NORTHEAST UTILITIES
Form 10-Q
November 08, 2006

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2006

OR

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

For the transition period from ____________ to ____________

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	I.R.S. Employer Identification No.
1-5324	**NORTHEAST UTILITIES** (a Massachusetts voluntary association) One Federal Street Building 111-4 Springfield, Massachusetts 01105 Telephone: (413) 785-5871	04-2147929
0-00404	**THE CONNECTICUT LIGHT AND POWER COMPANY** (a Connecticut corporation) 107 Selden Street Berlin, Connecticut 06037-1616 Telephone: (860) 665-5000	06-0303850
1-6392	**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE** (a New Hampshire corporation) Energy Park 780 North Commercial Street Manchester, New Hampshire 03101-1134	02-0181050

Telephone: (603) 669-4000

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

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

Yes	**No**
√	

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

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

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

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

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

Company - Class of Stock	Outstanding at October 31, 2006
Northeast Utilities Common stock, $5.00 par value	154,022,864 shares
The Connecticut Light and Power Company Common stock, $10.00 par value	6,035,205 shares

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

GLOSSARY OF TERMS

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

NU COMPANIES, SEGMENTS OR INVESTMENTS:

CL&P	The Connecticut Light and Power Company
CRC	CL&P Receivables Corporation
HWP	Holyoke Water Power Company
Mt. Tom	Mount Tom generating plant
NGC	Northeast Generation Company
NGS	Northeast Generation Services Company
NU or the company	Northeast Utilities
NU Enterprises	At September 30, 2006, NU's competitive subsidiaries include the merchant energy segment, which is comprised of Select Energy, NGC, NGS and the generation operations of Mt. Tom, and the energy services segment, which is comprised of E.S. Boulos Company, and NGS Mechanical, Inc., which are subsidiaries of NGS and SECI. For further information, see Note 12, "Segment Information," to the condensed consolidated financial statements.
PSNH	Public Service Company of New Hampshire
SECI	Select Energy Contracting, Inc.
Select Energy	Select Energy, Inc.
SESI	Select Energy Services, Inc.
Utility Group	NU's regulated utilities comprised of the electric distribution and transmission businesses of CL&P, PSNH, WMECO, the generation business of PSNH and the gas distribution business of Yankee Gas. For further information, see Note 12 "Segment Information," to the condensed consolidated financial statements.
WMECO	Western Massachusetts Electric Company
Yankee	Yankee Energy System, Inc.
Yankee Gas	Yankee Gas Services Company

THIRD PARTIES:

CYAPC	Connecticut Yankee Atomic Power Company
ECP	Energy Capital Partners

REGULATORS:

CSC	Connecticut Siting Council
DPUC	Connecticut Department of Public Utility Control
DTE	Massachusetts Department of Telecommunications and Energy
FERC	Federal Energy Regulatory Commission
NHPUC	New Hampshire Public Utilities Commission
SEC	Securities and Exchange Commission

OTHER:

AFUDC	Allowance For Funds Used During Construction
CTA	Competitive Transition Assessment
EPS	Earnings Per Share
ES	Default Energy Service
FASB	Financial Accounting Standards Board
FCM	Forward Capacity Market
FMCC	Federally Mandated Congestion Cost
GSC	Generation Service Charge
Hess	Hess Corporation
ISO-NE	New England Independent System Operator
kWh	Kilowatt-Hour
kV	Kilovolt
LICAP	Locational Installed Capacity
LOCs	Letters of Credit
MW	Megawatt/Megawatts
NU 2005 Form 10-K	The Northeast Utilities and Subsidiaries combined 2005 Form 10-K as filed with the SEC
NYMEX	New York Mercantile Exchange
OCC	Connecticut Office of Consumer Counsel
Regulatory ROE	The average cost of capital method for calculating the return on equity related to the distribution and generation business segments excluding the wholesale transmission segment.
RMR	Reliability Must Run
ROE	Return on Equity
RTO	Regional Transmission Organization
SBC	System Benefits Charge
SCRC	Stranded Cost Recovery Charge
SFAS	Statement of Financial Accounting Standards
TSO	Transitional Standard Offer

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

TABLE OF CONTENTS

NORTHEAST UTILITIES AND SUBSIDIARIES

1

NORTHEAST UTILITIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2006	December 31, 2005
	(Thousands of Dollars)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 50,455	$ 45,782
Special deposits	34,413	103,789
Investments in securitizable assets	273,085	252,801
Receivables, less provision for uncollectible accounts of $21,033 in 2006 and $24,444 in 2005	331,836	901,516
Unbilled revenues	62,984	175,853
Taxes receivable	152,047	-
Fuel, materials and supplies	175,886	206,557
Marketable securities - current	62,193	56,012
Derivative assets - current	104,567	403,507
Prepayments and other	81,009	129,242
Assets held for sale	861,901	101,784
	2,190,376	2,376,843
Property, Plant and Equipment:		
Electric utility	6,929,584	6,378,838
Gas utility	853,718	825,872
Competitive energy	18,609	908,776
Other	277,621	254,659
	8,079,532	8,368,145
Less: Accumulated depreciation	2,600,329	2,551,322
	5,479,203	5,816,823
Construction work in progress	567,081	600,407
	6,046,284	6,417,230

Deferred Debits and Other Assets:		
Regulatory assets	2,100,555	2,483,851
Goodwill	287,591	287,591
Prepaid pension	265,076	298,545
Marketable securities - long-term	51,556	56,527
Derivative assets - long-term	274,263	425,049
Other	276,838	223,439
	3,255,879	3,775,002
Total Assets	$ 11,492,539	$ 12,569,075

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

NORTHEAST UTILITIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2006	December 31, 2005
	(Thousands of Dollars)	
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes payable to banks	$ 278,000	$ 32,000
Long-term debt - current portion	26,309	22,673
Accounts payable	511,614	972,368
Accrued taxes	2,248	95,210
Accrued interest	62,309	47,742
Derivative liabilities - current	126,479	402,530
Counterparty deposits	220	28,944
Other	259,501	272,252
Liabilities of assets held for sale	349,055	101,511
	1,615,735	1,975,230
Rate Reduction Bonds	1,232,555	1,350,502
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	1,489,425	1,306,340
Accumulated deferred investment tax credits	33,346	95,444
Deferred contractual obligations	289,944	358,174
Regulatory liabilities	773,466	1,273,501
Derivative liabilities - long-term	153,158	272,995
Other	358,959	364,157
	3,098,298	3,670,611
Capitalization:		
Long-Term Debt	2,956,551	3,027,288

Preferred Stock of Subsidiary - Non-Redeemable	116,200	116,200
Common Shareholders' Equity:		
Common shares, $5 par value - authorized 225,000,000 shares; 175,250,911 shares issued and 153,968,400 shares outstanding in 2006 and 174,897,704 shares issued and 153,225,892 shares outstanding in 2005	876,255	874,489
Capital surplus, paid in	1,444,695	1,437,561
Deferred contribution plan - employee stock ownership plan	(37,073)	(46,884)
Retained earnings	544,700	504,301
Accumulated other comprehensive income	5,463	19,987
Treasury stock, 19,680,010 shares in 2006 and 19,645,511 shares in 2005	(360,840)	(360,210)
Common Shareholders' Equity	2,473,200	2,429,244
Total Capitalization	5,545,951	5,572,732
Commitments and Contingencies (Note 7)		
Total Liabilities and Capitalization	$ 11,492,539	$ 12,569,075

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

NORTHEAST UTILITIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME/(LOSS)
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Thousands of Dollars, except share information)			
	$	$	$	$
Operating Revenues	1,594,096	1,754,942	5,402,545	5,519,519
Operating Expenses:				
Operation -				
Fuel, purchased and net interchange power	1,052,277	1,173,080	3,686,287	3,822,167
Other	248,154	268,350	823,626	785,839
Wholesale contract market changes, net	(4,781)	101,218	14,910	359,684
Restructuring and impairment charges	1,287	4,807	9,712	28,461
Maintenance	55,918	50,454	143,539	136,976
Depreciation	61,290	56,035	179,645	166,293
Amortization	(8,639)	79,902	48,755	127,021
Amortization of rate reduction bonds	49,161	46,123	141,836	133,029
Taxes other than income taxes	62,179	60,645	193,046	188,049
Total operating expenses	1,516,846	1,840,614	5,241,356	5,747,519
Operating Income/(Loss)	77,250	(85,672)	161,189	(228,000)
Interest Expense:				
Interest on long-term debt	40,105	33,928	112,632	96,984
Interest on rate reduction bonds	18,197	21,502	57,060	66,775
Other interest	4,479	3,864	18,105	15,178
Interest expense, net	62,781	59,294	187,797	178,937

Other Income, Net	13,871	11,768	41,967	27,962
Income/(Loss) from Continuing Operations Before				
Income Tax Benefit	28,340	(133,198)	15,359	(378,975)
Income Tax Benefit	(75,702)	(34,856)	(85,087)	(131,729)
Income/(Loss) from Continuing Operations Before				
Preferred Dividends of Subsidiary	104,042	(98,342)	100,446	(247,246)
Preferred Dividends of Subsidiary	1,390	1,390	4,169	4,169
Income/(Loss) from Continuing Operations	102,652	(99,732)	96,277	(251,415)
Discontinued Operations:				
Income from Discontinued Operations,				
Before Income Taxes	15,945	8,906	54,792	20,370
Loss from Sale of Discontinued Operations	(1,605)	-	(8,083)	-
Income Tax Expense	5,543	3,666	19,401	8,870
Income from Discontinued Operations	8,797	5,240	27,308	11,500
Net Income/(Loss)	$ 111,449	$ (94,492)	$ 123,585	$ (239,915)
Basic and Fully Diluted Earnings/(Loss) Per Common Share:				
Income/(Loss) from Continuing Operations	$ 0.67	$ (0.77)	$ 0.63	$ (1.94)
Income from Discontinued Operations	0.05	0.04	0.17	0.09
Basic and Fully Diluted Earnings/(Loss) Per Common Share	$ 0.72	$ (0.73)	$ 0.80	$ (1.85)
Basic Common Shares Outstanding (average)	153,883,480	129,957,408	153,651,610	129,585,519
Fully Diluted Common Shares Outstanding (average)	154,320,675	129,957,408	154,036,770	129,585,519

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

NORTHEAST UTILITIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	(Thousands of Dollars)	
Operating Activities:		
Net income/(loss)	$ 123,585	$ (239,915)
Adjustments to reconcile to net cash flows provided by operating activities:		
Wholesale contract market changes, net	2,089	359,684
Restructuring and impairment charges	9,202	53,194
Bad debt expense	25,665	21,758
Depreciation	182,752	175,443
Deferred income taxes	130,432	(122,012)
Amortization	48,755	127,021
Amortization of rate reduction bonds	141,836	133,029
Amortization of recoverable energy costs	6,481	22,158
Pension expense	20,626	24,699
Wholesale contract buyout payments	-	(145,231)
Regulatory refunds	(150,541)	(91,796)
Derivative assets and liabilities	(80,511)	4,466
Deferred contractual obligations	(72,255)	(67,065)
Other non-cash adjustments	940	52,303
Other sources of cash	9,375	-
Other uses of cash	(17,398)	(4,136)
Changes in current assets and liabilities:		
Receivables and unbilled revenues, net	658,768	(1,137)
Fuel, materials and supplies	14,831	(33,979)
Investments in securitizable assets	(20,284)	(81,551)
Other current assets	23,533	48,984
Accounts payable	(461,183)	50,800

Counterparty deposits and margin special deposits	38,842	33,761
(Taxes receivable)/accrued taxes	(245,009)	32,332
Other current liabilities	(10,265)	(54)
Net cash flows provided by operating activities	380,266	352,756
Investing Activities:		
Investments in property and plant:		
Electric, gas and other utility plant	(583,083)	(508,116)
Competitive energy assets	(17,219)	(13,421)
Cash flows used for investments in property and plant	(600,302)	(521,537)
Net proceeds from sale of property	903	24,649
Cash payments for sales of competitive businesses	(19,429)	-
Proceeds from sales of investment securities	127,010	96,471
Purchases of investment securities	(123,319)	(108,944)
Rate reduction bond escrow	(54,357)	(8,069)
Other investing activities	2,971	15,291
Net cash flows used in investing activities	(666,523)	(502,139)
Financing Activities:		
Issuance of common shares	6,310	8,161
Issuance of long-term debt	250,000	300,000
Retirement of rate reduction bonds	(117,947)	(147,347)
Increase in short-term debt	246,000	128,000
Reacquisitions and retirements of long-term debt	(11,053)	(52,061)
Cash dividends on common shares	(83,560)	(64,785)
Other financing activities	1,180	16,620
Net cash flows provided by financing activities	290,930	188,588
Net increase in cash and cash equivalents	4,673	39,205
Cash and cash equivalents - beginning of period	45,782	46,989
Cash and cash equivalents - end of period	$ 50,455	$ 86,194

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

NORTHEAST UTILITIES AND SUBSIDIARIES

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (All Companies)

A.

Presentation

Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying unaudited condensed consolidated financial statements should be read in conjunction with this complete report on Form 10-Q, the first and second quarter 2006 reports on Form 10-Q, and the Annual Reports of Northeast Utilities (NU or the company), The Connecticut Light and Power Company (CL&P), Public Service Company of New Hampshire (PSNH), and Western Massachusetts Electric Company (WMECO), which were filed as part of the Northeast Utilities and subsidiaries combined 2005 Form 10-K (NU 2005 Form 10-K) with the SEC, and the current report on Form 8-K dated June 7, 2006 that updated the 2005 Form 10-K to present certain portions of the business as discontinued operations for all periods. The accompanying condensed consolidated financial statements contain, in the opinion of management, all adjustments (including normal, recurring adjustments) necessary to present fairly NU's and the above companies' financial position at September 30, 2006, and the results of operations for the three and nine months ended September 30, 2006 and 2005 and cash flows for the nine months ended September 30, 2006 and 2005. The results of operations and statements of cash flows for the nine months ended September 30, 2006 and 2005 are not necessarily indicative of the results expected for a full year.

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

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

In NU's condensed consolidated statements of income/(loss) and CL&P's, PSNH's and WMECO's condensed consolidated statements of income, the classification of expense amounts relating to compensation costs not recoverable from regulated customers, advertising costs, environmental charges and rate reduction bond service fees previously included in other income, net was changed to a preferable presentation. These expense amounts, which were reclassified to other operation expense for NU, CL&P, PSNH, and WMECO, totaled $3.9 million, $1.3 million, $1.1 million and $0.2 million, respectively, for the three months ended September 30, 2005. Similar amounts for the nine months ended September 30, 2005 for NU, CL&P, PSNH, and WMECO totaled $13.1 million, $4.1 million, $3 million and $0.6 million, respectively. These reclassifications had no impact on the companies' results of operations, cash flows, financial condition or changes in shareholders' equity.

NU's condensed consolidated statements of income/(loss) for all periods presented classify the operations for the following as discontinued operations, which were reflected in the report on Form 8-K dated June 7, 2006 and the second quarter 2006 report on Form 10-Q:

- Northeast Generation Company (NGC),
- The Mt. Tom generating plant (Mt. Tom) owned by Holyoke Water Power Company (HWP),
- Select Energy Services, Inc. (SESI) and its wholly owned subsidiaries HEC/Tobyhanna Energy Project, Inc. and HEC/CJTS Energy Center LLC,
- A portion of Woods Electrical Co., Inc. (Woods Electrical),
-

Select Energy Contracting, Inc. - New Hampshire (SECI-NH) (including Reeds Ferry Supply Co., Inc. (Reeds Ferry)), a division of Select Energy Contracting, Inc. (SECI), and

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Woods Network Services, Inc. (Woods Network).

At September 30, 2006, all assets and liabilities of NGC and Mt. Tom have been classified as assets held for sale and liabilities of assets held for sale on the accompanying condensed consolidated balance sheet. At December 31, 2005, assets held for sale and liabilities of assets held for sale consisted of certain assets and liabilities of SESI and Woods Electrical. For further information regarding these companies, see Note 4, "Assets Held for Sale and Discontinued Operations."

B.

Accounting Standards Issued But Not Yet Adopted

Accounting for Servicing of Financial Assets: In March of 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 156, "Accounting for Servicing of Financial Assets - An Amendment of FASB Statement No. 140." SFAS No. 156 requires an entity to recognize a servicing asset or liability at fair value each time it undertakes an obligation to service a financial asset by entering into a servicing contract in a transfer of the servicer's financial assets that meets the requirements for sale accounting and in other circumstances. Servicing assets and liabilities may be subsequently measured through either amortization or recognition of fair value changes in earnings. SFAS No. 156 is required to be applied prospectively to transactions beginning in the first quarter of 2007 and may affect the accounting treatment of CL&P Receivables Corporation (CRC), a wholly owned subsidiary of CL&P. Implementation of SFAS No. 156 is not expected to have a material effect on the company's financial statements.

Uncertain Tax Positions: On July 13, 2006, the FASB issued FASB Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109." FIN 48 addresses the methodology to be used in estimating and reporting amounts associated with uncertain tax positions, including interest and penalties. FIN 48 is required to be implemented prospectively in the first quarter of 2007 as a change in accounting principle with a cumulative effect adjustment reflected in the January 1, 2007 balance of retained earnings. The company is currently evaluating the potential impacts of FIN 48 on its financial statements.

Fair Value Measurements: On September 15, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a framework for identifying and measuring fair value and is required to be implemented in the first quarter of 2008. SFAS No. 157 provides a fair value hierarchy, giving the highest priority to quoted prices in active markets, and is expected to be applied to fair value measurements of derivative contracts that are subject to mark-to-market accounting and other assets and liabilities reported at fair value. In most cases, SFAS No. 157 is required to be implemented prospectively with adjustments to fair value reflected as a cumulative effect adjustment to the opening balance of retained earnings as of January 1, 2008. The company is evaluating the potential impacts of SFAS No. 157 on its financial statements.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: On September 29, 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." Effective prospectively beginning on December 31, 2006, SFAS No. 158 requires balance sheet recognition of the funded status of pension and postretirement benefit plans, with the difference between the funded status and the accrued or prepaid position recognized as a charge or credit to shareholders' equity through other comprehensive income. The company is currently evaluating the potential balance sheet impacts of implementing SFAS No. 158 and whether NU's regulated companies will report regulatory assets or liabilities rather than charges or credits to shareholders' equity in recognition of the recovery of pension and postretirement expenses in rates. Implementing SFAS No. 158 could have a material negative effect on NU's and its subsidiaries shareholders' equity balances, the amount of which would depend upon the plans' funded status at December 31, 2006 and whether regulatory accounting is determined to apply to NU's regulated companies upon adoption of the standard. At December 31, 2005, the total difference between the funded status and the accrued or prepaid positions for NU's pension and postretirement plans was over $700 million on a pre-tax basis.

C.

Regulatory Accounting

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

The transmission and distribution businesses of CL&P, PSNH and WMECO, along with PSNH's generation business and Yankee Gas Services Company's (Yankee Gas) distribution business, continue to be cost-of-service rate regulated, and management believes that the application of SFAS No. 71 to those businesses continues to be appropriate. Management also believes that it is probable that the Utility Group will recover its investments in long-lived assets, including regulatory assets. In addition, all material net regulatory assets are earning an equity return, except for securitized regulatory assets, which are not supported by equity, and substantial portions of the unrecovered contractual obligations regulatory assets. Amortization and deferrals of regulatory assets are included on a net basis in amortization expense on the accompanying condensed consolidated statements of income/(loss).

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

	At September 30, 2006				
(Millions of Dollars)	NU Consolidated	CL&P	PSNH	WMECO	Yankee Gas and Other
Recoverable nuclear costs	$ 14.7	$ -	$ -	$ 14.7	$ -
Securitized assets	1,182.8	743.2	338.2	101.4	-
Income taxes, net	374.0	295.8	13.5	46.9	17.8
Unrecovered contractual obligations	224.6	170.5	-	54.1	-
Recoverable energy costs	15.0	11.2	-	2.0	1.8
CTA and SBC undercollections	71.4	71.4	-	-	-
Other regulatory assets/(overrecoveries)	218.1	75.9	67.0	17.7	57.5
Totals	$ 2,100.6	$ 1,368.0	$ 418.7	$ 236.8	$ 77.1

	At December 31, 2005				
(Millions of Dollars)	NU Consolidated	CL&P	PSNH	WMECO	Yankee Gas and Other
Recoverable nuclear costs	$ 44.1	$ -	$ 26.1	$ 18.0	$ -
Securitized assets	1,340.9	855.6	375.0	110.3	-
Income taxes, net	332.5	227.6	35.9	51.6	17.4
Unrecovered contractual obligations	327.5	197.7	63.2	66.6	-
Recoverable energy costs	193.0	7.3	171.5	2.5	11.7
Other regulatory assets/(overrecoveries)	245.9	69.8	150.3	(25.8)	51.6
Totals	$ 2,483.9	$ 1,358.0	$ 822.0	$ 223.2	$ 80.7

At September 30, 2006, CL&P's Competitive Transition Assessment (CTA) was recorded as a $65.6 million regulatory asset as CTA unrecovered costs were in excess of CTA collections due to refunds to customers. At December 31, 2005, CTA collections were in excess of CTA costs, and a $26 million regulatory liability was recorded. The change relates to refunds made to customers between January and August of 2006 ordered by the Connecticut Department of Public Utility Control (DPUC) in anticipation of future overrecoveries.

Included in NU's other regulatory assets/(overrecoveries) above are regulatory assets recorded in accordance with FIN 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143," totaling $53.3 million at September 30, 2006 and $47.3 million at December 31, 2005. A portion of these asset retirement obligations regulatory assets totaling $17.8 million at September 30, 2006 and $17.3 million at December 31, 2005 has been approved for future recovery. At this time, management believes that the remaining regulatory assets are also probable of recovery.

The restructuring settlement agreement between PSNH and the state of New Hampshire, which was implemented in May of 2001, requires that non-securitized stranded costs be recovered from PSNH's customers prior to a recovery end date of October 31, 2007. On June 30, 2006, under the terms of the restructuring settlement agreement, PSNH completed the recovery of its non-securitized stranded costs and offset the remaining stranded cost regulatory asset balances totaling $345.8 million against an offsetting regulatory liability for the cumulative deferral of Stranded Cost Recovery Charge (SCRC) revenues. At September 30, 2006, PSNH had $338.2 million of Part 1 securitized stranded costs and $26.2 million of Part 2 non-securitized stranded costs, including $6.5 million of SCRC costs in excess of SCRC revenues. This amount is a reconciling item that will be included in the calculation of the 2007 SCRC rate.

Included in WMECO's other regulatory assets/(overrecoveries) are $20.2 million and $37.8 million at September 30, 2006 and December 31, 2005, respectively, of amounts related to WMECO's rate cap deferral. The rate cap deferral allows WMECO to recover stranded costs, and these amounts represent the cumulative excess of transition cost revenues over transition cost expenses.

Additionally, the Utility Group had $15.3 million and $11.2 million of costs at September 30, 2006 and December 31, 2005, respectively, that are included in deferred debits and other assets - other on the accompanying condensed consolidated balance sheets. These amounts represent costs that have not yet been approved by the applicable regulatory agency. Management believes these assets are recoverable in future cost of service regulated rates.

As discussed in Note 7D, "Commitments and Contingencies - Deferred Contractual Obligations," substantial portions of the unrecovered contractual obligations regulatory assets have not yet been approved for recovery. On August 15, 2006, a settlement agreement was filed with the Federal Energy Regulatory Commission (FERC) that, if approved, would allow for the collection of these costs. Management expects that the FERC will rule on the settlement agreement by the end of 2006 and believes that these regulatory assets are probable of recovery.

Regulatory Liabilities: The Utility Group had $773.5 million of regulatory liabilities at September 30, 2006 and $1.3 billion at December 31, 2005, including revenues subject to refund. These amounts are comprised of the following:

	At September 30, 2006				
(Millions of Dollars)	**NU Consolidated**	**CL&P**	**PSNH**	**WMECO**	**Yankee Gas and Other**
Cost of removal	$ 296.3	$ 136.8	$ 80.9	$ 23.8	$ 54.8
CL&P GSC overcollections	54.9	54.9	-	-	-
Regulatory liabilities offsetting Utility Group derivative assets	290.2	290.2	-	-	-
Other regulatory liabilities	132.1	57.9	43.5	0.1	30.6
Totals	$ 773.5	$ 539.8	$ 124.4	$ 23.9	$ 85.4

	At December 31, 2005				
(Millions of Dollars)	**NU Consolidated**	**CL&P**	**PSNH**	**WMECO**	**Yankee Gas and Other**
Cost of removal	$ 305.5	$ 139.4	$ 85.7	$ 23.6	$ 56.8
CL&P CTA, GSC and SBC overcollections	154.0	154.0	-	-	-
PSNH cumulative deferral - SCRC	303.3	-	303.3	-	-
Regulatory liabilities offsetting Utility Group derivative assets	391.2	391.2	-	-	-
Other regulatory liabilities	119.5	58.4	25.6	0.2	35.3
Totals	$ 1,273.5	$ 743.0	$ 414.6	$ 23.8	$ 92.1

For information regarding derivative assets, see Note 5, "Derivative Instruments."

D.

Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC) is a non-cash item that is included in the cost of Utility Group utility plant and represents the cost of borrowed and equity funds used to finance construction. The portion of AFUDC attributable to borrowed funds is recorded as a reduction in other interest expense, and the cost of equity funds is recorded as other income on the condensed consolidated statements of income/(loss), as follows:

	For the Three Months Ended		For the Nine Months Ended	
(Millions of Dollars)	**September 30, 2006**	**September 30, 2005**	**September 30, 2006**	**September 30, 2005**
Borrowed funds	$3.3	$2.7	$ 9.4	$ 6.9
Equity funds	4.2	3.7	10.5	7.9
Totals	$7.5	$6.4	$19.9	$14.8
Average AFUDC rates	7.5%	6.2%	6.9%	5.3%

The average Utility Group AFUDC rate is based on a FERC prescribed formula that develops an average rate using the cost of a company's short-term financings as well as a company's capitalization (preferred stock, long-term debt and common equity). The average rate is applied to eligible construction work in progress amounts to calculate AFUDC. Fifty percent of construction work in progress (CWIP) of CL&P's four major transmission projects in southwest Connecticut is recovered currently in rates for the portion under FERC jurisdiction. The increase in AFUDC from borrowed and equity funds during the three and nine months ended September 30, 2006 as compared to the three and nine months ended September 30, 2005 results from higher levels of CWIP due to CL&P's transmission projects, PSNH's Northern Wood project and Yankee Gas' liquefied natural gas project. The increase in the average AFUDC rate in 2006 is primarily due to the increased CWIP being financed by permanent capital and higher short-term debt rates.

E.

Share-Based Payments

NU maintains an Employee Stock Purchase Plan (ESPP) and other long-term equity-based incentive plans under the Northeast Utilities Incentive Plan (Incentive Plan). In the first quarter of 2006, NU adopted SFAS No. 123(R), "Share-Based Payments," under the modified prospective method. Adoption of SFAS No. 123(R) had a de minimus effect on NU's net income/(loss) and no effect on NU's income/(loss) per share. For the nine months ended September 30, 2006, a tax benefit in excess of compensation cost totaling $0.5 million increased cash flows from financing activities.

SFAS No. 123(R) requires that share-based payments be recorded using the fair value-based method based on the fair value at the date of grant and applies to share-based compensation awards granted on or after January 1, 2006 or to awards for which the requisite service period has not been completed. For prior periods, as permitted by SFAS No. 123, "Accounting for Stock-Based

9

Compensation," and related guidance, NU used the intrinsic value method and disclosed the pro forma effects as if NU recorded equity-based compensation under the fair value-based method.

NU accounts for its various share-based plans as follows:

- For grants of restricted stock and restricted stock units (RSUs), NU continues to record compensation expense over the vesting period based upon the fair value of NU's common stock at the date of grant, but records this expense net of estimated forfeitures. Previously, forfeitures were recorded as they occurred. Dividend equivalents on RSUs, previously included in compensation expense, are charged to retained earnings net of estimated forfeitures.

- For shares granted under the ESPP, an immaterial amount of compensation expense was recorded in the first quarter of 2006, and no future compensation expense was recorded in the second and third quarters of 2006 or will be recorded in future periods as a result of a plan amendment that was effective on February 1, 2006.

- NU has not granted any stock options since 2002, and no compensation expense has been recorded. All options were fully vested prior to January 1, 2006.

Incentive Plans: Under the Incentive Plan, NU is authorized to grant new shares for various types of awards, including restricted shares, restricted share units, performance units, and stock options to eligible employees and board members. The number of shares that may be utilized for grants and awards during a given calendar year may not exceed the aggregate of one percent of the total number of NU common shares outstanding as of the first day of that calendar year plus the shares not utilized in previous years.

Restricted Shares and Restricted Share Units: NU has granted restricted shares under the 2002, 2003 and 2004 incentive programs that are subject to three-year and four-year graded vesting schedules. NU has granted RSUs under the 2004, 2005 and 2006 incentive programs that are subject to three-year and four-year graded vesting schedules. RSUs are paid in shares plus cash sufficient to satisfy withholdings subsequent to vesting. A summary of restricted shares and RSUs for the nine months ended September 30, 2006 is as follows:

Restricted Shares	**Restricted Shares**	**Weighted Average Grant - Date Fair Value**	**Total Weighted Average Grant - Date Fair Value (Millions)**	**Remaining Compensation Cost (Millions)**	**Weighted Average Remaining Period (Years)**
Outstanding at December 31, 2005	152,901	N/A			
Granted	-	-			
Vested	(74,243)	$14.52	$1.1		
Forfeited	(1,388)	$14.17			
Outstanding at March 31, 2006	77,270	$14.87	$1.1	$1.0	1.0
Granted	-	-	-		
Vested	-	-	-		
Forfeited	(3,405)	$14.14			
Outstanding at June 30, 2006	73,865	$14.90	$1.1	$0.7	0.8
Granted	-	-			
Vested	-	-			
Forfeited	(3,952)	$14.14			
Outstanding at September 30, 2006	69,913	$14.95	$1.0	$0.4	0.6

The per share and total weighted average grant date fair value for restricted shares vested was $14.60 and $1.4 million, respectively, for the nine months ended September 30, 2005. No shares vested during the three months ended September 30, 2005.

The total compensation cost recognized during the three and nine months ended September 30, 2006 was $0.1 million and $0.4 million, net of taxes of approximately $0.1 million and $0.3 million, respectively. The total compensation cost recognized during the three and nine months ended September 30, 2005 was $0.2 million and $0.5 million, net of taxes of approximately $0.1 million and $0.3 million, respectively.

RSUs	RSUs (Units)	Weighted Average Grant - Date Fair Value	Total Weighted Average Grant - Date Fair Value (Millions)	Remaining Compensation Cost (Millions)	Weighted Average Remaining Period (Years)
Outstanding at December 31, 2005	521,273	N/A			
Granted	352,783	$19.66			
Issued	(109,579)	$18.43	$ 2.0		
Forfeited	(5,604)	$18.93			
Outstanding at March 31, 2006	758,873	$19.27	$14.6	$11.6	2.4
Granted	6,244	$20.67			
Issued	(2,516)	$19.11	-		
Forfeited	(18,870)	$19.19			
Outstanding at June 30, 2006	743,731	$19.40	$14.4	$10.0	2.1
Granted	5,876	$23.27			
Issued	(2,693)	$19.19	$ 0.1		
Forfeited	(9,713)	$19.37			
Outstanding at September 30, 2006	737,201	$19.33	$14.3	$ 8.1	2.0

The weighted average grant date fair value per share for RSUs granted during the three and nine months ended September 30, 2005 was $19.95 and $18.81, respectively. The weighted average grant date fair value per share for RSUs paid during the three and nine months ended September 30, 2005 was $19.02 and $19.06, respectively. The total weighted average fair value of RSUs paid during the three and nine months ended September 30, 2005 was approximately $48 thousand and $1.9 million, respectively.

The total compensation cost recognized for the three and nine months ended September 30, 2006 was $0.7 million and $2.1 million, respectively, net of taxes of approximately $0.5 million and $1.4 million, respectively. The total compensation cost recognized during the three and nine months ended September 30, 2005 was $0.3 million and $1.4 million, net of taxes of approximately $0.2 million and $0.9 million, respectively.

Stock Options: Prior to 2003, NU granted stock options to certain employees. These options were fully vested as of December 31, 2005. The fair value of each stock option grant was estimated on the date of grant using the

Black-Scholes option pricing model. The weighted average remaining contractual lives for the options outstanding at September 30, 2006 is 4 years.

A summary of stock option transactions is as follows:

		Exercise Price Per Share			
	Options	**Range**			**Weighted Average**
Outstanding - December 31, 2005	**1,122,541**	**$14.9375**	-	**$22.2500**	**$18.4484**
Exercised	(8,166)	$16.3100	-	$19.5000	$17.7861
Forfeited and cancelled	(18,750)	$21.0300	-	$21.0300	$21.0300
Outstanding and Exercisable - March 31, 2006	**1,095,625**	**$14.9375**	-	**$22.2500**	**$18.4091**
Exercised	(51,817)	$14.9375	-	$19.5000	$17.9485
Forfeited and cancelled	-	N/A	-	N/A	$ -
Outstanding and Exercisable - June 30, 2006	**1,043,808**	**$14.9375**	-	**$22.2500**	**$18.4320**
Exercised	(106,338)	$14.9375	-	$19.8700	$17.7315
Forfeited and cancelled	(6,600)	$21.0300	-	$21.0300	$21.0300
Outstanding and Exercisable - September 30, 2006	**930,870**	**$14.9375**	-	**$22.2500**	**$18.4936**

Cash received for options exercised during the three and nine months ended September 30, 2006 totaled $2 million and $3.2 million, respectively.

Employee Share Purchase Plan: NU maintains an ESPP for all eligible employees. Prior to February 1, 2006, NU common shares were purchased by employees at six-month intervals at 85 percent of the lower of the price on the first or last day of each six-month period. Employees were permitted to purchase shares having a value not exceeding 25 percent of their compensation as of the beginning of the purchase period. Effective February 1, 2006, the ESPP was amended to change the discount rate to 5 percent of the closing market price on the last day of the purchase period. As a result, the ESPP qualifies as a non-compensatory plan under SFAS No. 123(R), and no compensation expense will be recorded for ESPP purchases.

Pro Forma Impact: The following table illustrates the pro forma effect if NU had applied the recognition provisions of SFAS No. 123 to share-based compensation:

	For the Three Months Ended September 30, 2005		For the Nine Months Ended September 30, 2005	
Net loss, as reported	$	(94.5)	$	(239.9)
Add: Share-based payments included in reported net loss, net of related tax effects		0.5		1.9
Net loss before share-based payments		(94.0)		(238.0)
Deduct: Total share-based payments determined under the fair value-based method for all awards, net of related tax effects		(0.7)		(2.5)
Pro forma net loss	$	(94.7)	$	(240.5)
Loss Per Share:				
Basic and fully diluted - as reported	$	(0.73)	$	(1.85)
Basic and fully diluted - pro forma	$	(0.73)	$	(1.86)

An income tax rate of 40 percent is used to estimate the tax effect on total share-based payments determined under the fair value-based method for all awards.

F.

Sale of Customer Receivables

At September 30, 2006 and December 31, 2005, CL&P had sold an undivided interest in its accounts receivable of $100 million and $80 million, respectively, to a financial institution with limited recourse through the CRC, a consolidated, wholly-owned subsidiary of CL&P. CRC can sell up to $100 million of an undivided interest in its accounts receivable and unbilled revenues. At September 30, 2006 and December 31, 2005, the reserve requirements calculated in accordance with the Receivables Purchase and Sale Agreement were $20.6 million and $21 million, respectively. These reserve amounts are deducted from the amount of receivables eligible for sale. At their present levels, these reserve amounts do not limit CL&P's ability to access the full amount of the facility. Concentrations of credit risk to the purchaser under this agreement with respect to the receivables are limited due to CL&P's diverse customer base.

At September 30, 2006 and December 31, 2005, amounts sold to CRC by CL&P but not sold to the financial institution totaling $273.1 million and $252.8 million, respectively, are included in investments in securitizable assets on the accompanying condensed consolidated balance sheets. These amounts would be excluded from CL&P's assets in the event of CL&P's bankruptcy. On July 5, 2006, CRC renewed the bank commitment for the Receivables Purchase and Sale Agreement with CL&P and the financial institution through July 3, 2007 to coincide with the date this agreement terminates, unless otherwise extended. CL&P's continuing involvement with the receivables that are sold to CRC and the financial institution is limited to servicing those receivables.

The transfer of receivables to the financial institution under this arrangement qualifies for sale treatment under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities - A Replacement of SFAS No. 125." See Note 1B, "Accounting Standards Issued But Not Yet Adopted," for further information.

G.

Investment in CYAPC

The operating subsidiaries of NU collectively own 49 percent of the common stock of Connecticut Yankee Atomic Power Company (CYAPC) with a carrying value of $20.8 million at September 30, 2006 and $22.7 million at December 31, 2005. These amounts are included in deferred debits and other assets - other on the accompanying condensed consolidated balance sheets. On August 15, 2006, a settlement agreement was filed with the FERC that, if approved, would allow for the recovery of CYAPC's decommissioning and plant closure costs. For further information, see Note 7D, "Commitments and Contingencies - Deferred Contractual Obligations," Note 1C, "Summary of Significant Accounting Policies - Regulatory Accounting," and Note 1K, "Summary of Significant Accounting Policies - Other Income, Net."

H.

Cash and Cash Equivalents

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

12

I.

Special Deposits

Special deposits represent amounts Select Energy, Inc. (Select Energy) has on deposit with unaffiliated counterparties and brokerage firms in the amount of $34.4 million and $103.8 million at September 30, 2006 and December 31, 2005, respectively. SESI special deposits totaling $10.2 million at December 31, 2005 are included in assets held for sale on the accompanying condensed consolidated balance sheets. SESI was sold in the second quarter of 2006.

J.

Counterparty Deposits

Balances collected from counterparties resulting from Select Energy's credit management activities totaled $0.2 million at September 30, 2006 and $28.9 million at December 31, 2005. These amounts are recorded as current liabilities and included as counterparty deposits on the accompanying condensed consolidated balance sheets. To the extent Select Energy requires collateral from counterparties, cash is received as a part of the total collateral required. The right to use such cash collateral in an unrestricted manner is determined by the terms of Select Energy's agreements. Key factors affecting the unrestricted status of a portion of this cash collateral include the financial standing of Select Energy and of NU as its credit supporter.

K.

Other Income, Net

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

NU	**For the Three Months Ended**		**For the Nine Months Ended**	
(Millions of Dollars)	**September 30, 2006**	**September 30, 2005**	**September 30, 2006**	**September 30, 2005**
Other Income:				
Investment income	$ 6.5	$ 4.3	$ 19.0	$ 12.9
CL&P procurement fee	3.0	3.1	8.5	9.0

AFUDC - equity funds		4.2		3.7		10.5		7.9
Gain on sale of investment in Globix		-		-		3.1		-
Other		3.1		3.0		10.1		9.1
Total Other Income	$	16.8	$	14.1	$	51.2	$	38.9
Other Loss:								
Charitable donations	$	(0.8)	$	(0.4)	$	(2.2)	$	(2.1)
Lobbying costs		(1.0)		(0.7)		(3.5)		(2.7)
Loss on investments in securitizable assets		(0.6)		(0.3)		(1.7)		(1.1)
Other		(0.5)		(0.9)		(1.8)		(5.0)
Total Other Loss	$	(2.9)	$	(2.3)	$	(9.2)	$	(10.9)
Total Other Income, Net	$	13.9	$	11.8	$	42.0	$	28.0

CL&P	**For the Three Months Ended**				**For the Nine Months Ended**			
(Millions of Dollars)	**September 30, 2006**		**September 30, 2005**		**September 30, 2006**		**September 30, 2005**	
Other Income:								
Investment income	$	4.1	$	2.8	$	11.8	$	7.7
CL&P procurement fee		3.0		3.1		8.5		9.0
AFUDC - equity funds		2.6		3.2		6.1		6.7
Energy Independence Act incentives		1.0		-		3.5		-
Other		1.5		2.0		3.9		4.2
Total Other Income	$	12.2	$	11.1	$	33.8	$	27.6
Other Loss:								
Charitable donations	$	(0.5)	$	(0.3)	$	(1.3)	$	(1.2)
Lobbying costs		(0.6)		(0.3)		(2.4)		(1.4)
Loss on investments in securitizable assets		(0.6)		(0.3)		(1.7)		(1.1)
Other		(0.3)		(0.2)		(0.8)		(1.8)
Total Other Loss	$	(2.0)	$	(1.1)	$	(6.2)	$	(5.5)
Total Other Income, Net	$	10.2	$	10.0	$	27.6	$	22.1

PSNH	**For the Three Months Ended**				**For the Nine Months Ended**			
(Millions of Dollars)	**September 30, 2006**		**September 30, 2005**		**September 30, 2006**		**September 30, 2005**	
Other Income:								
Investment income	$	0.1	$	0.1	$	0.6	$	0.5
AFUDC - equity funds		1.1		0.2		3.4		0.7
Conservation and load management incentive		-		-		-		0.6
Gain on disposition of property		-		0.6		-		0.6
Other		0.1		0.1		0.2		0.2
Total Other Income	$	1.3	$	1.0	$	4.2	$	2.6
Other Loss:								
Charitable donations	$	(0.2)	$	(0.1)	$	(0.5)	$	(0.4)
Lobbying costs		(0.1)		(0.1)		(0.5)		(0.5)
Other		(0.1)		(0.7)		(0.3)		(0.6)
Total Other Loss	$	(0.4)	$	(0.9)	$	(1.3)	$	(1.5)
Total Other Income, Net	$	0.9	$	0.1	$	2.9	$	1.1

WMECO	**For the Three Months Ended**				**For the Nine Months Ended**			
(Millions of Dollars)	**September 30, 2006**		**September 30, 2005**		**September 30, 2006**		**September 30, 2005**	
Other Income:								
Investment income	$	0.3	$	0.2	$	0.4	$	0.4
Conservation and load management incentive		0.2		0.4		0.8		0.6
Millstone 1 recovery amortization		0.2		0.2		0.7		0.7
Other		0.1		0.3		0.4		0.5
Total Other Income	$	0.8	$	1.1	$	2.3	$	2.2
Other Loss:								
Charitable donations	$	(0.1)	$	-	$	(0.2)	$	(0.2)
Lobbying costs		(0.1)		(0.1)		(0.4)		(0.4)
Other		-		-		(0.1)		(0.2)
Total Other Loss	$	(0.2)	$	(0.1)	$	(0.7)	$	(0.8)
Total Other Income, Net	$	0.6	$	1.0	$	1.6	$	1.4

Investment income for NU includes equity in earnings/(losses) of regional nuclear generating and transmission companies of $0.8 million and $0.6 million for the three months ended September 30, 2006 and 2005, respectively, and $(0.4) million and $2.5 million for the nine months ended September 30, 2006 and 2005, respectively. Equity in earnings relates to NU, CL&P, PSNH and WMECO's investment in CYAPC, Maine Yankee Atomic Power Company (MYAPC), Yankee Atomic Electric Company (YAEC) (Yankee companies) and the Hydro-Quebec transmission system.

Based on developments in July of 2006, CYAPC management concluded that $10 million of CYAPC's regulatory assets were no longer probable of recovery and should be written off. Because the contingency surrounding these regulatory assets existed at June 30, 2006, the write-off was recorded in the second quarter. NU recorded a total after-tax write-off of $3 million ($2.1 million, $0.3 million and $0.6 million for CL&P, PSNH and WMECO, respectively) for its ownership share of this charge, which is included in investment income for the nine months ended September 30, 2006 in the tables above. For further information regarding CYAPC, see Note 7D, "Commitments and Contingencies - Deferred Contractual Obligations," and Note 1C, "Summary of Significant Accounting Policies - Regulatory Accounting."

None of the amounts in either other income - other or other loss - other are individually significant.

2.

WHOLESALE CONTRACT MARKET CHANGES (NU, NU Enterprises)

NU recorded a pre-tax benefit of $4.8 million and a pre-tax charge of $101.2 million for wholesale contract market changes in the three months ended September 30, 2006 and 2005, respectively, and charges of $14.9 million and $359.7 million for the nine months ended September 30, 2006 and 2005, respectively. Wholesale contract market changes are changes in the fair value of wholesale contracts being divested. These changes are comprised of the following items:

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A benefit of $4.6 million and charges of $14.1 million for the three and nine months ended September 30, 2006 and charges of $80.6 million and $439.1 million for the three and nine months ended September 30, 2005, respectively, associated with the mark-to-market on certain long-dated wholesale electricity contracts in New England, New York and PJM and contracts to purchase generation products in New England and New York. The decision in March of 2005 to exit the wholesale marketing business changed management's conclusion regarding the likelihood that these wholesale marketing contracts would result in

14

physical delivery to customers. This in turn resulted in a change in the first quarter of 2005 from accrual accounting to mark-to-market accounting for the wholesale marketing contracts. Included in the third quarter 2005 charge of $80.6 million is a pre-tax charge of $11.7 million related to a portfolio of contracts that Select Energy assigned to a third-party wholesale power marketer, obligating that marketer to assume responsibility for those contracts that Select Energy had in New England, beginning on January 1, 2006, in exchange for a $15 million payment Select Energy made in December of 2005.

- A benefit of $0.2 million and charges of $0.8 million, respectively, for the three and nine months ended September 30, 2006 related to the fair value of certain asset-specific sales and forward sales of electricity at hub points for generation contracts.

- A benefit of $79.4 million in the first nine months of 2005 comprised of a positive mark-to-market of $100 million in the first half of 2005, partially offset by a charge of $20.6 million in the third quarter of 2005. The $20.6 million charge in the third quarter of 2005 includes approximately $37 million relating to certain wholesale contracts in the PJM power pool where NU Enterprises increased its estimates of customer load above its original expectations and $3.1 million of other charges related to contract assignments. Offsetting these charges is a net pre-tax benefit of $19.5 million associated with the marking-to-market of the supply contracts that previously were held to serve certain retail electric load and other mark-to-market impacts.

Included in the mark-to-market on long-term wholesale electricity contracts is a $44 million and $114.2 million pre-tax mark-to-market charge for the three and nine months ended September 30, 2005, respectively, related to an intercompany contract between Select Energy and CL&P. This contract was included in the portfolio of contracts Select Energy assigned to a third party wholesale power marketer, and Select Energy stopped serving CL&P on December 31, 2005. This contract was part of CL&P's stranded costs, and benefits received by CL&P under this contract were provided to CL&P's ratepayers in the form of lower-than-market standard offer service rates. A $2.8 million pre-tax mark-to-market charge in the first quarter of 2005 was recorded as wholesale contract market changes by Select Energy for the intercompany contract between Select Energy and WMECO for default service from April to June of 2005. There were no wholesale contract market changes in the second or third quarter of 2005, as this contract expired on June 30, 2005. WMECO's benefits under this contract were provided to its ratepayers in the form of lower-than-market default service rates. These charges were not eliminated in consolidation because on a consolidated basis NU retained the over-market obligation to its ratepayers of CL&P and WMECO.

For further information regarding derivative assets and liabilities, see Note 5, "Derivative Instruments."

3.

RESTRUCTURING AND IMPAIRMENT CHARGES (NU, NU Enterprises)

The company evaluates long-lived assets such as property, plant and equipment to determine if these assets are impaired when events or changes in circumstances occur, such as the 2005 announced decisions to exit the NU Enterprises businesses.

When the company believes one of these events has occurred, a determination needs to be made whether a long-lived asset should be classified as an asset to be held and used or whether that asset should be classified as held for sale. For assets classified as held and used, the company estimates the undiscounted future cash flows associated with the long-lived asset or asset group, and an impairment loss is recognized if the carrying amount of an asset is not recoverable. The carrying amount is not recoverable if it exceeds the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset. For assets held for sale, a long-lived asset or disposal group is measured at the lower of its carrying amount or fair value less cost to sell.

NU Enterprises recorded $10.4 million and $5.3 million of pre-tax restructuring and impairment charges for the three months ended September 30, 2006 and 2005, respectively, and $26 million and $53.2 million for the nine months ended September 30, 2006 and 2005, respectively, related to exiting the merchant energy businesses and the energy services businesses. The amounts related to continuing operations are included as restructuring and impairment charges on the condensed consolidated statements of income/(loss) with the remainder included in discontinued operations. These charges are included as part of the NU Enterprises reportable segment in Note 12, "Segment Information." A summary of these pre-tax charges is as follows:

(Millions of Dollars)	For the Three Months Ended September 30, 2006	For the Three Months Ended September 30, 2005	For the Nine Months Ended September 30, 2006	For the Nine Months Ended September 30, 2005
Merchant Energy:				
Wholesale Marketing:				
Restructuring charges	$ 0.1	$ 4.2	$ 0.3	$ 5.2
Retail Marketing:				
Impairment charges	$ -	$ -	$ -	$ 7.2
Restructuring charges	0.6	-	6.4	-
Subtotal	$ 0.6	$ -	$ 6.4	$ 7.2
Competitive Generation:				
Impairment charges	$ -	$ -	$ 0.3	$ -
Restructuring charges	6.8	-	9.5	-
Subtotal	$ 6.8	$ -	$ 9.8	$ -
Subtotal - Merchant Energy	$ 7.5	$ 4.2	$ 16.5	$ 12.4
Energy Services and Other:				
Impairment charges	$ -	$ -	$ 0.1	$ 39.1
Restructuring charges	2.9	1.1	9.4	1.7
Subtotal - Energy Services and Other	$ 2.9	$ 1.1	$ 9.5	$ 40.8
Total restructuring and impairment charges	$ 10.4	$ 5.3	$ 26.0	$ 53.2
Restructuring and impairment charges included in discontinued operations	$ 9.1	$ 0.5	$ 16.3	$ 24.7
Total restructuring and impairment charges included in continuing operations	$ 1.3	$ 4.8	$ 9.7	$ 28.5

For segment reporting purposes, $0.1 million and $0.1 million of wholesale marketing restructuring charges, $0.3 million and $3.2 million of retail marketing restructuring charges and $6.8 million and $9.5 million of competitive generation restructuring charges for the three and nine months ended September 30, 2006, respectively, are included in the NU Enterprises - Services and Other reportable segment, as these amounts were recorded by NU Enterprises parent.

Wholesale Marketing: For the three and nine months ended September 30, 2006, $0.1 million and $0.3 million, respectively, of restructuring charges were recorded in the wholesale marketing segment for consulting fees, legal fees, employee-related and other costs. Similar amounts for the three and nine months ended September 30, 2005 were $4.2 million and $5.2 million, respectively.

Retail Marketing: On June 1, 2006, NU Enterprises completed the sale of Select Energy New York, Inc. (SENY) to Hess Corporation (Hess). In connection with the closing of this transaction, NU Enterprises recorded restructuring charges in the second quarter of $0.3 million in the retail marketing segment, which is included in restructuring and impairment charges on the accompanying condensed consolidated statements of income/(loss) for the nine months ended September 30, 2006. In addition to the $0.3 million charge, restructuring charges of $0.6 million and $6.1 million, respectively, were recorded for the three and nine months ended September 30, 2006, respectively, for consulting fees, legal fees, employee-related costs and other costs. There were no restructuring charges for the three and nine months ended September 30, 2005.

In the first quarter of 2005, an exclusivity agreement intangible asset included in the retail marketing segment totaling $7.2 million was written off.

Competitive Generation: In the second quarter of 2006, $0.3 million of impairments were recorded in the competitive generation segment related to certain long lived assets of Northeast Generation Services Company (NGS) that were no longer recoverable. Additional restructuring charges of $6.8 million and $9.5 million, respectively, were recorded for the three and nine months ended September 30, 2006 for consulting fees, legal fees, sale-related environmental fees, employee-related and other costs. There were no restructuring charges related to competitive generation for the three and nine months ended September 30, 2005.

Energy Services and Other: On May 5, 2006, NU Enterprises completed the sale of SESI to Ameresco, Inc. (Ameresco). In connection with the closing of this transaction, NU Enterprises paid Ameresco approximately $7.7 million and recorded a pre-tax restructuring charge of $6.5 million. In the third quarter of 2006, an additional restructuring charge of $1.6 million was recorded related to additional charges incurred for the sale of SESI to Ameresco. These charges are included in loss from sale of discontinued operations on the accompanying condensed consolidated statements of income/(loss).

For the three and nine months ended September 30, 2006, restructuring charges included $0.3 million and $2 million in charges related to consulting fees, legal fees, employee-related costs, and other costs and $1 million of charges related to NU's guarantee of SESI's performance under government contracts. These guarantee-related charges represent estimated purchase and refinancing costs for two projects' contract payments. See Note 7F, "Commitments and Contingencies - Guarantees and Indemnifications," for further information.

Offsetting the charges for the first nine month of 2006 is a benefit of $1.7 million from the gain on the sale of Massachusetts service location of Select Energy Contracting, Inc. - Connecticut (SECI-CT) recorded in the first quarter of 2006.

The amounts described above are included in the Services and Other reportable segment. See Note 12, "Segment Information," for further information.

In 2005, the company concluded that $29.1 million of goodwill associated with the energy services businesses and $9.2 million of intangible assets were impaired as of March 31, 2005. In the second quarter of 2005, the energy services businesses and NU Enterprises parent recorded an additional impairment charge of $0.8 million due to the impairment of certain fixed assets resulting in a total impairment charge of $39.1 million for the first half of 2005, included in the Energy Services and Other segment.

For the three and nine months ended September 30, 2005, restructuring costs totaling $1.1 million and $1.7 million were recorded for the energy services business related to professional fees, employee-related and other costs.

The following table summarizes the liabilities related to restructuring costs which are recorded in accounts payable and other current liabilities on the accompanying condensed consolidated balance sheets at September 30, 2006 and December 31, 2005:

(Millions of Dollars)	**Employee - Related Costs**	**Professional and Other Fees**	**Net (Gain)/ Loss on Sale**	**Total**
Restructuring liability as of January 1, 2005	$ -	$ -	$ -	$ -
Costs incurred	2.3	7.4	-	9.7
Cash payments and other deductions	(0.5)	(2.1)	-	(2.6)

Restructuring liability as of December 31, 2005	$ 1.8	$ 5.3	$ -	$ 7.1
Costs incurred/gain on sale	0.3	6.5	(0.7)	6.1
Cash payments and other deductions	(0.3)	(4.6)	0.7	(4.2)
Restructuring liability as of March 31, 2006	$ 1.8	$ 7.2	$ -	$ 9.0
Costs incurred/loss on sale	2.0	1.2	5.9	9.1
Cash payments and other deductions	(0.6)	(3.4)	(5.9)	(9.9)
Restructuring liability as of June 30, 2006	$ 3.2	$ 5.0	$ -	$ 8.2
Costs incurred/loss on sale	0.6	8.2	1.6	10.4
Cash payments and other deductions	(0.1)	(11.6)	-	(11.7)
Restructuring liability as of September 30, 2006	$ 3.7	$ 1.6	$ 1.6	$ 6.9

In addition to the $0.6 million of retail marketing severance costs included in restructuring charges above, $3.7 million of other retail marketing severance costs and other employee benefits were recorded in other operating expenses on the accompanying condensed consolidated statements of income/(loss) for the nine months ended September 30, 2006 because these amounts are for severance under an existing benefit arrangement. For further information, see Note 11, "Pension Benefits and Postretirement Benefits Other Than Pensions."

4.

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

A summary of the NU Enterprises businesses held for sale status as of September 30, 2006 and December 31, 2005, as well as the discontinued operations status for all periods presented including date sold, is as follows:

	Held for Sale Status as of			
	September 30, 2006	**December 31, 2005**	**Discontinued Operations**	**Sale Date**
Wholesale Marketing	No	No	No	Not Sold
Retail Marketing	Sold	No	No	June 2006
NGC (including certain components of NGS)	Yes	No	Yes	November 2006
Mt. Tom	Yes	No	Yes	November 2006
SESI	Sold	Yes	Yes	May 2006
Woods Electrical - non-industrial division	Sold	Yes	Yes	April 2006
Woods Electrical - industrial division	No	No	No	Not Sold
SECI-NH	Sold	Sold	Yes	November 2005
Woods Network	Sold	Sold	Yes	November 2005
E.S. Boulos Company	No	No	No	Not Sold
SECI-CT	No	No	No	Not Sold

Assets Held for Sale: In November of 2005, NU decided to exit NU Enterprises' retail marketing and competitive generation businesses. At December 31, 2005, management determined that the wholesale and retail marketing businesses did not meet the held for sale criteria under applicable accounting guidance.

In the first quarter of 2006, management determined that the retail marketing and competitive generation businesses met held for sale criteria under applicable accounting guidance, and should therefore be recorded at the lower of carrying amount or fair value less cost to sell. The retail marketing business was reduced to its fair value less cost to sell in the first half of 2006 through a $53.9 million pre-tax charge, which was recorded in other operating expenses. On July 24, 2006, NU reached an agreement with various affiliates of Energy Capital Partners (ECP) to sell its 100 percent ownership in NGC and HWP's 146 megawatt (MW) Mt. Tom coal-fired plant. The competitive generation assets remain carried at their historical carrying value, which is less than their fair value less cost to sell. For further information see Note 13, "Subsequent Events."

At September 30, 2006, management continues to believe the wholesale marketing business, E.S. Boulos Company (Boulos), and SECI-CT do not meet the held for sale criteria under applicable accounting guidance and therefore continue to be held and used and included in continuing operations.

Remaining contracts not yet assigned but subject to back-to-back agreements of Select Energy's retail marketing business that will be assigned or transferred to Hess are recorded at fair value less cost to sell and are included in assets held for sale and liabilities of assets held for sale.

The businesses above are included as part of the NU Enterprises reportable segment in Note 12, "Segment Information." The major classes of assets and liabilities that are held for sale at September 30, 2006 and December 31, 2005 are as follows (amounts at December 31, 2005 are not comparable to amounts at September 30, 2006 as the assets held for sale portfolio has changed):

(Millions of Dollars)		**At September 30, 2006**		**At December 31, 2005**
Property, plant and equipment	$	838.3	$	-
Derivative contracts		0.9		-
Long-term contract receivables		-		79.5
Other assets		22.7		22.3
Total assets		861.9		101.8
Long-term debt		318.3		86.3
Derivative contracts		5.5		-
Other liabilities		25.3		15.2
Total liabilities		349.1		101.5
Net assets	$	512.8	$	0.3

Discontinued Operations: NU's condensed consolidated statements of income/(loss) for all periods presented classify NGC and Mt. Tom in discontinued operations. SESI and a portion of Woods Electrical are included in discontinued operations for the nine months ended September 30, 2006 and for the three and nine months ended September 30, 2005. These businesses were sold in May and April of 2006, respectively. In addition, SECI-NH (including Reeds Ferry) and Woods Network are included in discontinued operations for the three and nine months ended September 30, 2005, as these businesses were sold in November of 2005.

Under discontinued operations presentation, revenues and expenses of the businesses classified as discontinued operations are classified net of tax in income from discontinued operations on the condensed consolidated statements of income/(loss), and all prior periods have been reclassified. These businesses are included as part of the NU Enterprises reportable segment in Note 12, "Segment Information." Summarized financial information for the discontinued operations is as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2006	**September 30, 2005**	**September 30, 2006**	**September 30, 2005**
Operating revenue	$ 46.4	$ 77.6	$ 157.6	$ 249.2
Income before income tax expense	15.9	8.9	54.8	20.4
Income tax expense	5.5	3.7	19.4	8.9
Net income	8.8	5.2	27.3	11.5

Included in discontinued operations are $46.3 million and $144.6 million for the three and nine months ended September 30, 2006, respectively, and $50 million and $163.4 million for the three and nine ended September 30, 2005, respectively, of intercompany revenues that are not eliminated in consolidation due to the separate presentation of discontinued operations. Of these amounts, $46.3 million and $144.4 million for the three and nine months ended September 30, 2006, respectively, and $48.3 million and $153.3 million for the three and nine months ended September 30, 2005, respectively, represent revenues on intercompany contracts between the generation operations of NGC and Mt. Tom and Select Energy. NGC's and Mt. Tom's revenues and earnings related to these contracts are included in discontinued operations while Select Energy's related expenses and losses are included in continuing operations. Included in the net income from discontinued operations is a pre-tax $5.8 million related to the resolution of contingencies for businesses sold.

At September 30, 2006, NU does not expect that after disposal it will have significant ongoing involvement or continuing cash flows with the entities presented in discontinued operations. In addition, the intercompany contracts between the generation operations of NGC and Mt. Tom and Select Energy will be terminated at time of sale.

The retail marketing business is not presented as discontinued operations because separate financial information is not available for this business for periods prior to the first quarter of 2006.

5.

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

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

The tables below summarize current and long-term derivative assets and liabilities at September 30, 2006 and December 31, 2005. At September 30, 2006 and December 31, 2005, derivative assets and liabilities of NU Enterprises have been segregated between wholesale, retail and generation amounts. The fair value of these contracts may not represent amounts that will be realized.

	At September 30, 2006				
	Assets		Liabilities		
	Current	Long-Term	Current	Long-Term	Net Totals
(Millions of Dollars)					
NU Enterprises:					
Wholesale	$ 58.2	$ 26.3	$ (116.4)	$ (114.4)	$ (146.3)
Retail	0.9	-	(2.6)	(0.3)	(2.0)
Generation	4.1	-	(3.9)	(2.5)	(2.3)
Utility Group - Gas:					
Non-trading	0.1	-	(0.3)	-	(0.2)
Utility Group - Electric:					
Non-trading	42.2	248.0	(6.0)	(32.3)	251.9
NU Parent:					
Hedging	-	-	-	(6.5)	(6.5)
	105.5	274.3	(129.2)	(156.0)	94.6
Derivative assets and liabilities held for sale	0.9	-	(2.7)	(2.8)	(4.6)
Totals	$ 104.6	$ 274.3	$ (126.5)	$ (153.2)	$ 99.2

	At December 31, 2005				
	Assets		Liabilities		
	Current	Long-Term	Current	Long-Term	Net Totals
(Millions of Dollars)					
NU Enterprises:					
Wholesale	$ 256.6	$ 103.5	$ (369.3)	$ (220.9)	$ (230.1)
Retail	55.0	12.9	(27.2)	0.4	41.1
Generation	9.2	-	(5.1)	(15.5)	(11.4)
Utility Group - Gas:					
Non-trading	0.1	-	(0.4)	-	(0.3)

Utility Group - Electric:					
Non-trading	82.6	308.6	(0.5)	(31.8)	358.9
NU Parent:					
Hedging	-	-	-	(5.2)	(5.2)
Totals	$ 403.5	$ 425.0	$ (402.5)	$ (273.0)	$ 153.0

The business activities of NU Enterprises that result in the recognition of derivative assets result in exposures to credit risk to energy marketing and trading counterparties. At September 30, 2006 and December 31, 2005, Select Energy had derivative assets from wholesale, retail and generation activities that are exposed to counterparty credit risk. However, a significant portion of these assets is contracted with investment grade rated counterparties or collateralized with cash.

NU Enterprises - Wholesale: Certain electricity and natural gas derivative contracts are part of Select Energy's wholesale marketing business that the company is in the process of exiting. These contracts include wholesale short-term and long-term electricity supply and sales contracts, which include contracts to sell electricity to utilities under full requirements contracts, a contract to sell electricity to a municipality with a term of seven remaining years, and two contracts to purchase the output of generating plants. The fair value of electricity contracts was determined by prices from external sources for years through 2010 and by models based on natural gas prices and a heat-rate conversion factor to electricity for subsequent periods.

Derivatives used in wholesale activities are recorded at fair value and included in the condensed consolidated balance sheets as derivative assets or liabilities. Changes in fair value are recorded in the period of change, mostly in wholesale contract market changes, net on the accompanying condensed consolidated statements of income/(loss).

NU Enterprises - Retail: On June 1, 2006, Select Energy closed on the sale of its retail marketing business to Hess, and the related derivative assets and liabilities were transferred to Hess, except in cases where a customer has not yet consented to assignment. These remaining retail derivative assets and liabilities are recorded at fair value on the accompanying condensed consolidated balance sheet, which is determined using information from available external sources. At September 30, 2006, Select Energy had no derivatives under hedge accounting. As of September 30, 2006, Select Energy had derivative assets and liabilities totaling $0.9 million and $2.9

million, respectively, related to back-to-back agreements for electric and gas sourcing contracts for which Select Energy has not yet received consent from the customers or suppliers to assign the contracts to Hess.

At December 31, 2005, Select Energy maintained natural gas service agreements with certain retail customers to supply gas at fixed prices for terms extending through 2010. New York Mercantile Exchange (NYMEX) futures contracts acquired to meet these commitments were recorded at fair value as derivative assets totaling $8.2 million and derivative liabilities of $0.3 million. Select Energy also maintained various financial instruments to hedge its electric and gas purchases and sales which included forwards, futures and swaps. At December 31, 2005, these hedging contracts, which were valued at the mid-point of bid and ask market prices, were recorded as derivative assets of $24.4 million and derivative liabilities of $4.8 million. These amounts were zero at September 30, 2006 because the contracts expired or were assigned to Hess.

Select Energy hedged certain amounts of natural gas inventory with gas futures that were accounted for as fair value hedges. Changes in the fair value of hedging instruments and natural gas inventory were recorded in fuel, purchased, and net interchange power. The change in fair value of the futures were included in derivative liabilities and amounted to $3.4 million at December 31, 2005. These amounts were zero at September 30, 2006 because the contracts expired or were assigned to Hess.

NU Enterprises - Generation: Derivative contracts include generation asset-specific sales and forward sales of electricity at hub trading points. The fair value of these contracts was determined by prices from external sources for the period of the contracts. Certain of these short-term forward purchase and sales contracts have been recorded at fair value in revenues since inception. They represent market transactions at liquid points, while other generation-asset-specific sales and forward sales of electricity qualified for accrual accounting until the fourth quarter of 2005 when Select Energy marked them to market because the probability of physical delivery and the normal election could no longer be asserted. Changes in fair value of generation contracts formerly accounted for on an accrual basis are recorded in wholesale contract market changes, net for those contracts that are part of continuing operations. Changes in fair value of generation contracts that are held for sale are included in discontinued operations. These contracts extend through 2008.

Utility Group - Gas - Non-Trading: Yankee Gas's non-trading derivatives consist of peaking supply arrangements to serve winter load obligations and firm retail sales contracts with options to curtail delivery. These contracts are subject to fair value accounting as these contracts are derivatives that cannot be designated as normal purchase and sales because of the optionality in the contract terms. Non-trading derivatives at September 30, 2006 included assets of $0.1 million and liabilities of $0.3 million. At December 31, 2005, non-trading derivatives included assets of $0.1 million and liabilities of $0.4 million.

Utility Group - Electric - Non-Trading: CL&P has contracts with two independent power producers (IPP) to purchase power that contain pricing provisions that are not clearly and closely related to the price of power and therefore do not qualify for the normal purchases and sales exception. The fair values of these IPP non-trading derivatives at September 30, 2006 include a derivative asset with a fair value of $290.2 million and a derivative liability with a fair value of $35.7 million. An offsetting regulatory liability and an offsetting regulatory asset were recorded, as these contracts are part of the stranded costs, and management believes that these costs will continue to be recovered or refunded in cost of service, regulated rates. At December 31, 2005, the fair values of these IPP non-trading derivatives included a derivative asset with a fair value of $391.2 million and a derivative liability with a fair value of $32.3 million.

CL&P has entered into Financial Transmission Rights (FTR) contracts to limit the congestion costs associated with its transitional standard offer (TSO) contracts. An offsetting regulatory asset has been recorded as this contract is part of the stranded costs, and management believes that these costs will be recovered in rates. At September 30, 2006, the fair value of these contracts is recorded as a derivative liability of $2.6 million on the accompanying condensed consolidated balance sheets. The fair value of CL&P's FTRs at December 31, 2005 was equal to the value when acquired as there were no changes in fair value of the FTRs through December 31, 2005.

NU Parent - Hedging: In March of 2003, NU parent entered into a fixed to floating interest rate swap on its $263 million, 7.25 percent fixed rate note that matures on April 1, 2012. The changes in fair value of the swap and the hedged debt instrument are recorded on the condensed consolidated balance sheets and are equal and offsetting in the condensed consolidated statements of income/(loss). The cumulative change in the fair value of the hedged debt of $6.5 million is included as a decrease to long-term debt on the condensed consolidated balance sheets. The hedge is recorded as a derivative liability of $6.5 million at September 30, 2006, and $5.2 million at December 31, 2005. The resulting changes in interest payments made are recorded as adjustments to interest expense.

6.

GOODWILL AND OTHER INTANGIBLE ASSETS (Yankee Gas, NU Enterprises)

The only NU reporting unit that currently maintains goodwill is the Yankee Gas reporting unit, which is classified under the Utility Group - gas reportable segment. The goodwill recorded related to the acquisition of Yankee Gas is not being recovered from the customers of Yankee Gas. The goodwill balance was $287.6 million at both September 30, 2006 and December 31, 2005. The company is currently in the process of performing the annual impairment test of the Yankee Gas goodwill for impairment.

As a result of NU's 2005 announcements to exit all of NU Enterprises' businesses, certain goodwill balances and intangible assets were deemed to be impaired. During the nine months ended September 30, 2005, goodwill and intangible asset balances at the NU Enterprises energy services businesses were determined to be impaired, and $38.3 million in write-offs were recorded. In addition, $7.2 million of intangible assets, related to an exclusivity agreement held by the retail marketing business, were written off.

NU recorded amortization expense of $0.3 million and $1.4 million for the three and nine months ended September 30, 2005, respectively, related to intangible assets subject to amortization.

7.

COMMITMENTS AND CONTINGENCIES

A.

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

Connecticut:

Income Taxes: In 2000, CL&P requested from the Internal Revenue Service (IRS) a private letter ruling (PLR) regarding the treatment of unamortized investment tax credits (UITC) and excess investment tax credits (EDIT) related to generation assets that were sold. On April 18, 2006, the IRS issued a PLR to CL&P regarding the treatment of UITC and EDIT. EDIT are temporary differences between book and taxable income that were recorded when the federal statutory tax rate was higher than it is now or when those differences were expected to be resolved. The PLR holds that it would be a violation of tax regulations if the EDIT or UITC is used to reduce customers' rates following the sale of the generation assets. CL&P's UITC and EDIT balances related to generation assets that have been sold totaled $59 million and $15 million, respectively, and $74 million combined. CL&P was ordered by the DPUC to submit the PLR to the DPUC within 10 days of issuance and retain the UITC and EDIT in their existing accounts pending its receipt and review of the PLR. On July 27, 2006, the DPUC determined that the UITC and EDIT amounts were no longer required to be held in their existing accounts. As a result of this determination, the $74 million balance was reflected as a reduction to CL&P's third quarter 2006 income tax expense with an increase to CL&P's earnings by the same amount.

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

The DPUC has hired a consulting firm who has begun an audit of Yankee Gas' PGA accounting methods. The company expects that the audit will be completed by the end of 2006. Management believes the unbilled sales and revenue adjustments and resultant charges to customers through the PGA clause for both periods were appropriate. Based on the facts of the case and the supplemental information provided to the DPUC, management believes the appropriateness of the PGA charges to customers for the time period under review will be approved, and has not reserved for any loss.

New Hampshire:

SCRC Reconciliation: On May 1, 2006, PSNH filed its 2005 SCRC reconciliation with the New Hampshire Public Utilities Commission (NHPUC). On October 25, 2006, PSNH, the NHPUC staff and the Office of Consumer Advocate (OCA) filed a settlement agreement with the NHPUC which resolved all outstanding issues associated with the 2005 SCRC reconciliation. Management believes that this settlement agreement will not have a material effect on PSNH's financial statements. The NHPUC held hearings on October 26, 2006, and currently management does not have a specific date when the NHPUC's order will be issued.

Coal Procurement Docket: During the second quarter of 2006, the NHPUC opened a docket to review PSNH's coal procurement and coal transportation policies and procedures. PSNH is responding to data requests from the NHPUC's outside consultant. While management believes its coal procurement and transportation policies and procedures are prudent and consistent with industry practice, it is unable to determine the impact, if any, of the NHPUC's review on PSNH's earnings or financial position.

Northern Wood Power Project: Construction of the conversion of PSNH's 50-MW coal-fired unit at Schiller Station in Portsmouth, New Hampshire to burn wood (Northern Wood Power Project) started in 2004. The new boiler is operating under coal and/or wood at various times as part of its start-up compliance adjustment and testing, with testing expected to be completed by the end of 2006. Under the terms of the order issued by the NHPUC approving the project, the costs of the project are subject to a prudence review by the NHPUC and the cost of the project was capped at $75 million. In the event the project's cost exceeds the $75 million cap, PSNH and its customers would each absorb half of the costs in excess of $75 million. While management currently believes that the project's cost will not exceed the $75 million cap and that PSNH's actions during the construction of the project have been prudent and consistent with industry practices, PSNH is unable to determine the impact, if any, of the NHPUC's prudence review of the project on PSNH's earnings or financial position.

Massachusetts:

Transition Cost Reconciliation: On October 24, 2006, the Massachusetts Department of Telecommunications and Energy (DTE) issued its decision in WMECO's 2003 and 2004 transition cost reconciliation filing. The DTE decision in this combined docket resolves all outstanding issues through 2004 for transition, retail transmission, standard offer and default service costs/revenues and did not have a significant impact on WMECO's earnings or financial position.

WMECO filed its 2005 transition cost reconciliation with DTE on March 31, 2006. The DTE has not yet reviewed this filing or issued a schedule for review and the timing of a decision is uncertain. Management does not expect the outcome of the DTE's review to have a significant adverse impact on WMECO's earnings or financial position.

B.

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

Certain subsidiaries of NU, including CL&P and Yankee Gas, entered into transactions with NRG Energy, Inc. (NRG) and certain of its subsidiaries. On May 14, 2003, NRG and certain subsidiaries of NRG filed voluntary bankruptcy petitions, and on December 5, 2003, NRG emerged from bankruptcy. NU's NRG-related exposures as a result of these transactions relate to 1) the refunding of approximately $30 million of congestion charges previously withheld from NRG prior to the implementation of standard market design on March 1, 2003, which is still pending before the court, 2) the recovery of approximately $23.8 million of CL&P's station service billings from NRG, which is currently the subject of an arbitration, and 3) the recovery of, among other claimed damages, approximately $17.5 million of capital costs and expenses incurred by Yankee Gas related to an NRG subsidiary's generating plant construction project that has ceased. While it is unable to determine the ultimate outcome of these issues, management does not expect their resolution will have a material adverse effect on NU's consolidated earnings or financial position.

C.

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

CL&P: These amounts represent commitments for various services and materials associated primarily with the Bethel, Connecticut to Norwalk, Connecticut, the Middletown, Connecticut to Norwalk, and the Norwalk to Northport-Long Island, New York transmission projects as of September 30, 2006.

(Millions of Dollars)	**2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
Transmission business							
project commitments	$168.2	$238.3	$150.7	$9.7	$2.9	$ -	$569.8

Yankee Companies FERC-Approved Billings, Subject to Refund: NU has significant decommissioning and plant closure cost obligations to the Yankee Companies. Each plant has been shut down and is undergoing decommissioning. The Yankee Companies collect decommissioning and closure costs through wholesale, FERC-approved rates charged under power purchase agreements with several New England utilities, including NU's electric utility companies. These companies in turn pass these costs on to their customers through state regulatory commission-approved retail rates. In the third quarter of 2006, the decommissioning periods for YAEC and CYAPC were extended to 2014 and 2015, respectively. As a result, the amounts for the future obligations have changed. The table below includes the estimated decommissioning and closure costs for YAEC, MYAPC and CYAPC:

(Millions of Dollars)	**2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
FERC-approved billings	$19.0	$43.4	$35.1	$28.4	$31.7	$132.4	$290.0

PSNH Electricity Procurement Obligations: PSNH has entered into various arrangements for the purchase of electricity. These amounts relate to IPP obligations that PSNH entered into pursuant to rate orders issued by the NHPUC and do not include PSNH's short-term power supply management. The future amounts under these obligations are as follows:

(Millions of Dollars)	**2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
Electricity procurement obligations	$28.6	$73.0	$38.9	$32.2	$32.5	$248.0	$453.2

Merchant Energy: Select Energy maintains long-term agreements to purchase energy as part of its portfolio of resources to meet its actual or expected sales commitments. The majority of these purchase commitments are being actively marketed. Certain purchase commitments are accounted for on the accrual basis, while the remaining commitments are recorded at their mark-to-market value. These purchase commitments at September 30, 2006 are as follows:

(Millions of Dollars)	**2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
Select Energy purchase commitments	$442.0	$613.6	$193.2	$29.7	$32.1	$46.0	$1,356.6

Select Energy's purchase commitment amounts exceed the amount expected to be reported in fuel, purchased and net interchange power because many wholesale sales transactions are also classified in fuel, purchased and net interchange power, and certain purchases are included in revenues. Select Energy also maintains certain wholesale, retail and generation energy commitments whose mark-to-market values have been recorded on the condensed consolidated balance sheets as derivative assets and liabilities, a portion of which is included in assets held for sale and liabilities of assets held for sale. These contracts are included in the table above.

The amounts and timing of the costs associated with Select Energy's purchase agreements will be impacted by the exit from the NU Enterprises' businesses.

D.

Deferred Contractual Obligations (NU, CL&P, PSNH, WMECO)

CYAPC: On July 1, 2004, CYAPC filed with the FERC for recovery seeking to increase its annual decommissioning collections from $16.7 million to $93 million for a six-year period beginning on January 1, 2005. On August 30, 2004, the FERC issued an order accepting the rates, with collection by CYAPC beginning on February 1, 2005, subject to refund.

On June 10, 2004, the DPUC and the Connecticut Office of Consumer Counsel (OCC) filed a petition with the FERC seeking a declaratory order that CYAPC be allowed to recover all decommissioning costs from its wholesale purchasers, including CL&P, PSNH and WMECO, but that such purchasers may not be allowed to recover in their retail rates any costs that the FERC might determine to have been imprudently incurred. The FERC rejected the DPUC's and OCC's petition, whereupon the DPUC filed an appeal of the FERC's decision with the D.C. Circuit Court of Appeals (Court of Appeals).

On August 15, 2006, CYAPC, the DPUC, the OCC and Maine state regulators filed a settlement agreement with the FERC. The settlement agreement, if approved, disposes of the pending litigation at the FERC and the Court of Appeals, among other issues.

Under the terms of the settlement agreement, the parties have agreed to a revised decommissioning estimate of $642.9 million (in 2006 dollars), taking into account actual spending through 2005 and the current estimate for completing decommissioning and long-term storage of spent fuel, a gross domestic product escalator of 2.5 percent for costs incurred after 2006, and a 10 percent contingency factor for all decommissioning costs. Annual collections at the revised level would begin in 2007, and are reduced from the $93 million originally requested for years 2007 through 2010. Revised annual collections begin at $37 million in 2007 and reach $46 million in 2015.

The reduction to annual collections is achieved by extending the collection period by 5 years through 2015, reflecting the proceeds from a settlement agreement with Bechtel Power Corporation (Bechtel) by reducing collections in 2007, 2008 and 2009 by $5 million per year, and making other adjustments. Additionally, the settlement agreement includes an incentive that reduces collections up to $10 million during years 2007 to 2010, but allows CYAPC to recoup up to $5 million of these collections, depending on the date that the Nuclear Regulatory Commission amends CYAPC's license permitting fuel storage-only operations. The settlement agreement also contains various mechanisms for true-ups and adjustments related to decommissioning and allows CYAPC to resume reasonable payment of dividends to its shareholders. The FERC staff has filed in support of the settlement agreement and no party has objected to the settlement agreement. Management expects that the FERC will rule on the settlement agreement by the end of 2006.

The settlement agreement also required CYAPC to forego collection of a $10 million regulatory asset and write this amount off. Because the contingency surrounding this regulatory asset existed at June 30, 2006, the write-off was recorded in the second quarter.

24

NU recorded a total after-tax write-off of $3 million ($2.1 million, $0.3 million and $0.6 million for CL&P, PSNH and WMECO, respectively) for its 49 percent ownership share of this charge.

Spent Nuclear Fuel Litigation: In 1998, CYAPC, YAEC and MYAPC filed separate complaints against the United States Department of Energy (DOE) in the Court of Federal Claims seeking monetary damages resulting from the DOE's failure to begin accepting spent nuclear fuel for disposal no later than January 31, 1998 pursuant to the terms of the 1983 spent fuel and high level waste disposal contracts between the Yankee Companies and the DOE. In 2004, a trial was conducted in the Court of Federal Claims in which the Yankee Companies initially claimed damages for incremental spent nuclear fuel storage, security, construction and other costs through 2010.

In a ruling released on October 4, 2006, the Court of Federal Claims held that the DOE was liable for damages to CYAPC for $34.2 million through 2001, YAEC for $32.9 million through 2001 and MYAPC for $75.8 million through 2002. The Yankee Companies had claimed actual damages for the same period as follows: CYAPC: $37.7 million; YAEC: $60.8 million; and MYAPC: $78.1 million. Most of the reduction in the claimed actual damages related to disallowed wet pool operating expenses. The Court of Federal Claims found that Yankee Companies would have incurred the disallowed expenses notwithstanding the DOE breach given the DOE's probable rate of acceptance of spent nuclear fuel had a depository been available.

The Court of Federal Claims, following precedent set in another case, also did not award the Yankee Companies future damages covering the period beyond the 2001/2002 damages award dates. The Yankee Companies believe they will have the opportunity in future lawsuits to seek recovery of actual damages incurred in the years following 2001/2002. The Yankee Companies expect the DOE to appeal the decision. The application of any damages which are ultimately recovered to benefit customers is established in the Yankee Companies' FERC-approved rate settlement agreements, although implementation will be subject to the final determination of the FERC.

CL&P, PSNH and WMECO collectively own 49 percent of CYAPC, 38.5 percent of YAEC and 20 percent of MYAPC, and their aggregate share of these damages would be $44.7 million. Their respective shares of these damages would be as follows: CL&P: $29 million; PSNH: $7.8 million; and WMECO: $7.9 million. CL&P, PSNH and WMECO cannot at this time determine the timing or amount of any ultimate recovery or the credit to future storage costs that may be realized in connection with this matter.

E.

Consolidated Edison, Inc. Merger Litigation

Certain gain and loss contingencies exist with regard to the merger agreement between NU and Consolidated Edison, Inc. (Con Edison) and the related litigation.

On March 5, 2001, Con Edison advised NU that it was unwilling to close its merger with NU on the terms set forth in the parties' 1999 merger agreement (Merger Agreement). On March 12, 2001, NU filed suit against Con Edison seeking damages in excess of $1 billion.

In an opinion dated October 12, 2005, a panel of three judges at the Second Circuit held that the shareholders of NU had no right to sue Con Edison for its alleged breach of the parties' Merger Agreement. NU's request for a rehearing was denied on January 3, 2006. This ruling left intact the remaining claims between NU and Con Edison for breach of contract, which include NU's claim for recovery of costs and expenses of approximately $32 million and Con Edison's claim for damages of "at least $314 million." NU opted not to seek review of this ruling by the United States Supreme Court. On April 7, 2006, NU filed its motion for partial summary judgment on Con Edison's damage claim. NU's motion asserts that NU is entitled to judgment in its favor with respect to this claim based on the undisputed material facts and applicable law. The matter is fully briefed and awaiting a decision. At this stage, NU cannot predict the outcome of this matter or its ultimate effect on NU.

F.

Guarantees and Indemnifications

NU provides credit assurances on behalf of subsidiaries in the form of guarantees and letters of credit (LOCs) in the normal course of business. In addition, NU has provided guarantees and various indemnifications on behalf of external parties as a result of the second quarter sales of SESI to Ameresco and the retail marketing business to Hess. The following table summarizes NU's maximum exposure at September 30, 2006, in accordance with FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," expiration dates, and fair value of amounts recorded.

Company	Description	Maximum Exposure (in millions)	Expiration Date(s)	Fair Value of Amounts Recorded (in millions)
On behalf of external parties:				
SESI	Performance guarantees under government contracts.	$79.1	2019 - 2026 (1)	$ -
	General indemnifications in connection with the sale of SESI including environmental issues, general product claims, compliance with laws, and other claims.	Not Specified (2)	None	-
	Specific indemnification in connection with the sale of SESI for payment of shortfalls in the event of early termination of government contracts.	1.4	2008	-
	Specific indemnifications in connection with the sale of SESI for estimated costs to complete or modify specific projects above specified levels.	Not Specified (2)	Through project completion	0.2
Hess (Retail Marketing)	Performance guarantee for retail marketing contracts assigned to Hess for the sale of energy.	1.1	2006	-
	General indemnifications in connection with the sale including compliance with laws, validity of contract information, absence of default on contracts, and other claims.	Not Specified (2)	None	-

Subsidiary	Description	Maximum Exposure (in millions)	Expiration Date(s)	Fair Value of Amounts Recorded (in millions)
On behalf of subsidiaries:				
Utility Group	Surety bonds	$11.0	None	N/A
	Letters of credit	45.5	2006 - 2007	N/A
Rocky River Realty Company	Lease payments	11.7	2024	N/A
Energy Services Businesses	Performance and payment guarantees	73.0	2006 - 2007	N/A
Northeast Generation Company	Debt obligations	14.1	2026 (3)	N/A
Northeast Generation Services	Performance and payment guarantees	2.1	2006 - 2007	N/A
Select Energy	Performance guarantees for retail marketing contracts not yet assigned to Hess.	16.6 (4)	2006 - None (5)	N/A
	Performance guarantees for wholesale marketing contracts.	275.2 (4)	None	N/A
	Letters of credit	32.0	2006	N/A

(1)

As of September 30, 2006, NU guaranteed SESI's performance under five government contracts financed by one investor. In the third quarter of 2006, NU gave notice that it would not renew these guarantees. On October 27, 2006, NU closed on a settlement agreement with the investor and paid approximately $1 million to eliminate its obligations under the guarantees. This amount was recorded in the third quarter. In connection with the settlement agreement, NU indemnified SESI's new lender for payment shortfalls in the event of early termination of two government contracts. The maximum exposure under this indemnification is $1.6 million and decreases monthly through 2020.

On July 7, 2006, the investor notified SESI that pursuant to financing terms it would require SESI to repurchase contract payments relating to the only guaranteed project that was behind schedule. SESI did not satisfy this requirement and on July 26, 2006, the contract payments were assigned to NU and NU paid the investor $10.4 million, $0.6 million of which was also recorded as a pre-tax third quarter loss related to the refinancing of the project. In addition, NU recorded a $0.2 million pre-tax loss to reflect the fair value of this guarantee in the second quarter of 2006. Upon SESI's completion of the project, NU expects to sell the contract payments to SESI through financing from SESI's committed lender. NU may record additional losses associated with this transaction, the amount of which will depend on changes in interest rates used to determine SESI's refinancing proceeds, the amount of project cash available to offset NU's costs, and other factors.

(2)

There is no specified maximum exposure included in the related sale agreements. The estimated maximum exposure on the specific indemnifications associated with the SESI sale is $1.1 million. Hess may not assert an indemnification claim based on unintentional data errors unless and until damages exceed a $5 million aggregate threshold, at which point Hess may assert a claim for all damages. All other claims are subject to a $0.3 million threshold.

(3)

The guarantee was terminated upon the sale of NGC on November 1, 2006.

(4)

Maximum exposure is as of September 30, 2006; however, exposures vary with underlying commodity prices and for certain contracts are essentially unlimited.

(5)

NU is working with counterparties to terminate these guarantees as the retail marketing contracts are assigned to Hess and does not currently anticipate that these guarantees on behalf of Select Energy will result in significant guarantees of the performance of Hess.

Several underlying contracts that NU guarantees, as well as certain surety bonds, contain credit ratings triggers that would require NU to post collateral in the event that NU's credit ratings are downgraded below investment grade.

8.

MARKETABLE SECURITIES

The following is a summary of NU's available-for-sale securities related to NU's Supplemental Executive Retirement Plan (SERP) assets, WMECO's prior spent nuclear fuel trust assets and NU's investment in Globix Corporation (Globix), which are recorded at their fair values and are included in current and long-term marketable securities on the accompanying condensed consolidated balance sheets. Changes in the fair value of these securities are recorded as unrealized gains and losses in accumulated other comprehensive income:

(Millions of Dollars)	**At September 30, 2006**		**At December 31, 2005**	
SERP assets	$	61.1	$	58.1
WMECO prior spent nuclear fuel trust assets		52.6		50.8
Globix investment		-		