary will be entitled to receive the benefit (if any) that such beneficiary would have received if the Participant had commenced receiving benefits under the 409A Plan immediately prior to his or her death in the form elected under Section 3.1 above; provided, however, that if the Participant's benefits are payable in a single sum, then the beneficiary shall receive the single sum that would otherwise have been payable to the Participant, on the date that the Participant would have received such payment under Section 3.2(a) above. For the avoidance of doubt, no benefits will be payable pursuant to this Section 3.2(b)(ii) if the form of payment elected under Section 3.1 was a straight life annuity.

(iii) Beneficiary. For purposes of this Article III, "beneficiary" shall mean the beneficiary designated by the Participant pursuant to such forms and procedures as may be required by the EPC. In the absence of a beneficiary designation hereunder, the term "beneficiary" shall mean the Participant's beneficiary determined pursuant to the NSTAR Pension Plan.

## ARTICLE IV

Administration; Claims

The 409A Plan shall be administered and construed by the EPC in its sole discretion. The EPC may delegate administrative tasks under the 409A Plan to employees of the Company or its affiliates or others. Claims for benefits hereunder, and appeals from the denial of any such claim, shall be subject to the same procedures as those which apply to claims for benefits under the Pension Plan, except that references to the "Committee" shall be deemed to refer to the EPC.

## ARTICLE V

Amendment and Termination

The 409A Plan may be amended or terminated at any time and in any respect by the Company or the EPC; provided, however that the 409A Plan shall only be terminated to the extent, and in a manner, permitted by Code section 409A. No amendment or termination shall reduce or otherwise adversely affect the rights of any Participant or his or her beneficiary to benefits accrued under the 409A Plan immediately prior to such amendment or termination without his or her prior written consent, and no amendment or termination following a Change of Control shall eliminate or reduce the Company's or its affiliates' obligations to deposit assets in the grantor trust as described in Article I. Furthermore, following a Change of Control, this Article V may not be amended.

## ARTICLE VI

Governing Law

The 409A Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts, to the extent such laws are not preempted by ERISA.

Appendix A

"Change of Control"

For the purposes of this 409A Plan, a "Change of Control" shall mean:

a. The acquisition by any Person (or more than one Person acting as a group) of ultimate beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of (i) more than 50% of the then outstanding common shares (or shares of common stock) of the Parent (the "Outstanding Parent Common Shares") or (ii) 30% or more of the combined voting power of the then outstanding voting securities of the Parent entitled to vote generally in the election of trustees (or directors) (the "Outstanding Parent Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Parent, (ii) any acquisition by the Parent or an affiliate of the Parent, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Parent, the Company or any affiliates of the Parent or (iv) any acquisition by any Person pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Appendix A; or

b. Individuals who, as of the date hereof, constitute the Board of Trustees of the Parent (the "Incumbent Board") cease for any reason to constitute at least a majority of such board; provided, however, that any individual becoming a trustee (or director) subsequent to the date hereof whose election, or nomination for election by the Parent's shareholders, was approved by a vote of at least a majority of the trustees (or directors) then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of trustees (or directors) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than such board; or

c. Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Parent (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Parent Common Shares and Outstanding Parent Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, immediately following such Business Combination 50% or more of, respectively, the then outstanding common shares (or shares of common stock) and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of trustees (or directors), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Parent or all or substantially all of the Parent's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Parent Common Shares and Outstanding Parent Voting Securities, as the case may be, (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Parent or the Company or such entity resulting from such Business Combination) ultimately beneficially owns, directly or indirectly, more than 50% of, respectively, the then outstanding common shares or shares of common stock of the entity resulting from such Business Combination or 30% or more of the combined voting power of the then outstanding voting securities of such entity except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of trustees (or board of directors) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Trustees of the Parent, providing for such Business Combination; or

d. Approval by the shareholders of the Parent of a complete liquidation or dissolution of the Parent.

For purposes of this Appendix A, the term "Parent" shall mean NSTAR, or, if any entity shall own, directly or indirectly through one or more subsidiaries, more than 50% of the outstanding common shares of NSTAR, such entity, and (ii) the term "Person" shall mean any individual, corporation, partnership, company, limited liability company, trust or other entity, which term shall include a "group" within the meaning of Section 13(d) of the Securities Act of 1934, as amended.

**PART B**

**NSTAR EXCESS BENEFIT PLAN as in effect on OCTOBER 3, 2004**

Appendix B

"Grandfathered Benefit Amount"

The Grandfathered Benefit Amount shall be determined in accordance with the terms of the Grandfathered Plan as in effect on October 3, 2004. This Appendix B is intended to memorialize the methodology for calculating the Grandfathered Benefit Amount. Subject to the foregoing, the Grandfathered Benefit Amount shall be calculated as follows, with reference to the following Table I:

1. 409A Grandfathered Annuity (annual amount): the amount in Table I Column 2.
2. 409A Grandfathered Lump Sum: the amount in Table I Column 1.

Appendix B

Table I

| Participant Name[1] | 12/31/04 Accrued/Vested Lump Sum Benefit Excess Plan *Column 1* | 12/31/04 Accrued/Vested Annuity Benefit[2] Excess Plan *Column 2* |
|---|---|---|
| Thomas J. May | $ 4,459,730 | $ 444,037 |
| James J. Judge | 598,911 | 37,595 |
| Douglas S. Horan | 960,821 | 98,745 |
| Joseph R. Nolan Jr. | 310,963 | 18,111 |
| Ellen K. Angley | 74,493 | 4,512 |
| Paul D. Vaitkus | 164,705 | 10,554 |
| Geoffrey O. Lubbock | 146,341 | 14,385 |
| Philip J. Lembo | 21,906 | 1,375 |
| Neven Rabadjija | 25,014 | 1,603 |
| Richard J. Morrison | 23,331 | 1,527 |

(1) Table includes only those participants with an accrued benefit in the Excess Benefit Plan as of December 31, 2004.

(2) Determined by converting the amounts in Column 1, to an annual single-life annuity using the NSTAR Pension Plan annuity conversion factors as in effect at 12/31/04 for a benefit commencing 12/31/04.

IN WITNESS WHEREOF, the Company has caused this Plan to be executed by its duly authorized officer this 24th day of December, 2008.

NSTAR
By: /s/ THOMAS J. MAY

Exhibit 10.2.1

**NSTAR**
**SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**
**(Amended and Restated Effective January 1, 2008)**

## INTRODUCTION

The NSTAR Supplemental Executive Retirement Plan (the "Plan") is maintained by NSTAR (the "Company") for the benefit of certain key executive employees of NSTAR and its affiliates through supplemental retirement payments. The Plan consists of two parts: Part A, which is the NSTAR 409A Supplemental Executive Retirement Plan (the "409A Plan"), and Part B, which is the NSTAR Supplemental Executive Retirement Plan as restated effective August 25, 1999 and as in effect on October 3, 2004 (the "Grandfathered Plan"). The benefits payable under the Plan shall consist of the accrued benefits calculated in accordance with the terms of the 409A Plan, together with and in addition to the accrued benefits, calculated as of December 31, 2004, in accordance with the terms of the Grandfathered Plan. The effective date of this restated Plan is January 1, 2008.

The 409A Plan is intended to comply with the requirements of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and guidance issued thereunder and shall be interpreted and administered in a manner consistent with such requirements. For the avoidance of doubt, the terms of the 409A Plan shall apply to benefits accrued on or after January 1, 2005 and benefits accrued but not vested as of December 31, 2004 under the Grandfathered Plan. The terms of the 409A Plan are set forth as Part A.

All benefits accrued and vested as of December 31, 2004 (the "Grandfathered Benefit Amount") shall be grandfathered for purposes of Code section 409A and shall be governed by the NSTAR Supplemental Executive Retirement Plan as it was in effect on October 3, 2004. The Grandfathered Plan is frozen as of December 31, 2004. No additional benefit shall accrue under the Grandfathered Plan after December 31, 2004 and no individual not a Participant as of December 31, 2004 shall thereafter become a Participant in the Grandfathered Plan. The Grandfathered Plan has not been amended or modified in any way since October 3, 2004, and a copy of the Grandfathered Plan as it was in effect on October 3, 2004 is attached as Part B. Also attached is an Appendix to the Grandfathered Plan (Part B) which memorializes the methodology for calculating, in accordance with applicable provisions of the Grandfathered Plan, the Grandfathered Benefit Amount credited to each Participant under the Grandfathered Plan.

**PART A**

**NSTAR 409A SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

**SECTION 1. ADMINISTRATION**

The Executive Personnel Committee (the "EPC") and the Retirement Committee (the "RC"), each as defined in the NSTAR Pension Plan, will be responsible under the 409A Plan for carrying out their respective administrative and other duties as set forth in the 409A Plan. In addition, the EPC has the full discretionary power and authority to interpret the 409A Plan, settle all disputes which may arise in connection with the 409A Plan, and establish any claims procedures required by the Employee Retirement Income Security Act of 1974, as amended from time to time ("ERISA"). The decisions, interpretations and determinations made by the EPC or the RC relating to the 409A Plan will be final and conclusive on all persons.

The Company agrees to indemnify and to defend to the fullest possible extent permitted by law any member of the EPC and the RC (including any person who formerly served as a member of the EPC or the RC) against all liabilities, damages, costs and expenses (including attorneys' fees and amounts paid in settlement of any claims approved by the Company) occasioned by any act or omission to act in connection with the 409A Plan.

**SECTION 2. PARTICIPANTS**

Participants in the 409A Plan will be those key executive employees of the Company and its affiliates selected from time to time by the EPC to participate in Plan benefits.

**SECTION 3. BENEFITS**

**(a) Full Benefit**. Each Participant who attains his or her Full Benefit Age (as hereinafter defined) while an employee of the Company or its affiliates and who thereafter has a Separation from Service will receive a benefit calculated as of the first day of the month following such Separation from Service, expressed as an annual single life annuity benefit, equal to the excess (if any) of (A) over (B), minus (C), where:

(A) is the excess of (i) 60% of his or her Highest Average Total Compensation ( as hereinafter defined), over (ii) 50% of the Participant's Primary Social Security Benefit (as hereinafter defined), which excess is then multiplied by a fraction the numerator of which is his or her Full Years of Continuous Service (as hereinafter defined) at the time of his or her Separation from Service (which in no event shall exceed 20) and the denominator of which is 20;

(B) is the sum of the annual single life annuity benefits which the Participant would be entitled to receive as of the first day of the month following such Separation from Service from the NSTAR Pension Plan (as from time to time amended) and the NSTAR Excess Benefit Plan (as from time to time amended) (the "Excess Plan"), irrespective of the actual time and form of payment of the benefits from such Plans; and

(C) is the annual single life annuity benefit, if any, which the Participant would be entitled to receive as of the first day of the month following such Separation from Service from the Grandfathered Plan, irrespective of the actual time and form of payment of the Grandfathered Benefit Amount.

**(b) Reduced Benefit.** Each Participant who attains age 55 while an employee of the Company or its affiliates, who completes five Full Years of Continuous Service and who thereafter has a Separation from Service prior to his Full Benefit Age will receive a reduced benefit expressed as an annual single life annuity benefit calculated as of the first day of the month following such Separation from Service, in the same manner as described in Section 3(a) above for a full benefit, except that for purposes of Section 3(a), the amount in (A) above shall be reduced by a percentage equal to .41666% multiplied by the aggregate number of months between the Participant's Separation from Service and his or her Full Benefit Age. A Participant who has not attained age 55 or who has not completed five Full Years of Continuous Service, but who has entered into a change in control agreement with the Company and whose age plus the number of any additional years of service credited to him under said change in control agreement for purposes of the 409A Plan is 50 or more, will be considered to have an accrued benefit under the 409A Plan for purposes of said change in control agreement, based upon his or her number of Full Years of Continuous Service and calculated and reduced as of his or her Separation from Service in the same manner as described in the preceding provisions of this Section 3(b).

**(c) Form of Benefits.**

**(i)** **Participants in the Excess Plan**. With respect to any individual who is a Participant in the Excess Plan, the annual benefit, expressed as a single life annuity, payable to such Participant under Section 3(a) or 3(b) above will be paid in the same form of payment as is elected by the Participant pursuant to the Excess Plan and, with respect to a Participant who elects an optional form of annuity, determined pursuant to the Excess Plan.

**(ii)** **Participants Not in the Excess Plan**. With respect to any individual who is not a Participant in the Excess Plan, the annual benefit, expressed as a single life annuity, payable to such Participant under Section 3(a) or (b) above will be paid as a Single Sum.

**(d) Timing of Payment.**

**(i)** **Participants in the Excess Plan**. With respect to any individual who is a Participant in the Excess Plan, the benefit payable under 3(a) or 3(b) above shall be paid at the same time as the benefit under the Excess Plan.

**(ii)** **Participants Not in the Excess Plan**. With respect to any individual who is not a Participant in the Excess Plan, the benefit payable under Section 3(a) or (b) above will be paid on the first day of the seventh calendar month after the date of the Participant's Separation from Service.

**(iii)** **Adjustment for Delayed Payment**. The benefit described in Section 3(a) or (b) above is calculated as of the first day of the month following Separation from Service. The Single Sum form of payment shall be increased with interest to the delayed payment date. For forms of payment other than Single Sum, the missed monthly payments shall be accumulated with interest and paid in a single sum at the payment date. For all purposes, interest is determined using the interest rate defined by the RC for use in determining the actuarial equivalent lump sum value.

**(e) Benefit Definitions.** For purposes of the 409A Plan, the following terms have the following meanings:

**(1) Highest Average Total Compensation** means the average of the Participant's Total Compensation (as hereinafter defined) for the 36 consecutive months in which the Participant had the highest Total Compensation.

**(2) Single Sum** means a single payment amount determined pursuant to Section 3(a) or (b) above (as applicable) but using the actuarial equivalent lump sum value of each of the amounts described in Section 3(a)(A), (B) and (C), as set forth in Appendix A.

**(3) Full Benefit Age** means, for each Participant, age 62 or such other age as the EPC has determined in writing with respect to that Participant.

**(4) Primary Social Security Benefit** means the "Primary Social Security Benefit," as defined under the NSTAR Pension Plan (as from time to time amended), as determined by the RC.

**(5) Total Compensation** means, for any calendar month, the Participant's base compensation and annual bonus payments paid to the Participant during such calendar month by the Company or its affiliate, plus any amounts that would have been paid to the Participant during the calendar month by the Company or its affiliate as base compensation or annual bonus but for a salary reduction agreement in effect during such month under the NSTAR Deferred Compensation Plan, as from time to time amended, or pursuant to Sections 125 or 401(k) of the Code.

**(6) Spousal Joint and Survivor Annuity** means, for purposes of determining death benefits under Section 4, an annuity of actuarial equivalent value to a single life annuity (as determined by the RC with reference to such actuarial factors as it shall select from time to time), under which the Participant receives a reduced benefit during his or her lifetime, and following the Participant's death, 50% of such reduced benefit is paid for the life of the person who was the Participant's spouse on the date benefits commenced to the Participant.

**(7) Full Years of Continuous Service** means, for each Participant, the Participant's number of full years of continuous service with the Company and its affiliates, beginning with the date on which the individual becomes a Participant in the Plan, credited to the Participant for purposes of the Plan by the EPC, plus such other periods, if any, as the EPC shall determine.

**(8) Separation from Service** means separation from service with the Company and its affiliates within the meaning of Treasury Regulation §1.409A-1(h). A Participant on medical leave for a period of more than twenty nine (29) months shall be deemed to have a Separation from Service on the day following the end of the 29th month of medical leave. For purposes of this paragraph, a medical leave is a leave of absence due to a medically determined physical or mental impairment that can be expected to result in death or to last for a continuous period of at least six months, where such impairment causes the employee to be unable to perform the duties of his or her position of employment or any substantially similar position of employment.

**SECTION 4. DEATH BENEFIT**

(a) **Amount of Pre-Retirement Death Benefits**. In the case of a Participant who dies after attaining age 55 and completing five Full Years of Continuous Service, but prior to his or her Separation from Service, his or her surviving spouse, if any, will be entitled to receive an amount equal to the benefit such spouse would have received if the Participant had a Separation from Service immediately prior to his or her death and commenced receiving his or her benefit under the 409A Plan on the first day of the following month under the 50% Spousal Joint and Survivor Annuity form. If the death benefit is payable as a Single Sum under Section 4(b) below, the amount of the Single Sum shall be the actuarial equivalent of the survivor benefit under the 50% Spousal Joint and Survivor Annuity determined using the interest and mortality assumptions selected by the RC and as in effect on the date of the Participant's death. No death benefit is payable if the Participant is not married upon the date of his or her death.

(b) **Timing and Form of Pre-Retirement Death Benefits**. With respect to any Participant who is also a Participant in the Excess Plan, benefits under Section 4(a) will be paid at the same time and in the same form as the death benefit under the Excess Plan. With respect to any Participant who is not a Participant in the Excess Plan, benefits payable under Section 4(a) shall be paid in a Single Sum as soon as reasonably practicable after the Participant's death, but in all events within 90 days after the Participant's death. For the avoidance of doubt, if such 90 day period ends in the taxable year following the taxable year in which the Participant's death occurs, neither the Participant nor any beneficiary shall have the right to designate the taxable year in which the benefits will be distributed.

(c) **Post-Retirement Death Benefits**. If a Participant dies after his or her Separation from Service but before benefits commence under Section 3 above, his or her beneficiary will be entitled to receive the benefit (if any) that such beneficiary would have received if the Participant had commenced receiving benefits under the 409A Plan immediately prior to his or her death in the form provided under Section 3(c) above; provided, however, that if the Participant elected to receive a Single Sum (or was required to receive a Single Sum pursuant to Section 3(c)(ii) above) then the beneficiary shall receive the Single Sum that would otherwise have been payable to the Participant, on the date that the Participant would have received such payment under Section 3(d). For the avoidance of doubt, no benefits will be payable pursuant to this Section 4(c) if the form of payment under Section 3(c) was a straight life annuity.

(d) **Beneficiary**. For purposes of this Section 4, "beneficiary" shall mean the beneficiary designated by the Participant under the NSTAR Pension Plan or, if none, the Participant's spouse, or if none, the Participant's estate.

**SECTION 5. NO PLAN ASSETS**

Except as herein provided, the Company and its affiliates shall not be required to set aside or segregate any assets of any kind to meet its obligations hereunder and all benefits payable under the 409A Plan will be paid from the general assets of the Company and its affiliates. The Company or any of its affiliates may, however, establish one or more "grantor trusts" of which the Company or its affiliate is treated as the owner under Subpart E, Part I, Subchapter J, Chapter 1, Subtitle A of the Code (a "grantor trust") and may deposit funds with the trustee of such grantor trust to facilitate the payment of benefits under the 409A Plan. In the event the Company or any of its affiliates establishes such a grantor trust or trusts with respect to the 409A Plan and at the time of a Change of Control (as defined in Appendix A attached hereto), any such trust (i) has not been terminated or revoked, and (ii) is not "fully funded" (as determined in its sole discretion by a majority of the individuals who were members of the EPC immediately prior to such Change of Control), the Company or its affiliate shall within ten days of such Change of Control deposit in such grantor trust or trusts assets sufficient to cause the trust or trusts to be "fully funded" as of the date of the deposit (as determined in its sole discretion by a majority of the individuals who were members of the EPC immediately prior to such Change of Control).

**SECTION 6. PARTICIPANT'S RIGHTS; NO ASSIGNMENT**

A Participant's or beneficiary's rights to benefits under the 409A Plan shall be no greater than the rights of a general, unsecured creditor of the Company or its affiliates, and shall not be assignable or subject to alienation, anticipation, garnishment, attachment, or any other legal process by his creditors.

**SECTION 7. NO CONTRACT OF EMPLOYMENT**

The 409A Plan shall not be deemed to constitute a contract of employment between the Company or its affiliates and any Participant, or to be consideration for the employment of any Participant, and nothing in this 409A Plan shall give any Participant any right to be employed or to continue employment by the Company or its affiliates.

**SECTION 8. APPLICATION OF ERISA**

The 409A Plan is intended to be "a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, and shall be administered in a manner consistent with that intent.

**SECTION 9. AMENDMENT OR TERMINATION**

This 409A Plan may be amended or terminated at any time and in any respect by the Company or the EPC; provided, however, that the 409A Plan shall only be terminated to the extent, and in the manner, permitted by Code section 409A. No amendment or termination shall reduce or otherwise adversely affect the rights of any Participant or his or her beneficiary to benefits accrued

under the 409A Plan immediately prior to such amendment or termination without his or her prior written consent; and no amendment or termination following a Change of Control shall eliminate or reduce the Company's or its affiliates' obligations to deposit assets in the grantor trust or trusts as described in Section 5. Furthermore, following a Change of Control, this Section 9 may not be amended.

**SECTION 10. GOVERNING LAW**

The 409A Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts, to the extent such laws are not preempted by ERISA.

**APPENDIX A**

**1. "Change Of Control"**

For the purposes of this 409A Plan, a "Change of Control" shall mean:

a. The acquisition by any Person (or more than one Person acting as a group) of ultimate beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of (i) more than 50% of the then outstanding common shares (or shares of common stock) of the Parent (the "Outstanding Parent Common Shares") or (ii) 30% or more of the combined voting power of the then outstanding voting securities of the Parent entitled to vote generally in the election of trustees (or directors) (the "Outstanding Parent Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Parent, (ii) any acquisition by the Parent or an affiliate of the Parent, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Parent, the Company or any affiliates of the Parent or (iv) any acquisition by any Person pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Appendix A; or

b. Individuals who, as of the date hereof, constitute the Board of Trustees of the Parent (the "Incumbent Board") cease for any reason to constitute at least a majority of such board; provided, however, that any individual becoming a trustee (or director) subsequent to the date hereof whose election, or nomination for election by the Parent's shareholders, was

approved by a vote of at least a majority of the trustees (or directors) then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of trustees (or directors) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than such board; or

c. Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Parent (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Parent Common Shares and Outstanding Parent Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, immediately following such Business Combination 50% or more of, respectively, the then outstanding common shares (or shares of common stock) and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of trustees (or directors), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Parent or all or substantially all of the Parent's assets either directly or through one or more subsidiaries) in substantially the

same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Parent Common Shares and Outstanding Parent Voting Securities, as the case may be, (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Parent or the Company or such entity resulting from such Business Combination) ultimately beneficially owns, directly or indirectly, more than 50% of, respectively, the then outstanding common shares or shares of common stock of the entity resulting from such Business Combination or 30% or more of the combined voting power of the then outstanding voting securities of such entity except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of trustees (or board of directors) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Trustees of the Parent, providing for such Business Combination; or

d. Approval by the shareholders of the Parent of a complete liquidation or dissolution of the Parent.

For purposes of this Appendix A, the term "Parent" shall mean NSTAR, or, if any entity shall own, directly or indirectly through one or more subsidiaries, more than 50% of the outstanding common shares of NSTAR, such entity, and (ii) the term "Person" shall mean any individual, corporation, partnership, company, limited liability company, trust or other entity, which term shall include a "group" within the meaning of Section 13(d) of the Securities Act of 1934, as amended.

**2. "Single Sum"**

For purposes of calculating the Single Sum Payment upon Separation from Service under this 409A Plan,

- The actuarial equivalent value of the benefit described in Section 3(a)(A) shall be determined using the interest and mortality assumptions selected by the RC and as in effect on the date of the Participant's Separation from Service.
- The actuarial equivalent value of the benefit described in Section 3(a)(B) shall be the lump sum benefit to which the participant would be entitled under the NSTAR Pension Plan and the Excess Plan, calculated as of the first day of the month after the Participant's Separation from Service.
- The actuarial equivalent value of the benefit described in Section 3(a)(C) shall be the lump sum benefit to which the participant would be entitled pursuant to the Grandfathered Plan.

**PART B**

**NSTAR SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**
**as in effect on October 3, 2004**

**APPENDIX B**

The Grandfathered Benefit Amount shall be determined in accordance with the terms of the Grandfathered Plan as in effect on October 3, 2004. This Appendix B is intended to memorialize the methodology for calculating the Grandfathered Benefit Amount. Subject to the foregoing, the Grandfathered Benefit Amount shall be calculated as follows, with reference to the following Table I:

1. 409A Grandfathered Annuity (annual amount): greater of (i) and (ii) defined below.
   - (i) The excess, if any, of (a) over (b):
     - (a) the amount in Table I Column 1 adjusted for early retirement for a benefit commencing 12/31/04
     - (b) the sum of the amounts in Table I Columns 4 and 5, and the amount in Table I Column 6 adjusted for early retirement for a benefit commencing 12/31/04.
   - (ii) The excess, if any, of (a) over (b):
     - (a) the amount in Table I Column 1 adjusted for early retirement for a benefit commencing at the determination date
     - (b) the sum of the amounts in Table I Columns 2 and 3, brought forward from 12/31/04 with interest to the determination date using the interest credit defined in J.6. of the NSTAR Pension Plan and converted to a single-life annuity using the NSTAR Pension Plan annuity conversion factors in effect at 12/31/04 for a benefit commencing at the determination date, and the amount in Table I Column 6 adjusted for early retirement for a benefit commencing at the determination date.
2. 409A Grandfathered Lump Sum: greater of (i) and (ii) defined below.
   - (i) The excess, if any, of (a) over (b):
     - (a) the amount in 1.(i)(a) above multiplied by the present value factor at 12/31/04
     - (b) the sum of the amounts in Table I Columns 2 and 3, and the amount in Table I Column 6 adjusted for early retirement for a benefit commencing 12/31/04 multiplied by the present value factor at 12/31/04.
   - (ii) The excess, if any, of (a) over (b):
     - (a) the amount in 1.(ii)(a) above multiplied by the present value factor at the determination date

(b) the sum of the amounts in Table I Columns 2 and 3, brought forward from 12/31/04 with interest to the determination date using the interest credit defined in J.6. of the NSTAR Pension Plan, and the amount in Table I Column 6 adjusted for early retirement for a benefit commencing at the determination date multiplied by the present value factor at the determination date.

The determination date is the first day of the month following the date the Participant ceases to be an employee of the Company and its affiliates.

The early retirement adjustment and present value factor applicable to the amount in Table I Column 6 is as defined under the NSTAR Pension Plan. For all other references in this Appendix, present value factors are determined using reasonable interest and mortality assumptions selected by the RC for use at the date of the Participant's date of determination.

**APPENDIX B**
**Table I**

| Participant Name | 12/31/04 Accrued/Vested Target Benefit[1] *Column 1* | 12/31/04 Accrued/Vested Lump Sum Benefit, Payable 12/31/04 — Pension Plan PEP *Column 2* | 12/31/04 Accrued/Vested Lump Sum Benefit, Payable 12/31/04 — Excess Plan *Column 3* | 12/31/04 Accrued/Vested Annuity Benefit, Payable 12/31/04[2] — Pension Plan PEP *Column 4* | 12/31/04 Accrued/Vested Annuity Benefit, Payable 12/31/04[2] — Excess Plan *Column 5* | 12/31/04 Accrued/Vested Pension Plan Supplemental Benefit[3] *Column 6* |
|---|---|---|---|---|---|---|
| **Horan, Douglas** | **$ 376,795** | **$ 427,579** | **$ 960,821** | **$ 43,943** | **$ 98,745** | **$ 82,968** |
| **Lubbock, Geoffrey** | **N/A[4]** | **520,523** | **146,341** | **51,166** | **14,385** | **0** |
| **May, Thomas** | **1,056,239** | **603,048** | **4,459,730** | **60,043** | **444,037** | **79,380** |
| **Weafer Jr, Robert** | **163,898** | **796,277** | **0** | **79,002** | **0** | **57,204** |

(1) As defined in Section 4(a)(A) or Section 4(b) as applicable before applying any early retirement reduction factor for a benefit commencing before full retirement age, and before reduction for the annuity benefit from the NSTAR Pension Plan and NSTAR Excess Benefit Plan.

(2) Determined by converting the amounts in Columns 2 and 3, to an annual single-life annuity using the NSTAR Pension Plan annuity conversion factors as in effect at 12/31/04 for a benefit commencing 12/31/04.

(3) As defined in Appendix I of the NSTAR Pension Plan before applying any early retirement reduction factor for a benefit commencing before Normal Retirement Date using the NSTAR Pension Plan factors.

(4) G. Lubbock has a 12/31/04 Accrued/Vested Target Benefit. However, the SERP accrued benefit is $0 because the NSTAR Pension Plan and NSTAR Excess Benefit Plan benefits exceed the Target.

IN WITNESS WHEREOF, the Company has caused this Plan, which consists of the 409A Plan and the Grandfathered Plan, to be executed by its officer hereunto duly authorized this 24th day of December, 2008.

NSTAR
By: /s/ THOMAS J. MAY

Exhibit 10.4.1

**EXECUTIVE RETIREMENT PLAN AGREEMENT**
**AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2008**

This Agreement, dated as of the 24th day of December, 2008, is by and between NSTAR (the "Company") and Werner J. Schweiger (the "Executive").

Whereas, the Executive was elected Senior Vice President – Operations of the Company and became an employee of NSTAR Electric & Gas Corporation effective February 25, 2002.

Whereas, the Company and the Executive entered into an Executive Retirement Plan Agreement effective February 25, 2002;

Whereas, the Company and the Executive desire to amend such Agreement to reflect certain changes made to the NSTAR Supplemental Executive Retirement Plan (the "NSTAR SERP") in connection with Section 409A of the Internal Revenue Code of 1986, as amended;

Whereas, the Board of Trustees of the Company has authorized the execution of an amended and restated Executive Retirement Plan Agreement between the Company and the Executive consistent with the terms of this Agreement.

Now, therefore, the Company and the Executive do hereby agree that the Executive shall have the rights and benefits set forth in the NSTAR SERP as amended and restated effective January 1, 2008, which is comprised of the 409A Plan and the Grandfathered Plan (as defined therein) and a copy of which is set forth as Exhibit A to this Agreement; provided, however that for purposes of determining the Executive's rights and benefits hereunder, Sections 4(a) and 4(b) of the Grandfathered Plan and Sections 3(a) and 3(b) of the 409A Plan are deemed deleted in their entirety and replaced (with corresponding adjustments to section references) with the following:

"(a) Benefits. The Company agrees that it will provide an annual single life annuity benefit of up to (A) 60% of Highest Average Total Compensation (as herein defined) which will accrue as follows: 10% after the first year of service (from February 25, 2002), 2-1/2% per year for years two through seventeen, and 3-1/3% per year for years eighteen through twenty, less (B) the single life annuity which would be received at such time from the NSTAR Pension Plan (as from time to time amended) and the NSTAR Excess Benefit Plan (as from time to time amended) (the "Excess Plan"), as determined by the RC with reference to such actuarial factors as it shall select from time to time, less (C) 50% of the Primary Social Security Benefit (as herein defined) and less (D) the single life annuity which the Participant would be entitled to receive under his previous employer's retirement plans, calculated at the time of receipt. Benefits will vest fully on February 24, 2003 but shall not be payable until age 55."

IN WITNESS WHEREOF, NSTAR and the Executive have caused this Agreement to be executed this 24th day of December, 2008, effective as of January 1, 2008.

NSTAR
By: /s/ THOMAS J. MAY

/s/ W. J. SCHWEIGER
Werner J. Schweiger

Exhibit 10.6.1

# NSTAR
# DEFERRED COMPENSATION PLAN

**(Effective January 1, 2008)**

## INTRODUCTION

The purpose of the NSTAR Deferred Compensation Plan (the "Plan") is to provide an arrangement whereby eligible executives of NSTAR and its affiliates can elect to defer receipt of designated percentages or amounts of their salary and incentive awards. This Plan consists of two parts: the NSTAR 409A Deferred Compensation Plan (the "409A Plan") and the NSTAR Deferred Compensation Plan as in effect on October 3, 2004 (the "Grandfathered Plan") This restatement of the Plan is effective as of January 1, 2008 (the "Effective Date").

The Plan is intended to be "a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3) and 401(a)(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and shall be administered in a manner consistent with that intent.

The 409A Plan is intended to comply with the requirements of Code section 409A and guidance issued thereunder and shall be interpreted and administered in a manner consistent with such requirements. For the avoidance of doubt, the terms of the 409A Plan shall apply to amounts deferred on or after January 1, 2005 and amounts deferred but not vested as of December 31, 2004 under the NSTAR Deferred Compensation Plan (as in effect on October 3, 2004). The terms of the 409A Plan are set forth at Part A.

All amounts deferred and vested prior to January 1, 2005 shall be grandfathered for purposes of Code section 409A and shall be governed by the Grandfathered Plan. The Grandfathered Plan is frozen as of December 31, 2004 and no deferrals of Salary, Salary Increases or Incentive Awards thereafter paid or payable to a Participant shall be made after December 31, 2004 under the Grandfathered Plan and no individual not a Participant as of December 31, 2004 shall thereafter become a Participant in the Grandfathered Plan. The Grandfathered Plan has not been amended or modified in any way after October 3, 2004, and a copy of the Grandfathered Plan as it was in effect on October 3, 2004 is attached at Part B.

**PART A**

**NSTAR 409A DEFERRED COMPENSATION PLAN**

**NSTAR 409A Deferred Compensation Plan**

**1. Definitions**

(a) "Base Salary" means the Participant's annualized Salary in effect on January 1 of a year from which the Participant defers compensation. Short-term disability payments shall be treated for purposes of deferral hereunder as Base Salary. Long-term disability benefits may not be deferred under this 409A Plan.

(b) "Change of Control" has the meaning set forth in Appendix A.

(c) "Code" means the Internal Revenue Code of 1986 as amended from time to time.

(d) "Committee" means the Executive Personnel Committee of the Company.

(e) "Company" means NSTAR.

(f) "Deferral Account" means the deferral account described in Section 6.

(g) "Disability" means that the Participant is (1) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months or (2) receiving income replacement benefits for a period of not less than 3 months under the Company's long-term disability insurance plan by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months. A Participant shall be deemed to have a Disability if he or she is determined to be totally disabled by the Social Security Administration.

(h) "Incentive Award" means, for any calendar year, such amount or amounts as are payable to a Participant under any incentive award or bonus program provided by the Company or its affiliate which is payable in cash or Shares.

(i) "Participant" means an executive who participates in the 409A Plan.

(j) "409A Plan" means the NSTAR 409A Deferred Compensation Plan as set forth in Tab A herein and as from time to time amended.

(k) "Plan Administrator" means the Committee or other person or persons authorized to administer the 409A Plan in accordance with Section 8.

(l) "Retirement" means Separation from Service with the Company after either (i) attaining age 55, or (ii) completing 20 years of employment with the Company or its affiliates.

(m) "Salary" means the fixed basic compensation of a Participant from the Company or its affiliate excluding any special compensation such as overtime, bonus payments, disability insurance benefits, severance pay or other similar distributions, and Company or affiliate contributions under any employee benefit plan; provided, that Salary shall include amounts that would have been received by the Participant from the Company or an affiliate as fixed basic compensation but for an election under section 401(k) or section 125 of the Code or a deferral election under this 409A Plan.

(n) "Salary Increase" means the amount, if any, by which a Participant's Salary for any year may be increased over the Base Salary amount in effect on January 1 of such year.

(o) "Separation from Service" means a termination of employment with the Company and its affiliates, determined in accordance with Code section 409A(a)(2)(A)(i) and the regulations thereunder.

(p) "Shares" means shares of the Company.

**2. Eligibility**

Such employees of the Company or its affiliates as are selected by the Company shall be eligible to become Participants in the 409A Plan. Notwithstanding the foregoing, an eligible employee shall not become a Participant in the Plan until he or she completes such forms as the Plan Administrator may require.

**3. Elective Deferrals**

A Participant may elect to defer such portion of his or her Base Salary, Salary Increase or Incentive Award otherwise payable for services performed in a calendar year as the Plan Administrator may prescribe prior to the start of such calendar year. The Plan Administrator may limit the amount or percentage of Base Salary, Salary Increase or Incentive Award that a Participant may defer hereunder.

**4. Deferral Elections**

(a) Initial Election. A Participant's election of deferral under Section 3 shall be in the form prescribed by the Plan Administrator and shall be subject to such terms and conditions as the Plan Administrator may prescribe. A Participant may elect to defer compensation for services performed during a taxable year (the "service year") only if the election of deferral is filed not later than the close of the taxable year preceding the service year. In the case of Incentive Awards, the election of deferral must be filed not later than the close of the taxable year which ends one year prior to the taxable year in which the Incentive Award will be granted. Each election shall specify the percentage or amount of the Participant's Base Salary, Salary Increase or Incentive Award to be credited to his or her Deferral Account instead of being paid currently to the Participant. Each election shall be irrevocable for the calendar year or years to which it applies. Notwithstanding the foregoing, an employee who becomes eligible to participate in the Plan during the calendar year may make an election of deferral for the balance of such calendar year (with respect to amounts paid to the Participant for services to be performed after his or her election) provided he or she makes such election within 30 days of the date he or she becomes eligible to participate in the Plan, in accordance with Code section 409A. A Participant's deferral election for the calendar year shall terminate if a Participant obtains a payment due to unforeseeable emergency (in accordance with Section 7) or a hardship distribution under the NSTAR Savings Plan.

(b) Election As To Form of Distribution. A Participant's initial election of deferral described in paragraph (a) above shall specify the form of payment for the distribution in respect of such deferral and all subsequent deferrals, which the Participant shall select from among the lump sum and installment options prescribed by the Plan Administrator. A Participant may subsequently change his or her election as to the form of distribution in accordance with rules and procedures established by the Plan Administrator; provided, however, that (i) such election change shall not take effect until 12 months after the date on which the election change is made and (ii) payment will be deferred for a period of not less than five years from the date on which such payment would otherwise have been made, in accordance with Treas. Reg. §1.409A-2(b)(1).

(c) Transition Rule for 2007. Notwithstanding any provision herein to the contrary, the Plan Administrator may establish special rules and procedures to permit Participants with an Account under the Plan (as in effect prior to January 1, 2008) and whose distribution date or dates with respect to such Account would fall after December 31, 2007 to elect, in a manner consistent with transition guidance under Section 409A, a new form and time of distribution (commencing not earlier than 2008), subject to such limitations and restrictions as the Plan Administrator may impose. This Section 4(c) shall be effective as of January 1, 2007.

(d) Transition Rule for 2008. Notwithstanding any provision herein to the contrary, the Plan Administrator may establish special rules and procedures to permit Participants with an Account under the Plan and whose distribution date or dates with respect to such Account would fall after December 31, 2008 to elect, in a manner consistent with transition guidance under Section 409A, a new form and time of distribution (commencing not earlier than 2009), subject to such limitations and restrictions as the Plan Administrator may impose.

**5. Deferral Account**

The Plan Administrator shall maintain a Deferral Account on behalf of each Participant as follows:

(a) Deferrals. For each deferral election made by the Participant in respect of periods on and after the Effective Date, the Plan Administrator shall credit to the Participant's Deferral Account the amounts of Base Salary, Salary Increase or Incentive Award, as applicable, which the Participant has elected to defer under the 409A Plan. In each case, credits shall be made as of the dates the Salary, Salary Increase or Incentive Award would have been payable if not deferred.

(b) Investment Measurements. Subject to paragraph (c) below, from time to time the Company will establish investment measurements to be used to adjust the balance of each Participant's Deferral Account. Such investment measurements may be changed from time to time by the Company. The Company may establish rules and procedures to permit Participants to select notional investments for their respective Deferral Accounts from among available investment measurements. From time to time, as determined by the Plan Administrator, each Participant's Deferral Account will be adjusted to reflect such investment measurements.

(c) Shares. A Participant who elects to defer an Incentive Award which is payable in Shares shall have the value of such deferred award determined with reference to the number of whole Shares which could be purchased with said amount in the open market as promptly as possible following the effective date of such election. Any dividends on such Shares will be reinvested or deemed reinvested in such Shares. Such number of Shares (and the value thereof) shall be credited from time to time to the

Participant's Deferral Account. The Company may, but shall not be required to, purchase Shares to satisfy its obligation to Participants under this paragraph. If such purchase of Shares is made, the Company may, in its discretion and subject to such limitations as it may determine, permit a Participant to exercise voting rights with respect to such Shares as are allocated to his account.

**6. Commencement of Distributions; Payment Periods**

(a) In-Service Distributions. At the time the Participant makes an election of deferral under Section 4, and subject to the conditions of this Section, a Participant may also elect to receive a single sum payment of all or a specified portion of the amount attributable to such deferral on a fixed date prior to the Participant's Disability or other Separation from Service (hereinafter referred to as the "fixed date"). Such fixed date must be at least five years after the date of such deferral. The rules and procedures for such elections will be promulgated by the Plan Administrator. All elections under this Section 6(a) require the consent of the Company to become effective.

(b) Retirement or Disability. Upon the Participant's Retirement or Disability, the Participant shall be entitled to receive the balance in his or her Deferral Account. The Deferral Account shall be payable in the form specified by the Participant in his or her election of deferral from among the options prescribed by the Plan Administrator and, if payment is made other than in an immediate lump sum, payments shall be made on the fixed dates specified by the Participant in his or her election of deferral and shall be adjusted to reflect the investment measurements in such manner as the Plan Administrator shall prescribe. Payment on account of Retirement shall be made (or if paid other than in a single sum, shall commence) on the first day of the seventh month following the date on which his or her Retirement occurs; provided, however, that if a Participant has made a subsequent change to his or her

elected form of payment pursuant to Section 4(b) above, payment shall not commence until 5 years from the date on which such payment would otherwise have been made, in accordance with Treas. Reg. §1.409A-2(b)(1). Payment on account of Disability shall be made (or if paid other than in a single sum, shall commence) on the first day of the calendar quarter following the Participant's Disability.

(c) Other Separation from Service. If the Participant has a Separation from Service for reasons other than death, Disability or Retirement, the balance in the Participant's Deferral Account (determined as of the last day of the month immediately preceding payment) shall be paid to the Participant in a single sum on the first day of the seventh month following the date on which his or her Separation from Service occurs.

(d) Death. If the Participant dies prior to the commencement of payment of his or her Deferral Account as described in Section 6(b) or (c), the Participant's designated beneficiary or beneficiaries shall be entitled to receive the balance in the Participant's Deferral Account as of the date of death. Payment shall be made in a single sum as soon as reasonably practicable after the Participant's death, but in all events by the earlier of (i) 90 days after the Participant's death or (ii) March 15 of the calendar year immediately following the calendar year in which the Participant's death occurs. If the Participant dies after payment of his or her Deferral Account has commenced to be paid in installments under Section 6(b) but prior to the exhaustion of such Account, payment of the remaining balance of such Account (adjusted as provided in Section 6(b)) shall continue to the Participant's designated beneficiary or beneficiaries over the installment period selected by the Participant. Designation of a beneficiary or beneficiaries for purposes of the 409A Plan shall be made on a form prescribed or approved by the Plan Administrator. If the Participant does not designate a beneficiary or if the designated beneficiary does not survive the Participant, payment due under this Section will be made to the Participant's estate.

(e) Distributions in Kind. All distributions under the 409A Plan shall be paid in cash, except for amounts credited as Shares under Section 5(c) and which are credited as Shares at the time of distribution, which shall be paid in Shares.

**7. Unforeseeable Emergency**

Upon the occurrence of an unforeseeable emergency with respect to a Participant, that portion of the Participant's Deferral Account, if any, which the Plan Administrator, based on the relevant facts and circumstances, determines to be reasonably necessary to satisfy the emergency need will be eligible for distribution. In determining the amount reasonably necessary to satisfy the emergency need, the Plan Administrator may take into account any amounts necessary to pay taxes or penalties reasonably anticipated to result from the distribution. No distribution on account of unforeseeable emergency will be made to the extent that such emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship), or by cessation of deferrals under the 409A Plan. An unforeseeable emergency shall mean a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's beneficiary or the Participant's dependent (as defined in Code section 152 without regard to section 152(b)(1), (b)(2) or (d)(1)(B)), loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Any such distribution shall reduce the balance in the Participant's Deferral Account available for distribution in accordance with Section 6.

**8. Administration of the 409A Plan**

For purposes of prescribing the forms and conditions for deferral elections under Section 4 and distributions under paragraphs (a) and (b) of Section 6 (or other forms required to administer the 409A Plan), and for purposes of Section 6, the functions of the Plan Administrator shall be performed by the Chief Financial Officer of the Company or his or her delegates. For purposes of Section 7, the functions of the Plan Administrator shall be carried out by a committee (acting by the vote or consent of a majority of its members) consisting of the Senior Vice President of Human Resources, the Chief Financial Officer and the Treasurer of the Company; provided, that any determination under Section 7 with respect to any of those officers shall be made without his or her participation on such committee. All other administrative and interpretative functions of the Plan Administrator under the 409A Plan shall be vested in the Committee. The Plan Administrator shall have full discretionary power and authority to interpret the 409A Plan, settle all disputes which may arise in connection with the 409A Plan, and establish any claims procedures required by ERISA. The decisions, interpretations and determinations made by the Plan Administrator relating to the 409A Plan will be final and conclusive on all persons.

The Company agrees to indemnify and to defend to the fullest possible extent permitted by law any employee carrying out the functions of the Plan Administrator (including any person who formerly carried out such functions) against all liabilities, damages, costs, and expenses (including attorneys' fees and amounts paid in settlement of any claims approved by the Company) occasioned by any act or omission in connection with the 409A Plan.

**9. Nature of Claim for Payments**

Except as herein provided, the Company and its affiliates shall not be required to set aside or segregate any assets of any kind to meet any of its obligations hereunder, and all obligations of the Company or its affiliates hereunder shall be reflected by book entries only. The Participant shall have no rights on account of this 409A Plan in or to any specific assets of the Company or its affiliates. Any rights that the Participant may have on account of this 409A Plan shall be those of a general, unsecured creditor of the Company or its affiliates. However, the Company or its affiliate may establish a trust or trusts of which the Company or its affiliate is treated as the owner under Subpart E of Subchapter J, Chapter 1 of the Code (a "grantor trust"), and may from time to time deposit funds in such grantor trust or trusts to facilitate payment of the benefits provided under the 409A Plan. In the event the Company or its affiliate establishes such a grantor trust or trusts with respect to the 409A Plan and at the time of a Change of Control, any such trust (i) has not been terminated or revoked and (ii) is not "fully funded" (as determined in its sole discretion by a majority of the individuals who were members of the Committee immediately prior to a Change of Control), the Company or its affiliate shall within ten days of such Change of Control deposit in such grantor trust or trusts assets sufficient to cause the trust or trusts to be "fully funded" as of the date of the deposit (as determined in its sole discretion by a majority of the individuals who were members of the Committee prior to a Change of Control).

**10. Rights are Non-Assignable**

Neither the Participant nor any beneficiary nor any other person shall have any right to assign or otherwise alienate the right to receive payments hereunder, in whole or in part, which payments are expressly agreed to be non-assignable and non-transferable, whether voluntarily or involuntarily.

**11. Taxes**

If the Company or its affiliate is required to withhold taxes from payments under the 409A Plan, the amounts payable to Participants shall be reduced by the tax so withheld. To determine the amount of tax to withhold, in the case of payments in Shares, such Shares will be valued at the average of that day's high and low price on the day of distribution as reported in the Wall Street Journal. If benefits payable to a Participant under the Plan become taxable prior to the date on which such benefits are actually paid, the Company will remit any required withholding taxes and may pay to the Participant any additional amount that the Company would have remitted as withholding if the taxable amount had been paid to such Participant as wages. Additionally, the Company may distribute the amount necessary to pay the Federal Insurance Contributions Act (FICA) tax due on compensation deferred under the Plan (the "FICA Amount"), plus any income tax withholding imposed as a result of the payment of such FICA Amount, in accordance with Code section 409A. Finally, if at any time this Plan is found to fail to meet the requirements of Code section 409A and the Regulations thereunder, the Company may distribute the amount required to be included in the Participant's income as a result of such failure. Any amount distributed under this Section 11 will be charged against amounts owed to the Participant and offset against future payments. For the avoidance of doubt, the Participant will have no discretion, and will have no direct or indirect election, as to whether a payment will be accelerated under this Section 11.

**12. Amendment**

The Company or the Committee may at any time and from time to time amend the 409A Plan in any manner; provided that no amendment shall reduce the amounts previously credited to the Deferral Account of any Participant or his or her beneficiary without his or her prior written consent; and provided further, that no amendment following a Change of Control shall eliminate or reduce the Company's or its affiliates' obligations to deposit assets in the grantor trust or trusts as described in Section 9. Furthermore, following a Change of Control, this Section 12 may not be amended.

**13. Termination**

The 409A Plan shall continue in effect until terminated by the Company or the Committee; provided, that the 409A Plan shall only be terminated to the extent, and in a manner, permitted by Code section 409A. Upon termination of the 409A Plan, no deferral of Salary, Salary Increase or Incentive Awards thereafter paid or payable to a Participant shall be made and no individual not a Participant as of the date of termination shall become a Participant thereafter. If, at the time of termination, there is any Participant or beneficiary of a Participant who is or will be entitled to a payment hereunder, the Plan Administrator shall pay to such Participants or beneficiaries the balance in the Participants' Deferral Account in a manner that complies with Code section 409A.

**14. Employment Rights**

Nothing in this Plan shall give any Participant any right to be employed or to continue employment by the Company or an affiliate.

Appendix A

NSTAR 409A Deferred Compensation Plan

"Change of Control"

For the purposes of this 409A Plan, a "Change of Control" shall mean:

a. The acquisition by any Person (or more than one Person acting as a group) of ultimate beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of (i) more than 50% of the then outstanding common shares (or shares of common stock) of the Parent (the "Outstanding Parent Common Shares") or (ii) 30% or more of the combined voting power of the then outstanding voting securities of the Parent entitled to vote generally in the election of trustees (or directors) (the "Outstanding Parent Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Parent, (ii) any acquisition by the Parent or an affiliate of the Parent, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Parent, the Company or affiliate of the Parent or (iv) any acquisition by any Person pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Appendix A; or

b. Individuals who, as of the date hereof, constitute the Board of Trustees of the Parent (the "Incumbent Board") cease for any reason to constitute at least a majority of such board; provided, however, that any individual becoming a trustee (or director) subsequent to the date hereof whose election, or nomination for election by the Parent's shareholders, was approved by a vote of at least a majority of the trustees (or directors) then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of trustees (or directors) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than such board; or

c. Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Parent (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Parent Common Shares and Outstanding Parent Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, immediately following such Business Combination 50% or more of, respectively, the then outstanding common shares (or shares of common stock) and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of trustees (or directors), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Parent or all or substantially all of the Parent's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Parent Common Shares and Outstanding Parent Voting Securities, as the case may be, (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Parent or the Company or such entity resulting from such Business Combination) ultimately beneficially owns, directly or indirectly, more than 50% of, respectively, the then outstanding common shares or shares of common stock of the entity resulting from such Business Combination or 30% or more of the combined voting power of the then outstanding voting securities of such entity except to the extent that such

ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of trustees (or board of directors) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Trustees of the Parent, providing for such Business Combination; or

d. Approval by the shareholders of the Parent of a complete liquidation or dissolution of the Parent.

For purposes of this Appendix A, the term "Parent" shall mean NSTAR, or, if any entity shall own directly or indirectly through one or more subsidiaries, more than 50% of the outstanding common shares of NSTAR, such entity, and (ii) the term "Person" shall mean any individual, corporation, partnership, company, limited liability company, trust or other entity, which term shall include a "group" within the meaning of Section 13(d) of the Securities Act of 1934, as amended.

**PART B**

**NSTAR DEFERRED COMPENSATION PLAN**

**AS IN EFFECT ON OCTOBER 3, 2004**

IN WITNESS WHEREOF, the Company has caused this Plan, which consists of the 409A Plan and the Grandfathered Plan, to be executed by its officer hereunto duly authorized this 24th day of December, 2008.

NSTAR
By: /s/ THOMAS J. MAY

Exhibit 10.10.1

# NSTAR
# TRUSTEES' DEFERRED PLAN

**(Effective January 1, 2008)**

## INTRODUCTION

The purpose of the NSTAR Trustees' Deferred Plan (the "Plan") is to provide an arrangement whereby Outside Trustees may (i) elect to defer receipt of designated percentages or amounts of their retainers and fees, and (ii) receive additional deferred amounts from the Company. This Plan consists of two parts: the NSTAR 409A Trustees' Deferred Plan (the "409A Plan") and the NSTAR Trustees' Deferred Plan as Restated Effective August 25, 1999, and as in effect on October 3, 2004 (the "Grandfathered Plan"). This restatement of the Plan is effective as of January 1, 2008 (the "Effective Date").

The 409A Plan is intended to comply with the requirements of Code section 409A and guidance issued thereunder and shall be interpreted and administered in a manner consistent with such requirements. For the avoidance of doubt, the terms of the 409A Plan shall apply to amounts deferred on or after January 1, 2005 and amounts deferred but not vested as of December 31, 2004 under the Grandfathered Plan. The terms of the 409A Plan are set forth at Part A.

All amounts deferred and vested prior to January 1, 2005, shall be grandfathered for purposes of Code section 409A and shall be governed by the NSTAR Trustees' Deferred Plan as it was in effect on October 3, 2004. The Grandfathered Plan is frozen as of December 31, 2004. No deferrals of retainers or other fees (whether payable in cash or Shares) thereafter paid or payable to a Participant shall be made after December 31, 2004 under the Grandfathered Plan, and no individual not a Participant as of December 31, 2004 shall thereafter become a Participant in the Grandfathered Plan. The Grandfathered Plan has not been amended or modified in any way after October 3, 2004, and a copy of the Grandfathered Plan as it was in effect on October 3, 2004 is attached at Part B.

**PART A**

**NSTAR 409A TRUSTEES' DEFERRED PLAN**

**NSTAR 409A Trustees' Deferred Plan**

**1. Definitions**

(a) "Board of Trustees" means the board of trustees of the Company.

(b) "Change of Control" has the meaning set forth in Appendix A.

(c) "Code" means the Internal Revenue Code of 1986 as amended from time to time.

(d) "Company" means NSTAR.

(e) "Company Credit Account" means the Company credit account described in Section 6.

(f) "Deferral Account" means the deferral account described in Section 5.

(g) "Grandfathered Plan" means the NSTAR Trustees' Deferred Plan as Restated Effective August 25, 1999, and as in effect on October 3, 2004.

(h) "Outside Trustee" means a member of the Board of Trustees who is not an employee of the Company or any of its affiliates.

(i) "Participant" means an Outside Trustee who participates in the 409A Plan.

(j) "Plan" means the Grandfathered Plan and the 409A Plan.

(k) "409A Plan" means the NSTAR 409A Trustees' Deferred Plan as set forth as Part A herein and as from time to time amended.

(l) "Plan Administrator" means the Board of Trustees or other person or persons authorized to administer the 409A Plan in accordance with Section 9.

(m) "Separation from Service" means the cessation of a Participant's service as a member of the Board of Trustees which constitutes a separation from service with the Company and its affiliates in accordance with subsection (a)(2)(A)(i) of section 409A of the Code and the Regulations thereunder.

(n) "Shares" means common shares of the Company.

**2. Eligibility**

Each Outside Trustee shall be eligible to participate in the 409A Plan. Notwithstanding the foregoing, an Outside Trustee shall not become a Participant in the 409A Plan until he or she completes such forms as the Plan Administrator may require.

**3. Elective Deferrals**

A Participant may elect to defer all or any portion of his or her cash retainers or other cash fees otherwise payable by the Company in a calendar year, subject to such minimum deferral amounts as the Plan Administrator may prescribe prior to the start of such calendar year.

**4. Deferral Elections**

(a) Initial Election. A Participant's election of deferral under Section 3 shall be in the form prescribed by the Plan Administrator and shall be subject to such terms and conditions as the Plan Administrator may prescribe. A Participant may elect to defer compensation for services performed during a taxable year (the "service year") only if the election of deferral is filed not later than the close of the taxable year preceding the service year. Each election shall specify the percentage or amount of the Participant's cash retainers or other cash fees to be credited to his or her Deferral Account instead of being paid currently to the Participant. Each election shall be irrevocable for the calendar year or years to which it applies. Notwithstanding the foregoing, an Outside Trustee who becomes eligible to participate in the Plan during the calendar year may make an election of deferral for the balance of such calendar year (with respect to amounts paid to the Participant for services to be performed after his or her election of deferral) provided he or she makes such election within 30 days of the date he or she becomes eligible to participate in the Plan, in accordance with Code section 409A. A Participant's deferral election for the calendar year shall terminate if a Participant obtains a payment due to unforeseeable emergency (in accordance with Section 8).

(b) Election As To Form of Distribution. A Participant's initial election of deferral described in paragraph (a) above shall specify the form of payment for the distribution in respect of such deferral and all subsequent deferrals, which the Participant shall select from among the lump sum and installment options prescribed by the Plan Administrator. A Participant may subsequently change his or her election as to the form of distribution in accordance with rules and procedures established by the Plan Administrator; provided, however, that (i) such election change shall not take effect until 12 months after the date on which the election change is made and (ii) payment will be deferred for a period of not less than five years from the date on which such payment would otherwise have been made, in accordance with Treas. Reg. §1.409A-2(b)(1).

(c) Transition Rule for 2007. Notwithstanding any provision herein to the contrary, the Plan Administrator may establish special rules and procedures to permit Participants with an Account under the Plan (as in effect prior to January 1, 2008) and whose distribution date or dates with respect to such Account would fall after December 31, 2007 to elect, in a manner consistent with transition guidance under Section 409A, a new form and time of distribution (commencing not earlier than 2008), subject to such limitations and restrictions as the Plan Administrator may impose. This Section 4(c) shall be effective as of January 1, 2007.

(d) Transition Rule for 2008. Notwithstanding any provision herein to the contrary, the Plan Administrator may establish special rules and procedures to permit Participants with an Account under the Plan and whose distribution date or dates with respect to such Account would fall after December 31, 2008 to elect, in a manner consistent with transition guidance under Section 409A, a new form and time of distribution (commencing not earlier than 2009), subject to such limitations and restrictions as the Plan Administrator may impose.

**5. Deferral Account**

The Plan Administrator shall maintain a Deferral Account on behalf of each Participant as follows:

(a) Deferrals. The Plan Administrator shall credit to a Participant's Deferral Account the amounts of cash retainers or other cash fees, as applicable, which the Participant has elected to defer under the 409A Plan. In each case credits shall be made as of the dates the cash retainers or other cash fees would have been payable if not deferred.

(b) Investment Measurements. From time to time the Company will establish investment measurements to be used to adjust the balance of each Participant's Deferral Account. Such investment measurements may be changed from time to time by the Company. The Plan Administrator may establish rules and procedures to permit Participants to select notional investments for their respective Deferral Accounts from among available investment measurements. From time to time, as determined by the Plan Administrator, each Participant's Deferral Account will be adjusted to reflect such investment measurements.

**6. Company Credit Account**

The Plan Administrator shall maintain a Company Credit Account on the books and records of the Company for each Participant as follows:

(a) Company Credits. As of each April 1 and October 1, provided the Participant is an Outside Trustee on such date, the Plan Administrator will credit to the Participant's Company Credit Account the amount of the Participant's retainer or other fees as of such date that is paid to the Participant in Shares.

(b) Investment Measurement. The sole investment measurement for determining the value of the Participant's Company Credit Account shall be the value of Shares which could be purchased (or which are purchased) with Company credits as soon as possible following the date of such credits. Any dividends on such Shares will be reinvested or deemed reinvested in such Shares. In such manner and at such time as the Plan Administrator shall determine, each Participant's Company Credit Account will be adjusted to reflect such investment measurement. The Company may, but shall not be required to, purchase Shares to satisfy its obligation to Participants under this paragraph. If such purchase of Shares is made, the Company may, in its discretion and subject to such limitations as it may determine, permit a Participant to exercise voting rights with respect to such Shares as are allocated to his or her Company Credit Account.

**7. Commencement of Distributions; Payment Periods**

(a) In-Service Distributions. At the time the Participant makes an election of deferral under Section 3, and subject to the conditions of this Section, a Participant may also elect to receive a single sum payment from his or her Deferral Account of all or a specified portion of the amount attributable to such deferral on a fixed date prior to the Participant's Separation from Service (hereinafter referred to as the "fixed date"). Such fixed date must be at least five years after the date of such deferral. The rules and procedures for such elections will be promulgated by the Plan Administrator. All elections under this Section 7(a) require the consent of the Plan Administrator to become effective. No portion of a Participant's Company Credit Account may be paid under this Section 7(a).

(b) Separation from Service. Upon the Participant's Separation from Service, the Participant shall be entitled to receive the balance in each of his or her Deferral Accounts and his or her Company Credit Account. The Participant's Deferral Account shall be payable in the form specified by the Participant in his or her election of deferral from among the options prescribed by the Plan

Administrator and, if payment is made other than in an immediate lump sum, shall be adjusted to reflect the investment measurements in such manner as the Plan Administrator shall prescribe. The Participant's Company Credit Account shall be payable in a lump sum only, and shall be paid in Shares (plus cash for any fractional shares). Payment of Deferral Accounts and Company Credit Accounts shall be made or commence on the first day of the calendar quarter next following the Participant's Separation from Service, and in the case of installments, shall be paid on the fixed dates specified by the Participant in his or her election of deferral; provided, however, that if a Participant has made a subsequent change to his or her elected form of payment pursuant to Section 4(b) above, payment shall not commence until 5 years from the date on which such payment would otherwise have been made, in accordance with Treas. Reg. §1.409A-2(b)(1). For the avoidance of doubt, no Participant will be a "specified employee" within the meaning of Code section 409A because Outside Trustees are not officers of the Company, and no individual has the requisite ownership in the Company to be a "key employee" within the meaning of Code section 416.

(c) Death. If the Participant dies at any time prior to the payment or commencement of payment of his or her Deferral Account or Company Credit Account as described in Section 7(b), the Participant's designated beneficiary or beneficiaries shall be entitled to receive the balance in the Participant's Deferral Account and Company Credit Account as of the date of death. Payments shall be made in a lump sum as soon as reasonably practicable after the Participant's death but in all events by the earlier of (i) 90 days after the Participant's death or (ii) March 15 of the calendar year immediately following the calendar year in which the Participant's death occurs. A Participant's Company Credit Account shall be paid in Shares (plus cash for any fractional shares). If the Participant dies after payment of his or her Deferral Account has commenced to be paid in installments but prior to the exhaustion of such Account,

payment of the remaining balance of such Account (adjusted as provided in Section 7(b)) shall continue to the Participant's designated beneficiary or beneficiaries over the installment period selected by the Participant. Designation of a beneficiary or beneficiaries for purposes of the 409A Plan shall be made on a form and in a manner prescribed or approved by the Plan Administrator. If no beneficiary has been designated or the designated beneficiary does not survive the Participant, payment due under this Section will be made to the Participant's estate.

**8. Unforeseeable Emergency**

Upon the occurrence of an unforeseeable emergency with respect to a Participant, that portion of the Participant's Deferral Account, if any, which the Plan Administrator, based on the relevant facts and circumstances, determines to be reasonably necessary to satisfy the emergency need will be eligible for distribution. In determining the amount reasonably necessary to satisfy the emergency need, the Plan Administrator may take into account any amounts necessary to pay taxes or penalties reasonably anticipated to result from the distribution. No distribution on account of unforeseeable emergency will be made to the extent that such emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship), or by cessation of deferrals under the 409A Plan. An unforeseeable emergency shall mean a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's beneficiary or the Participant's dependent (as defined in Code section 152 without regard to section 152(b)(1), (b)(2) or (d)(1)(B)), loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Any such distribution shall reduce the balance in the Participant's Deferral Account available for distribution in accordance with Section 7. No portion of a Participant's Company Credit Account may be paid under this Section 8.

**9. Administration of the 409A Plan**

For purposes of prescribing the forms and conditions for deferral elections under Section 4, in-service distributions under Section 7(a) and distributions under 7(b) (or other forms required to administer the 409A Plan), and for purposes of Sections 5 and 6, the functions of the Plan Administrator shall be performed by the Senior Vice President, Treasurer and Chief Financial Officer of the Company in his or her sole discretion, or by his or her delegates. All other administrative and interpretative functions under the 409A Plan shall be vested in the sole discretion of the Board of Trustees. A decision by the Plan Administrator or the Board of Trustees shall be final, conclusive and binding on all Participants and any person claiming under or through any Participant. The Plan Administrator and the Board of Trustees shall each exercise its functions hereunder in such manner as it deems appropriate. Neither the Plan Administrator nor the Board of Trustees shall have any responsibility to exercise its discretion in a uniform manner among similarly situated Participants, and no decision with respect to any Participant shall give any other Participant the right to have the same decision applied to him or her. The Plan Administrator and the Board of Trustees shall each have all powers necessary or appropriate to discharge its duties and responsibilities under the 409A Plan.

The Company agrees to indemnify and to defend to the fullest possible extent permitted by law any person carrying out functions of the Plan Administrator (including any person who formerly carried out such functions) against all liabilities, damages, costs, and expenses (including attorneys' fees and amounts paid in settlement of any claims approved by the Company) occasioned by any act or omission in connection with the 409A Plan.

**10. Nature of Claim for Payments**

Except as herein provided, the Company shall not be required to set aside or segregate any assets of any kind to meet any of its obligations hereunder, and all obligations of the Company shall be reflected by book entries only. The Participant shall have no rights on account of this 409A Plan in or to any specific assets of the Company. Any rights that the Participant may have on account of this 409A Plan shall be those of a general, unsecured creditor of the Company. However, the Company may establish a trust or trusts of which the Company is treated as the owner under Subpart E of Subchapter J, Chapter 1 of the Code (a "grantor trust"), and may from time to time deposit funds (which funds shall be in the form of Shares with respect to a Participant's Company Credit Account) in such grantor trust or trusts to facilitate payment of the benefits provided under the 409A Plan. In the event the Company establishes such a grantor trust or trusts with respect to the 409A Plan and, at the time of a Change of Control, any such trust (i) has not been terminated or revoked and (ii) is not "fully funded" (as determined in its sole discretion by a majority of the individuals who were members of the Board of Trustees immediately prior to a Change of Control), the Company shall within ten days of such Change of Control deposit in such grantor trust or trusts assets sufficient to cause the trust or trusts to be "fully funded" as of the date of the deposit (as determined in its sole discretion by a majority of the individuals who were members of the Board of Trustees immediately prior to a Change of Control).

**11. Rights Are Non-Assignable**

Neither the Participant nor any beneficiary nor any other person shall have any right to assign or otherwise alienate the right to receive payments hereunder, in whole or in part, which payments are expressly agreed to be non-assignable and non-transferable, whether voluntarily or involuntarily.

**12. Taxes**

If at any time this Plan is found to fail to meet the requirements of Code section 409A and the Regulations thereunder, the Company may distribute the amount required to be included in the Participant's income as a result of such failure. Any amount distributed under this Section 12 will be charged against amounts owed to the Participant and offset against future payments. For the avoidance of doubt, the Participant will have no discretion, and will have no direct or indirect election, as to whether a payment will be accelerated under this Section 12.

**13. Amendment**

The Board of Trustees may at any time and from time to time amend the 409A Plan in any manner; provided that no such amendment shall reduce the amounts previously credited to the Deferral Account or Company Credit Account of any Participant or his or her beneficiary without his or her prior written consent; and provided, further, that no amendment following a Change of Control shall eliminate or reduce the Company's obligation to deposit assets in the grantor trust or trusts as described in Section 10. Furthermore, following a Change of Control, this Section 13 may not be amended.

**14. Termination**

The 409A Plan shall continue in effect until terminated by action of the Board of Trustees; provided, that the 409A Plan shall only be terminated to the extent, and in the manner, permitted by Code section 409A. Upon termination of the 409A Plan, no deferral of retainers or other fees thereafter paid or payable to a Participant shall be made, no additional Company Credits shall be made to the Participant's Company Credit Account, and no individual not a Participant as of the date of termination shall become a Participant thereafter. If, at the time of termination, there is any Participant or beneficiary of a Participant who is or will be entitled to a payment hereunder, the Plan Administrator shall pay to such Participants or beneficiaries the balance in the Participants' Deferral Accounts and Company Credit Account in a manner that complies with Code section 409A.

Appendix A to

NSTAR 409A Trustees' Deferred Plan

"Change of Control"

For the purposes of this 409A Plan, a "Change of Control" shall mean:

a. The acquisition by any Person (or more than one Person acting as a group) of ultimate beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of (i) more than 50% of the then outstanding common shares (or shares of common stock) of the Parent (the "Outstanding Parent Common Shares") or (ii) 30% or more of the combined voting power of the then outstanding voting securities of the Parent entitled to vote generally in the election of trustees (or directors) (the "Outstanding Parent Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Parent, (ii) any acquisition by the Parent or an affiliate of the Parent, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Parent, the Company or affiliate of the Parent or (iv) any acquisition by any Person pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Appendix A; or

b. Individuals who, as of the date hereof, constitute the Board of Trustees of the Parent (the "Incumbent Board") cease for any reason to constitute at least a majority of such board; provided, however, that any individual becoming a trustee (or director) subsequent to the date hereof whose election, or nomination for election by the Parent's shareholders, was approved by a vote of at least a majority of the trustees (or directors) then comprising the Incumbent Board shall be considered as though such individual were

a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of trustees (or directors) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than such board; or

c. Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Parent (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Parent Common Shares and Outstanding Parent Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, immediately following such Business Combination 50% or more of, respectively, the then outstanding common shares (or shares of common stock) and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of trustees (or directors), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Parent or all or substantially all of the Parent's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Parent Common Shares and Outstanding Parent Voting Securities, as the case may be, (ii) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Parent or the Company or such entity resulting from such Business Combination) ultimately beneficially owns, directly or indirectly, more than 50% of, respectively, the then outstanding common shares or shares of common stock of the entity resulting from such Business Combination or 30% or more of the combined voting power of the then outstanding voting securities of such entity except to the extent that such ownership

existed prior to the Business Combination and (iii) at least a majority of the members of the board of trustees (or board of directors) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Trustees of the Parent, providing for such Business Combination; or

d. Approval by the shareholders of the Parent of a complete liquidation or dissolution of the Parent.

For purposes of this Appendix A, the term "Parent" shall mean NSTAR, or, if any entity shall own directly or indirectly through one or more subsidiaries, more than 50% of the outstanding common shares of NSTAR, such entity, and (ii) the term "Person" shall mean any individual, corporation, partnership, company, limited liability company, trust or other entity, which term shall include a "group" within the meaning of Section 13(d) of the Securities Act of 1934, as amended.

**PART B**

**NSTAR TRUSTEES' DEFERRED PLAN**

**AS IN EFFECT ON OCTOBER 3, 2004**

IN WITNESS WHEREOF, the Company has caused this Plan, which consists of the 409A Plan and the Grandfathered Plan, to be executed by its officer hereunto duly authorized this 24th day of December, 2008.

NSTAR
By: /s/ THOMAS J. MAY

**Exhibit 21.1**

**Subsidiaries of NSTAR**

| | State of Incorporation |
|---|---|
| NSTAR Electric Company | Massachusetts |
| NSTAR Gas Company | Massachusetts |
| Hopkinton LNG Corp. | Massachusetts |
| Harbor Electric Energy Company | Massachusetts |
| BEC Funding LLC | Delaware |
| BEC Funding II, LLC | Delaware |
| CEC Funding, LLC | Delaware |
| NSTAR Communications, Inc. | Massachusetts |
| NSTAR Electric & Gas Corporation | Massachusetts |
| Advanced Energy Systems, Inc. | Massachusetts |
| Medical Area Total Energy Plant, Inc. | Massachusetts |
| MATEP, LLC | Delaware |

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-155779), Registration Statement on Form S-4 (No. 333-78285) and in the Registration Statements on Form S-8 (Nos. 333-142595 and 333-87272) of NSTAR of our report dated February 9, 2009 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 9, 2009 relating to the financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
February 9, 2009

**Exhibit 31.1**

**Sarbanes - Oxley Section 302 Certification**

I, Thomas J. May, certify that:

1. I have reviewed this annual report on Form 10-K of NSTAR;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2009

By: /S/ THOMAS J. MAY

**Thomas J. May**
**Chairman, President and**
**Chief Executive Officer**

**Exhibit 31.2**

**Sarbanes - Oxley Section 302 Certification**

I, James J. Judge, certify that:

1. I have reviewed this annual report on Form 10-K of NSTAR;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2009

By: /S/ JAMES J. JUDGE

**James J. Judge**
**Senior Vice President,**
**Treasurer and Chief Financial Officer**

**Exhibit 32.1**

**Certification Pursuant To**
**18 U.S.C. Section 1350,**
**as Adopted Pursuant To**
**Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned hereby certifies, in my capacity as an officer of NSTAR, for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(i) the enclosed Annual Report of NSTAR on Form 10-K for the period ended December 31, 2008, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(ii) the information contained in such Annual Report fairly presents, in all material respects, the financial condition and results of operations of NSTAR.

Dated: February 9, 2009

/S/ THOMAS J. MAY

**Thomas J. May**
**Chairman, President and**
**Chief Executive Officer**

**Exhibit 32.2**

**Certification Pursuant To**
**18 U.S.C. Section 1350,**
**as Adopted Pursuant To**
**Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned hereby certifies, in my capacity as an officer of NSTAR, for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(i) the enclosed Annual Report of NSTAR on Form 10-K for the period ended December 31, 2008, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(ii) the information contained in such Annual Report fairly presents, in all material respects, the financial condition and results of operations of NSTAR.

Dated: February 9, 2009

/S/ JAMES J. JUDGE

**James J. Judge**
**Senior Vice President, Treasurer**
**and Chief Financial Officer**