

2000 annual report

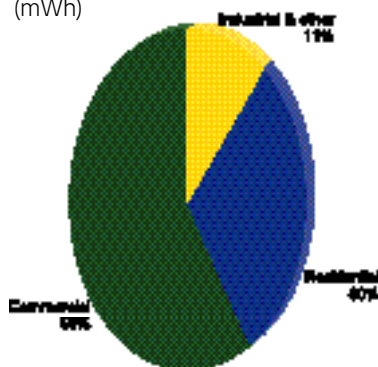


## Financial Highlights

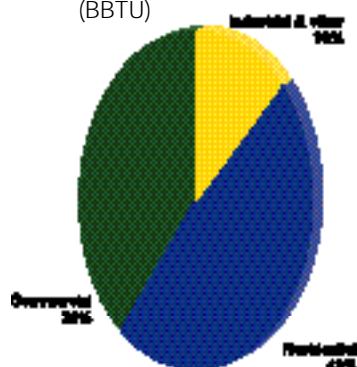
	years ended December 31,	
	2000	1999 (a)
Operating revenues (000)	\$ 2,699,506	\$ 1,851,427
Earnings available for common shareholders (000)	\$ 175,002	\$ 140,503
Total assets (000)	\$ 5,569,514	\$ 5,466,143
Common share data:		
Earnings per share (basic)	\$ 3.19	\$ 2.77
Dividends declared per share	\$ 2.015	\$ 1.955
Dividend payout ratio	63 %	70 %
Return on average common equity	12.3 %	11.7 %

(a) Data for 1999 includes eight months of BEC Energy and four months of NSTAR.

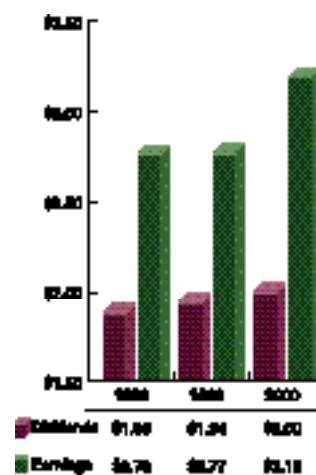
**Retail Electric Sales Mix**  
(mWh)



**Firm Gas Sales Mix**  
(BBTU)



**Earnings and Dividends**



# D

## ear Shareholder,

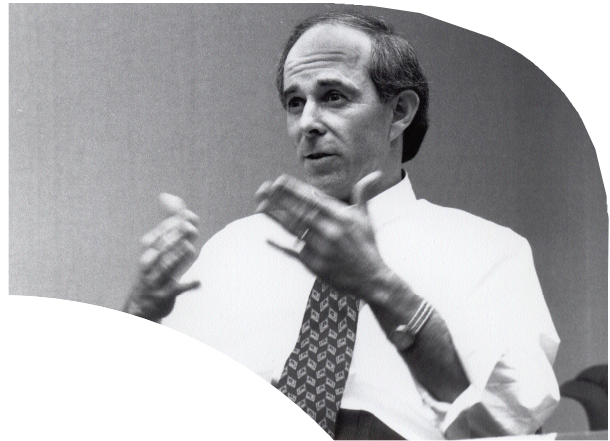
The turn of the century will always be remembered as a significant time in NSTAR's history. In 2000, many separate operating companies working side by side as a result of our merger celebrated the new century working together as one company, NSTAR.

Now, stronger as NSTAR, we are better able to build upon our combined strength, our commitment to customers and our continued quest to be a premier energy delivery company.

In 2000, NSTAR's operating and financial performance were once again solid.

Here are several highlights that I am proud to report:

- NSTAR attained earnings per share of \$3.19 in 2000 compared to \$2.77 in 1999, an increase of 15%, outperforming the industry.
- In December, NSTAR increased its dividend 3%, or \$.06 per share. That translates to \$2.06 on an annual basis. This increase places us in the top quartile for the industry, and of equal importance, is a strong



testament to our confidence in the future. We believe that the dividend is an important part of a stock's value.

- Customer service improvements garnered us increased customer satisfaction ratings as measured by Opinion Dynamics of Cambridge, Massachusetts, as well as in an independent study by JD Power in its 2000 Electric Utility Residential Customer Satisfaction Study. In fact, NSTAR is among the most improved utilities nationally.

- Significant operating improvements were realized as a result of our merger. By the close of 2000, we achieved savings by reallocating resources, consolidating facilities and eliminating redundancies.

NSTAR is in business to be a superior energy delivery company. Our market strategy is to provide great service at competitive prices. Simply stated, we are focused on always finding ways to better serve our customers, the communities we serve, and our shareholders.

Our service territory is widely recognized as the best in the region. Over the course of the next several years, the opportunity for growth abounds. Several key projects are expected to increase our distribution of both natural gas and electricity.

Without doubt, most of you have read or heard about the impact of the global energy markets on utility companies across the nation. Worth noting, the prudent actions taken by the Massachusetts Legislature, state regulators and NSTAR during the past few years with respect to the restructuring of the utility industry have prepared us well for our evolving industry.

In New England, effective planning will bring a projected 3,100 MW of new generation into the marketplace during 2001 and an additional 5,000 MW is scheduled for 2002. At NSTAR, we have worked over the course of the past few years to negotiate power purchase contracts that allow us to stabilize our pricing and our energy supply.

Our company is one that reflects upon its past with pride, but is moving into the future focused on making the right technology and investment decisions. We are focused on delivering top tier results for you, our valued shareholder.

I am proud to tell you that 2000 was yet another outstanding year.

Sincerely,



Thomas J. May  
Chairman and Chief Executive Officer

# NSTAR

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NSTAR is proud to provide service to customers from Worcester to Provincetown and 80 Massachusetts cities and towns in between in a service territory sometimes referred to as the “crown jewel” of the region.

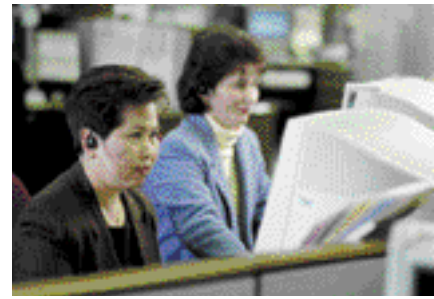
Several key projects in the planning stages provide valuable opportunities for growth, and are expected to increase our distribution of both natural gas and electricity to our customers.

In Plymouth, NSTAR is proud to be providing natural gas and electric service to a new development of close to 3,000 homes with more than one million square feet of commercial space.

In Cambridge, NSTAR is working to provide a new natural gas supply pipeline for Kendall Square. This expansion will eliminate system constraints and allow us to increase our market penetration in Cambridge and Somerville.

Sales of electricity and natural gas are expected to remain strong in our service area as a result of a healthy local economy, continued construction of new office space and expansion of high technology manufacturing facilities.

Deregulation in Massachusetts is working. Customers have realized significant price



*We've simplified the way our customers conduct business with us.*

reductions,  
new electric  
generating  
capacity has been  
added and distribution  
reliability has been improved.

Recently, the Massachusetts Department of Telecommunications and Energy allowed NSTAR to secure market based pricing to better match energy revenues and expenses. These milestones allow NSTAR to avoid the energy supply and pricing issues that have plagued utilities on the West Coast.

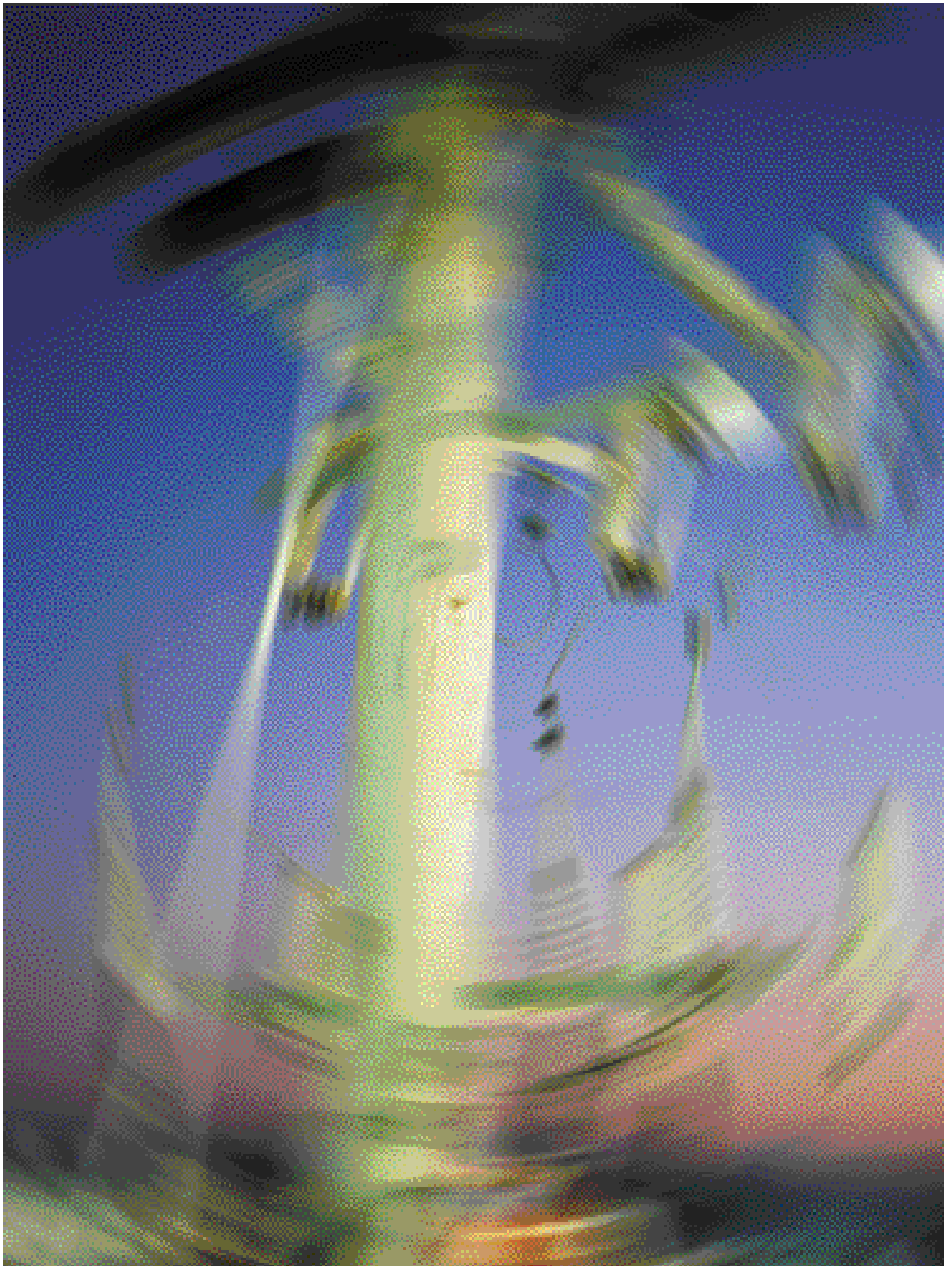
Forward

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sound



NSTAR is comprised of many talented and dedicated employees. Our people, not necessarily our physical assets, will fuel our success in the coming years. We are building strong relationships with our union represented employees, resulting from our commitment to foster mutual trust and respect.

In a significant testament to teamwork, during the final days of 2000, the members of six of the local unions representing NSTAR employees agreed to consolidate as one and become united as Local 369.

The benefits of this are numerous and include improved productivity, one suite of wage rates, benefits and work practices; all allowing us to better serve NSTAR's customers.

NSTAR employees are among our largest group of shareholders and understand the value of a company focused on results.

Each day, these employees are doing their best to serve our customers, our communities and our shareholders.

In 2000, more than 1,000 NSTAR employees donated over 6,500 hours of volunteer service to important community and social service organizations. Whether it was planning and working at a holiday party, collecting warm clothes for children, or stocking the shelves at area food

pantries, NSTAR employees were hard at work, including nights and weekends, in service to their communities.

We believe in giving back to the communities we serve. NSTAR is honored to be a part of several key initiatives to promote recreational space, including contributions to

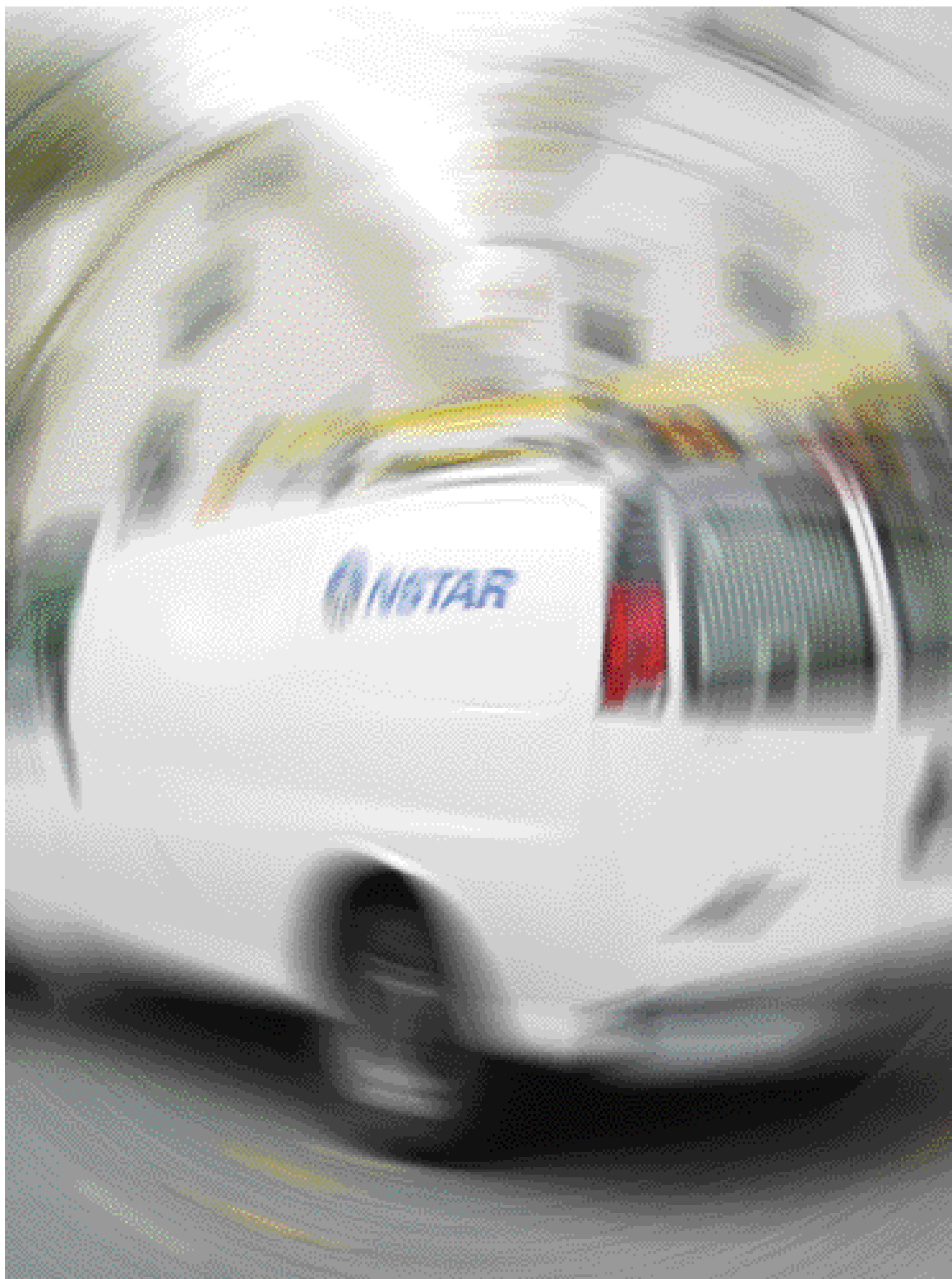
Elm Park Playground in Worcester, and Titus Sparrow Park in Boston.

*Our company is comprised of many talented and dedicated employees.*





agile



During the past year, the telecommunications industry has experienced a sharp decline in market value. As a result, many companies have experienced difficulty accessing the capital markets.

In late 2000, RCN Corporation, our partner in a telecommunications venture, announced plans to scale back its telecommunications network expansion plans. RCN continues to report growth in sales with its existing markets. NSTAR currently owns 4.1 million shares of RCN common stock. We are in the process of converting our remaining joint venture investment into RCN securities as well as reassessing and restructuring our future investments in the venture.

Our customers, the communities we serve and, of course, our shareholders want, and should expect, that we provide great service and offer fair pricing.

We have a proud history that demonstrates our ability to move quickly while keeping our eye on superior customer service. We deliver upon our commitments and recognize always that it is a privilege to serve.

*We believe in making a difference in the communities we serve.*







## Management's Discussion and Analysis

NSTAR is an energy delivery company serving approximately 1.3 million customers in Massachusetts including more than one million electric customers in 81 communities and 244,000 gas customers in 51 communities. NSTAR was created through the merger of BEC Energy (BEC) and Commonwealth Energy System (COM/Energy) on August 25, 1999 as an exempt public utility holding company. Its retail utility subsidiaries are Boston Edison Company (Boston Edison), Commonwealth Electric Company (ComElectric), Cambridge Electric Light Company (Cambridge Electric) and NSTAR Gas Company (NSTAR Gas) and its wholesale electric subsidiary is Canal Electric Company (Canal Electric). Effective November 1, 2000, NSTAR's three retail electric companies began to operate under the brand name "NSTAR Electric." Reference in this report to "NSTAR Electric" shall mean each of Boston Edison, ComElectric and Cambridge Electric. NSTAR's non-utility operations include telecommunications - NSTAR Communications, Inc. (NSTAR Com), district heating and cooling operations (Advanced Energy Systems, Inc. and NSTAR Steam Corporation) and liquefied natural gas services (Hopkinton LNG Corp.). Utility operations accounted for more than 97% of revenues in both 2000 and 1999.

The electric and natural gas industries have continued to change in response to legislative, regulatory and marketplace demands for improved customer service at lower prices. These demands have resulted in an increasing trend in the industry to seek competitive advantages and other benefits through business combinations. NSTAR was created to operate in this new marketplace by combining the resources of its utility subsidiaries and concentrating its activities in the transmission and distribution of energy. The 1997 Massachusetts Electric Restructuring Act (Restructuring Act) required all electric utilities to divest their generating assets and leave the retail power supply business, in exchange for the right to recover all non-mitigable stranded costs associated with the creation of customer choice and competition.

### Merger of BEC Energy and Commonwealth Energy System

An integral part of the merger creating NSTAR is the rate plan of the retail utility subsidiaries of BEC and COM/Energy that was approved by the Massachusetts Department of Telecommunications and Energy (MDTE) on July 27, 1999. Significant elements of the rate plan include a four-year distribution rate freeze, recovery of the acquisition premium (goodwill) over 40 years and recovery of transaction and integration costs (costs to achieve) over 10 years. Refer to the Retail Electric Rates section of this Discussion and Analysis for more information.

The merger was accounted for by NSTAR as an acquisition of COM/Energy by BEC under the purchase method of accounting. Goodwill amounted to approximately \$490 million, resulting in annual amortization of goodwill of approximately \$12.2 million. Costs to achieve are being amortized based on the filed estimate of \$111 million over 10 years. NSTAR's retail utility subsidiaries will reconcile the ultimate costs to achieve with that estimate, and any difference is expected to be recovered over the remainder of the amortization period. A majority of costs to achieve the merger have been for severance costs associated with a voluntary separation program (VSP) in which approximately 700 employees elected to participate. The VSP was completed by the end of August 2000. These amounts are expected to be offset by ongoing future cost savings from streamlined operations and avoidance of costs that would have otherwise been incurred by BEC and COM/Energy.

As a result of the merger, cost savings have been realized due to reduced staffing levels and operating efficiencies.

### Generating Assets Divestiture

On October 26, 2000, the MDTE approved the filing made by Cambridge Electric and ComElectric (together, "the Companies") for the partial buydown of their contract with Canal Electric for power from the Seabrook nuclear generating facility (Seabrook Contract). The buydown transaction is effected by means of an amendment to the Seabrook Contract. On November 8, 2000, \$120.5 million of funds held by an affiliate, Energy Investment Services, Inc. (EIS), were transferred to ComElectric and Cambridge Electric in the amount of \$113.4 million and \$7.1 million, respectively. EIS was established as the vehicle to invest the net proceeds from the sale of the generation assets. The Companies, in turn, have reduced their respective future stranded costs to be recovered from customers. In addition, Cambridge Electric also made a \$21.1 million payment to Canal Electric as a further buydown of its share of the Seabrook Contract with after-tax proceeds received from the sale of Cambridge Electric's Kendall Station in December 1998. Approval of a November 1, 2000 buydown amount is pending at the MDTE.

The impact of these transactions is reflected on the accompanying Consolidated Balance Sheets at December 31, 2000 as reductions in Restricted cash and Regulatory assets.

Canal Electric also made a filing with the Federal Energy Regulatory Commission (FERC) to amend the Seabrook Contract to reflect the buydown effective November 1, 2000. Action by FERC on this filing is pending.

In 1998, Boston Edison completed the sale of all of its fossil generating assets. The amount received above net book value on the sale of these assets is being returned to retail customers over approximately 11 years.

To complete its divestiture of generating assets, Boston Edison sold its Pilgrim Nuclear Generating Station (Pilgrim) in July 1999 for \$81 million to Entergy Nuclear Generating Company (Entergy). As part of the sale, Boston Edison, the first company in the nation to successfully sell a nuclear facility, transferred approximately \$228 million in decommissioning funds to Entergy. Entergy, by contract, assumed all future liability related to the ultimate decommissioning of the plant. The difference between the total proceeds from the sale and the net book value of the Pilgrim assets, plus the net amount to fully fund the decommissioning trust, is included in Regulatory assets on the accompanying Consolidated Balance Sheets as such amounts are currently being collected from customers.

Also in 1998, COM/Energy sold substantially all of its fossil generating assets. As part of an agreement with the MDTE, COM/Energy established EIS. Both the principal amount and income earned were used to reduce the stranded costs that would otherwise be billed to customers of the Companies. The net proceeds were classified as Restricted cash on the accompanying Consolidated Balance Sheets for 2000 and 1999.

#### **Securitization of Boston Edison's Transition Charge**

On July 27, 1999, BEC Funding LLC, a wholly owned special-purpose subsidiary of Boston Edison, closed the sale of \$725 million of notes to a special purpose trust created by two Massachusetts state agencies. The trust then concurrently closed the sale of \$725 million of electric rate reduction certificates as a public offering. The certificates are secured by a portion of the transition charge assessed on Boston Edison's retail customers as permitted under the Restructuring Act and authorized by the MDTE. These certificates are non-recourse to Boston Edison.

#### **Retail Electric Rates**

As a result of the Restructuring Act, standard offer customers of the retail electric subsidiaries of NSTAR currently pay rates that are 15% lower, on an inflation-adjusted basis, than rates in effect prior to March 1, 1998, the retail access date.

All distribution customers must pay a transition charge as a component of their rate. The purpose of the transition charge is to allow for the collection of generation-related costs that would not be collected in the competitive energy supply market. The plant and regulatory asset balances that will be recovered through the transition charge until 2009 were approved by the MDTE.

The Restructuring Act requires electric distribution companies to obtain and resell power to retail customers that choose not to buy energy from a competitive energy supplier. This is through either "standard offer service" or "default service." Standard offer service will be available to eligible customers through 2004 at prices approved by the MDTE set at levels so as to guarantee mandatory overall rate reductions provided by the Restructuring Act. New retail customers in the NSTAR Electric service territories and previously existing customers that are no longer eligible for the standard offer service and have not chosen to receive service from a competitive supplier are provided "default service." The price of default service is intended to reflect the average competitive market price for power. NSTAR Electric has existing long-term power purchase contracts. These long-term contracts will supply approximately 90%-95% of its standard offer service obligations. NSTAR Electric has entered into six-month and shorter term agreements to meet the remaining standard offer service obligation and continues to evaluate further proposals. In November 2000, NSTAR Electric entered into power purchase agreements to meet all of its default service supply obligation for the period January through June of 2001. NSTAR Electric expects to continue periodic market solicitations for default service power supply consistent with provisions of the Restructuring Act and MDTE orders. The cost of providing standard offer and default service, which includes purchased power costs, is recovered from customers on a fully reconciling basis.

NSTAR Electric's accumulated cost to provide default and standard offer service is in excess of the revenues it has been allowed to bill as of December 31, 2000. As a result, NSTAR has recorded, at December 31, 2000, a regulatory asset of approximately \$242.7 million that is reflected as a component of Current assets on the accompanying Consolidated Balance Sheets. At December 31, 1999, costs incurred in excess of revenues collected amounted to \$95.7 million and were reflected as a non-current Regulatory asset.

Under applicable restructuring plans or settlements approved by the MDTE, NSTAR Electric must, on an annual basis, file proposed adjustments to its rates for the upcoming year along with a proposed reconciliation of prior year revenues and costs for its standard offer, default service, transmission and transition charges. NSTAR Electric made such a filing with the MDTE in the Fall of 1999. The MDTE subsequently approved proposed rate adjustments effective January 1, 2000, and conducted further hearings for the purpose of reconciling prior year's costs and revenues related to NSTAR Electric's transition and transmission charges and the charges for standard offer and default service. In each such proceeding, certain cost allocations and other related issues have been contested; however, the MDTE has not yet rendered a final decision. In November 2000, NSTAR Electric made a similar filing containing proposed rate adjustments for 2001, including a reconciliation of costs and revenues through 1999. The MDTE has approved rate adjustments effective January 1, 2001, but it has not yet ruled on the reconciliation component of NSTAR Electric's filings. Management is unable to determine the outcome of the MDTE proceedings. However, if an unfavorable outcome were to occur, there could be a material adverse impact on NSTAR's consolidated financial position, results of operations and cash flows in the near term.

In addition to the annual rate filings referenced above, NSTAR Electric has also made separate filings with the MDTE concerning charges for standard offer and default service. NSTAR Electric has filed with the MDTE a request for approval to increase its standard offer service rates for 2001 based on a fuel adjustment formula contained in its standard offer tariffs that reflects the prices of natural gas and oil. On December 11, 2000, the MDTE approved an increase in standard offer rates of 1.321 cents per kWh for NSTAR Electric. The MDTE ruled that these fuel adjustments did not have to meet the 15% rate reduction requirement under the Restructuring Act. The MDTE will re-examine these rates in July 2001. On October 19, 2000, the MDTE approved NSTAR Electric's request to increase the price of default service to 6.28 cents per kWh, effective December 1, 2000. On November 9, 2000, NSTAR Electric filed a request with the MDTE for an additional increase for default service to reflect market costs for the period January 1, 2001 through June 30, 2001. On December 4, 2000, the MDTE approved market-based default service rates covering this period. These and future prices for default service are based upon market solicitations for power supply for default service consistent with provisions of the Restructuring Act and MDTE orders.

Under its restructuring settlement agreement, Boston Edison's distribution business was subject to an annual minimum and maximum return on average common equity (ROE) through December 31, 2000. The ROE was subject to a floor of 6% and a ceiling of 11.75%. If the ROE was below 6%, Boston Edison was authorized to add a surcharge to distribution rates in order to achieve the 6% floor. If the ROE was above 11%, it was required to adjust distribution rates by an amount necessary to reduce the calculated ROE between 11% and 12.5% by 50%, and a return above 12.5% by 100%. No adjustment was made if the ROE was between 6% and 11%. In addition, distribution rates continue to be subject to adjustment for any changes in tax laws or accounting principles that result in a change in costs of more than \$1 million. No adjustments have been made to Boston Edison's distribution rates due to either one of these mechanisms.

### **Natural Gas Industry Restructuring and Rates**

In late 1998, the MDTE issued an order establishing rules and regulations governing the unbundling of retail gas service to all customers in Massachusetts. Prior to this, only commercial and industrial customers were able to obtain competitive gas supply service from a source other than the local distribution company (LDC) such as NSTAR Gas. These regulations are similar to those adopted by the MDTE governing electric restructuring. Among the important provisions are: setting the LDC as the default service provider, certification of competitive suppliers/marketers, extension of the MDTE's consumer protection rules to residential customers taking competitive service, requirement for LDCs to provide suppliers/marketers with customer usage data, and requirement for suppliers/marketers to disclose service terms to potential customers. In addition, the MDTE has standardized the eligibility requirements for low-income rates for all LDCs that are identical to previously established requirements for electric customers. In February 1999, the MDTE issued an order requiring the mandatory assignment of the LDC's upstream pipeline and storage capacity and downstream peaking capacity to customers who elect a com-

petitive gas supply during a three-year transition period. This eliminates potential stranded cost exposure for the LDCs until they are relieved from their responsibility as suppliers of last resort and the establishment of a "workably competitive" interstate pipeline capacity market. In January 2000, the MDTE approved the Model Terms and Conditions submitted by the LDCs that provided the framework for implementing the regulations. In October 2000, the MDTE approved compliance Terms and Conditions submitted by NSTAR Gas and other LDCs that implement the unbundling of retail gas services to all customers. With the issuance of these orders and regulations, the MDTE moved the date for full customer choice to November 1, 2000. NSTAR Gas has modified its billing, customer and gas supply systems to accommodate full retail choice. As a result of these orders, gas restructuring is likely to have no significant financial impact on LDCs.

## Results of Operations

### 2000 versus 1999

NSTAR's energy delivery businesses continue to be subject to traditional utility accounting and ratemaking principles, since NSTAR earns a regulated equity return on its investments in those businesses.

Consistent with the application of the purchase method of accounting, the results for 2000 reflect the results of NSTAR for a full year while the results for 1999 reflect eight months of BEC and four months of NSTAR.

Basic and diluted earnings per common share were \$3.19 and \$3.18, respectively, in 2000, compared to \$2.77 and \$2.76, respectively, in 1999, a 15% increase in earnings per share. The dilutive impact on earnings of an additional 4.1 million average common shares outstanding at year-end 2000 (\$0.26 per share) reflects shares issued to transact the merger in 1999, partially offset by 5 million shares repurchased in 2000 upon completion of the most recent common share repurchase plan.

### Operating Revenues

Operating revenues increased 46% from 1999 as follows:

(in thousands)

Retail electric revenues	\$ 514,627
Wholesale electric revenues	(30,691)
Other revenues	94,214
Gas revenues	269,929
Increase in operating revenues	\$ 848,079

Retail electric revenues were \$2,065.4 million in 2000 compared to \$1,550.8 million in 1999, an increase of \$514.6 million, or 33%. The change in retail revenues reflects a full year of NSTAR operations, the recognition of incentive revenue entitlements for successfully lowering transition charges, the higher costs of natural gas and oil as a component of purchased power and the impact of a 25% increase in retail kWh sales reflecting the addition of COM/Energy. On a combined pro-forma basis as if BEC and COM/Energy were NSTAR for the entire year of 1999, retail kWh sales increased 3.3%. The increase in retail kWh sales is the result of a strong local economy as indicated by a 2.2% improvement in the overall Massachusetts employment rate, new construction and customer growth. In addition, NSTAR Electric increased its standard offer and default service rates in January and December 2000. NSTAR Electric's standard offer revenues were \$616.4 million and \$467.7 million in 2000 and 1999, respectively. The revenues derived from standard offer and default service are fully reconciled to the costs incurred and have no impact on net income.

Wholesale electric revenues were \$77.9 million in 2000, compared to \$108.5 million in 1999, a decrease of \$30.6 million, or 28%. This decrease in wholesale revenues primarily reflects the absence of sales to Pilgrim contract customers due to the sale of Pilgrim in July 1999.

Other revenues were \$178.2 million in 2000 compared to \$84 million in 1999, an increase of \$94.2 million, or 112%. This revenue increase primarily reflects non-utility district heating and cooling energy sales operations in 2000 and higher transmission revenues related to refunds to wholesale customers in 1999 resulting from a FERC-approved settlement with transmission contract customers.

Gas revenues were \$378 million in 2000 compared to \$108.1 million in 1999, an increase of \$269.9 million, or 250%. The increase represents NSTAR Gas operations for a full year. In addition, on a comparable basis, the fourth quarter firm and transportation sales were higher by 25% due to colder weather. Heating

degree days for the fourth quarter totaled 2,369, 19% above the same period last year and 6% greater than the normal level of 2,242. On a combined pro-forma basis as if BEC and COM/Energy were NSTAR for the entire year of 1999, firm gas sales and transportation increased 15%.

NSTAR Gas generates revenues primarily through the sale and/or transportation of natural gas. Gas sales and transportation services are divided into two categories; firm, whereby NSTAR Gas must supply gas and/or transportation services to customers on demand; and interruptible, whereby NSTAR Gas may, generally during colder months, temporarily discontinue service to high volume commercial and industrial customers. Sales and transportation of gas to interruptible customers do not materially affect NSTAR Gas' operating income because substantially all the margin on such service is returned to its firm customers as cost reductions.

In addition to delivery service rates, NSTAR Gas' tariffs include a seasonal Cost of Gas Adjustment Clause (CGAC) and a Local Distribution Adjustment Clause (LDAC). The CGAC provides for the recovery of all gas supply costs from firm sales customers or default service customers. The LDAC provides for the recovery of certain costs applicable to both sales and transportation customers. The CGAC is filed semi-annually for approval by the MDTE. The LDAC is filed annually for approval.

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

In December 2000 and in a revised filing in January 2001, NSTAR Gas filed for interim increases to its CGAC charges for the period February through April 2001 in order to recover significant increases in the costs to buy natural gas supplies. These filings were made to ensure that prices to customers are set at levels that recover all or a significant portion of incurred costs in order to avoid the accumulation of significant under-recoveries that would impair NSTAR Gas' ability to serve its customers. NSTAR Gas estimated that without this adjustment, it would under-collect approximately \$50 million of gas supply costs by the end of the current winter heating season. On January 31, 2001, the MDTE approved an adjustment to increase the cost of gas to \$1.1123 per therm from the prior charge of \$0.7608 per therm. Subsequently, on February 28, 2001, as a result of a recent decline in wholesale natural gas prices, NSTAR Gas received approval from the MDTE to reduce the rate per therm to \$0.94 effective March 1, 2001.

### *Operating Expenses*

Operating expenses include all expenses of NSTAR for 2000 while the level of expenses for 1999 reflect eight months of BEC Energy and four months of NSTAR.

Purchased power, fuel and cost of gas sold expense was \$1,390.7 million in 2000, compared to \$794.7 million in 1999, an increase of \$596 million, or 75%. The increase in 2000 primarily reflects a full year of NSTAR operations, an increase in purchased power requirements due to the sale of Pilgrim in 1999, an overall increase in the cost of wholesale power and increased requirements resulting from increased kWh sales and firm gas sales. NSTAR Electric adjusts its rates to collect the costs related to fuel and purchased power from customers on a fully reconciling basis. Fuel and purchased power expenses reflect a reduction of \$212.7 million in 2000 and \$67.3 million in 1999 related to these rate recovery mechanisms. Due to the rate adjustment mechanisms, changes in the amount of fuel and purchased power expense have no impact on earnings. The cost of gas sold, representing NSTAR Gas' supply expense, was \$212.8 million in 2000 compared to \$57.9 million in 1999, an increase of \$154.9 million and is also fully reconciled.

Operations and maintenance expense was \$414.3 million in 2000 compared to \$353.8 million in 1999, an increase of \$60.5 million, or 17%. The increase primarily reflects a full year of NSTAR operations that was partially offset by the absence of \$70 million of nuclear power production expenses due to the sale of Pilgrim. As a result of the merger, operations and maintenance cost savings have been realized due to reduced staffing levels and operating efficiencies. In addition, NSTAR experienced significantly lower costs for employee pensions and benefits in 2000.

Depreciation and amortization expense was \$223.5 million in 2000 compared to \$210.3 million in 1999, an increase of \$13.2 million, or 6%. The increase reflects approximately \$23.2 million resulting from a full year of amortization of goodwill and costs to achieve related to the merger compared to \$8 million in 1999 and approximately \$13.4 million related to other amortization and depreciation for a full year of NSTAR operations and capital additions. These increases were partially offset by the sale of Pilgrim in July 1999.

Demand side management (DSM) and renewable energy programs expense was \$78.8 million in 2000 compared to \$63.4 million in 1999, an increase of \$15.4 million, or 24% primarily due to a full year of NSTAR



operations. In accordance with the restructuring legislation and the settlement agreement, these costs are collected from customers on a fully reconciling basis. Therefore, the increase has no impact on earnings.

Property and other taxes were \$78.7 million in 2000 compared to \$77.8 million in 1999, an increase of \$0.9 million, or 1%. The increase is primarily due to a full year of NSTAR operations partially offset by lower municipal property taxes primarily related to the sale of Pilgrim.

#### *Other Income (Expense), net*

Other expense, net of taxes was \$3.7 million in 2000 compared to income of \$8.1 million in 1999, a net decline in income of \$11.8 million, or 146%. The decline in income in 2000 reflects the absence of \$20.8 million related to the 1999 recognition of previously deferred investment tax credits associated with the Pilgrim station that was sold in 1999. In 2000, the change in other income consisted primarily of lower NSTAR Communications, Inc. (NSTAR Com) joint venture losses amounting to \$5.6 million as a result of NSTAR Com's decreased ownership interest compared to an equity loss of \$16.2 million in 1999. In addition, the change in 2000 reflects interest income on funds held by EIS of \$7.6 million compared to \$2.8 million in the prior year. These amounts were offset entirely with interest charges. Also, 2000 includes a gain of \$3.4 million from the sale of land by a non-utility subsidiary and \$4.4 million received from a third party related to the Pilgrim wholesale contract buyout.

#### *Interest Charges*

Interest on long-term debt and transition property securitization certificates was \$154.8 million in 2000 compared to \$104.6 million in 1999, an increase of \$50.2 million, or 48%. The increase reflects \$25.1 million of interest related to transition property securitization certificates issued in July 1999, \$24.7 million related to the \$500 million 8% bonds issued in February 2000 (\$300 million) and in October 2000 (\$200 million) and a full year of NSTAR operations. These increases were partially offset by approximately \$12.3 million in reductions related to the following retirements: \$65 million of 6.80% debentures in February 2000, \$34 million of 9.875% debentures in June 2000 and \$100 million of 6.05% debentures in August 2000.

Interest on short-term obligations debt was \$55.2 million in 2000 compared to \$22.9 million in 1999, an increase of \$32.3 million, or 141%. This increase is directly related to increases in short-term borrowings, primarily the result of increases in the unrecovered cost of standard offer and default service during 2000 of approximately \$147 million. In addition, 2000 reflects \$7.5 million of interest costs associated with additional borrowing used to finance deferred transition costs and \$1.1 million on deferred gas costs. Allowance for borrowed funds used during construction (AFUDC) amounted to \$4.6 million in 2000 compared to \$2.2 million in 1999, an increase of \$2.4 million. This increase is primarily related to capitalized interest associated with construction of NSTAR's new office facility located in Westwood, Massachusetts.

#### *1999 versus 1998*

Due to the application of the purchase method of accounting, the results for 1999 reflect eight months of BEC and four months of NSTAR. Results for 1998 only reflect BEC.

Basic and diluted earnings per common share were \$2.77 and \$2.76, respectively, in 1999 compared to \$2.76 and \$2.75, respectively, in 1998, a 0.4% increase in earnings per share.

#### *Operating Revenues*

Operating revenues increased 14% from 1998 as follows:

(in thousands)

Retail electric revenue	\$	175,708
Wholesale electric revenues		(33,480)
Other revenues		(21,433)
Gas revenues		108,117
Increase in operating revenues	\$	228,912

Retail electric revenues were \$1,550.8 million in 1999 compared to \$1,375.1 million in 1998, an increase of \$175.7 million, or 13%. The change in 1999 reflects an increase of \$163.3 million representing four months of revenues from the former COM/Energy retail electric subsidiaries from the date of the merger. Without the impact of the merger, retail revenues would have been \$1,387.5 million in 1999, an increase from 1998 of \$12.4

million, or 1%. This change reflects greater retail kWh electric sales that were partially offset by a decrease in retail revenues reflecting the impact of the 10% reduction in retail rates mandated by the Restructuring Act initially implemented in March 1998, and an additional 5% rate reduction effective September 1, 1999.

Retail kWh sales increased 18% in 1999. This increase includes an increase of 12% representing four months of sales by the former COM/Energy subsidiaries from the date of the merger. Without the impact of the merger, 1999 kWh sales would have increased 5% from 1998. This increase in retail kWh sales was primarily due to weather conditions that favored electric sales as well as a continued strong local economy and an increase in the number of customers. The commercial sector represents approximately 50% of electric operating revenues. The commercial sales increase was partially the result of economic growth as indicated by a 2% increase in the Massachusetts employment rate and increased hotel occupancy rates in the Boston area.

Wholesale electric revenues were \$108.5 million in 1999 compared to \$142 million in 1998, a decrease of \$33.5 million, or 24%. Offsetting this decrease in 1999 was an increase of \$6.1 million representing four months of revenues from the former COM/Energy subsidiaries from the date of the merger. Without the impact of the merger, wholesale revenues would have been \$102.4 million, a decrease from 1998 of \$39.6 million, or 28%. This decline was primarily the result of a decrease of \$37 million reflecting the absence of sales to Pilgrim contract customers due to a scheduled 1999 refueling and maintenance outage and subsequent sale of the Pilgrim station in July 1999.

Other revenues were \$84 million in 1999 compared to \$105.4 million in 1998, a decrease of \$21.4 million, or 20%. 1999 reflects an increase of \$31.4 million representing four months of revenues from the former COM/Energy subsidiaries from the date of the merger. Without the impact of the merger, short-term and other revenues would have been \$52.6 million in 1999, a decrease from 1998 of \$52.8 million, or 50%. The decrease reflects \$20 million of revenue received in 1998 as a result of support of standard offer service by Boston Edison's fossil generating stations prior to divestiture. The decline in short-term sales revenue of \$35 million was consistent with the decrease in short-term kWh sales. Under agreements with Select Energy, a subsidiary of Northeast Utilities, NSTAR Electric is only purchasing enough power to meet obligations to its retail and wholesale customers.

Gas revenues were \$108.1 million in 1999, representing four months of revenues from NSTAR Gas from the date of the merger.

### *Operating Expenses*

Operating expenses includes the additional expenses associated with the merger of COM/Energy for four months in 1999. 1998 reflects expenses of only BEC.

Purchased power, fuel and cost of gas sold expense was \$794.7 million in 1999 compared to \$567.8 million in 1998, an increase of \$226.9 million, or 40%. 1999 reflects an increase of \$151.2 million representing four months of expenses from the former COM/Energy subsidiaries from the date of the merger. Without the impact of the merger, purchased power, fuel and cost of gas sold would have been \$643.5 million in 1999, an increase from 1998 of \$75.7 million, or 13%. Purchased power expense increased \$91 million reflecting the increase in Boston Edison's purchased power requirements due to the 1999 Pilgrim refueling outage and its sale. NSTAR Electric adjusts its rates to collect the costs related to fuel and purchased power from customers on a fully reconciling basis. Boston Edison's fuel and purchased power expense reflects a reduction of \$56 million in 1999 and \$128 million in 1998 related to these rate recovery mechanisms. Due to rate adjustment mechanisms, changes in the amount of fuel and purchased power expense have no impact on earnings. The fuel expense related to Boston Edison's fossil generation units decreased \$66 million reflecting the divestiture of those units in May 1998. Fuel expense related to Pilgrim decreased \$17 million due to the 1999 refueling outage and the sale of the plant in July 1999.

Operations and maintenance expense was \$353.8 million in 1999 compared to \$382.4 million in 1998, a decrease of \$28.6 million, or 7%. 1999 reflects an increase of \$73.7 million representing four months of expenses from the former COM/Energy subsidiaries from the date of the merger. Without the impact of the merger, operations and maintenance expense would have been \$280.1 million in 1999, a decrease from 1998 of \$102.3 million, or 27%. This reflects a decrease of \$70 million of nuclear power production expenses due to the deferral of costs related to the 1999 refueling outage and the ultimate sale of the Pilgrim plant in July 1999, and a decrease of \$22 million in fossil-fuel related power production expenses due to the fossil generation divestiture in May 1998. In addition, 1999 reflects a decrease of \$9 million in expenses reflecting the discontinued operations of two unregulated subsidiaries.

Depreciation and amortization expense was \$210.3 million in 1999 compared to \$195.6 million in 1998, an increase of \$14.7 million, or 8%. 1999 reflects an increase of \$18.7 million representing four months of expenses from the former COM/Energy subsidiaries from the date of the merger. Without this impact, depreciation and amortization would have been \$191.6 million in 1999, a decrease from 1998 of \$4 million, or 2%. This decrease reflects the amortization of the gain on the sale of the fossil plants that began in June 1998. These decreases are partially offset by an increase of \$8 million resulting from the amortization of goodwill and costs to achieve related to the merger and an increase of \$11 million reflecting a reduction in the carrying amount of non-utility property.

DSM and renewable energy programs expense was \$63.4 million in 1999 compared to \$51.8 million in 1998, an increase of \$11.6 million, or 22%. 1999 reflects an increase of \$6 million representing four months of expenses from the former COM/Energy subsidiaries from the date of the merger. Without the impact of the merger, DSM and renewable energy programs expense would have been \$57.4 million, an increase from 1998 of \$5.6 million, or 11%.

Property and other taxes were \$77.8 million in 1999 compared to \$84.1 million in 1998, a decrease of \$6.3 million, or 7%. 1999 reflects an increase of \$8.9 million representing four months of expenses from the former COM/Energy subsidiaries from the date of the merger. Without the impact of the merger, property and other taxes would have been \$68.9 million, a decrease from 1998 of \$15.2 million, or 18%. This decrease reflects lower municipal property taxes resulting from the divestiture of the fossil and nuclear generating facilities.

#### *Other Income (Expense), net*

Other income, net of taxes was \$8.1 million in 1999 compared to other expense, net of \$11.8 million in 1998, a net increase in income of \$19.9 million. Prior to the consideration of tax benefits, other expense was \$17.7 million in 1999 compared to \$35.9 million in 1998. 1999 reflects an increase of \$1.4 million reflecting four months of expense from the former COM/Energy subsidiaries from the date of the merger. Without the impact of the merger, other expense would have been \$16.3 million in 1999. NSTAR's equity loss in the RCN joint venture was \$16.2 million in 1999, compared to its total equity losses from both the RCN and EnergyVision joint ventures in 1998 of \$19.7 million. 1999 reflects \$7 million of anticipated non-recoverable expenses related to the Pilgrim plant divestiture. 1998 reflects \$23.2 million of costs related to the fossil plants' divestiture. 1998 also reflects an additional \$3.5 million of costs related to discontinued operations of a Boston Energy Technology Group subsidiary, Coneco Corporation, and \$2.6 million of costs associated with opposition to a referendum that sought to repeal the Restructuring Act. These amounts were offset by \$5.6 million of interest income in 1999 compared to \$7.6 million in 1998, a decrease of \$2 million, reflecting the higher level of cash on hand in 1998 as a result of the proceeds from the fossil plant divestiture. Other miscellaneous income was \$0.4 million in 1999 compared to \$5.5 million in 1998. Income tax benefits related to other income/expense were \$27.6 million in 1999 and \$24.1 million in 1998. The income tax benefit includes \$20.8 million in 1999 and \$10.9 million in 1998 related to the recognition of previously deferred investment tax credits associated with the Pilgrim nuclear plant divested in 1999 and the fossil generating stations divested in 1998.

#### *Interest Charges*

Interest on long-term debt and transition property securitization certificates was \$104.6 million in 1999 compared to \$83 million in 1998, an increase of \$21.6 million, or 26%. 1999 reflects an increase of \$13 million representing four months of expenses from the former COM/Energy subsidiaries from the date of the merger. Without the impact of the merger, interest on long-term debt and transition property securitization certificates was \$91.6 million in 1999, an increase from 1998 of \$8.6 million or 10%. The increase reflects approximately \$20 million related to securitization. This increase is partially offset by a reduction of approximately \$6 million due to the retirement of \$19 million of 7.80% debentures due March 15, 2023, \$66 million of 9.875% debentures and \$91 million of 9.375% debentures during the third quarter of 1999. The increase is additionally offset by reductions of approximately \$2 million due to the maturity of \$100 million, 5.95% debentures in March 1998 and the cessation of amortization of the associated discounts and premiums, as well as, a reduction of approximately \$3 million due to the redemption of a \$100 million 6.662% bank loan in June 1998.

Interest on short-term debt and other obligations was \$22.9 million in 1999 compared to \$8.8 million in 1998, an increase of \$14.1 million, or 160%. 1999 reflects an increase of \$9.2 million representing four



months of expenses from the former COM/Energy subsidiaries from the date of the merger. The remaining increase primarily reflects increased borrowings from the revolving line of credit agreements to finance common shares repurchased in connection with the merger, the common share repurchase program and investments in non-utility subsidiaries.

#### ***Preferred Stock Dividends and Redemptions***

Preferred dividends of Boston Edison were approximately \$6 million in both 2000 and 1999 and \$8.8 million in 1998. The decrease in 1999 was due to the redemption of 400,000 shares of 7.75% series cumulative preferred stock and the remaining 320,000 shares of 7.27% series in July 1998. 500,000 shares of 8% series cumulative preferred stock is subject to mandatory redemption in December 2001.

#### ***Liquidity and Capital Resources***

During 2000, 1999 and 1998 internal generation of cash provided 181%, 174% and 97%, respectively, of plant expenditures. Internally generated funds consist of cash flows from operating activities, adjusted to exclude changes in working capital and the payment of dividends. NSTAR companies supplement internally generated funds as needed, primarily through the issuance of short-term commercial paper and bank borrowings.

The capital spending level forecasted for 2001 is \$295 million, which includes amounts for utility plant and the capital requirements of non-utility ventures. The capital spending level over the next four years is forecasted to aggregate approximately \$670 million. In addition to capital expenditures, long-term debt principal (including securitized debt) and preferred stock redemption requirements will be approximately \$123 million in 2001, \$109 million in 2002, \$241 million in 2003, \$79 million in 2004 and \$78 million in 2005.

In February and October 2000, NSTAR issued \$300 million and \$200 million, respectively, 8% notes, due February 2010, of long-term debt related to its \$500 million shelf registration. Proceeds from these issues were used to pay down short-term borrowings. These increases in long-term debt were partially offset in 2000 by \$199 million in long-term debt retirements, consisting of Boston Edison debenture redemptions of \$65 million (6.8% Series) in February, \$34 million (9.875% Series) in June and \$100 million (6.05% Series) in August.

NSTAR has a \$450 million revolving credit agreement with a group of banks effective through November 2002. As of December 31, 2000, there was no amount outstanding and at December 31, 1999, there was \$350 million outstanding under this revolving credit agreement. Also, NSTAR has a \$450 million commercial paper program. At December 31, 2000 and 1999, NSTAR had \$252 million outstanding and no amount outstanding, respectively, under its commercial paper program. The primary purpose of the revolving credit agreement is to provide back-up liquidity for NSTAR's commercial paper program.

Boston Edison has approval from the FERC to issue up to \$350 million of short-term debt. Boston Edison has a \$200 million revolving credit agreement with a group of banks effective through December 2001. In addition, it also has a \$100 million line of credit. Both of these arrangements serve as back-up to Boston Edison's \$300 million commercial paper program. As of December 31, 2000 and 1999, there were no amounts outstanding under this revolving credit agreement. As of December 31, 2000, there was \$97 million outstanding under its commercial paper program. There was no amount outstanding under this program as of December 31, 1999.

In addition, ComElectric, Cambridge Electric and NSTAR Gas, collectively, have \$185 million available under several lines of credit. Approximately \$120 million and \$108 million was outstanding under these lines of credit as of December 31, 2000 and 1999, respectively.

Boston Edison's Financing Application with the MDTE was approved in October 2000 for authorization to issue from time to time up to \$500 million of debt securities through 2002. Proceeds from such issuances covered under this approved financing will be used for repayment or refinancing of certain outstanding equity securities, long-term indebtedness, and for other corporate purposes. On February 20, 2001, Boston Edison filed a registration statement on Form S-3 with the Securities and Exchange Commission (SEC), using a shelf registration process, to issue up to \$500 million in debt securities. The registration statement was declared effective by the SEC on February 28, 2001. When issued, Boston Edison will use the proceeds to pay at maturity long-term debt and equity securities, refinance short-term debt and for other corporate purposes.

In April 1998, BEC announced a common share repurchase program under which it would repurchase up to four million of its common shares. NSTAR assumed this program effective as of the merger date. In October 1999, this program was completed by NSTAR. Four million shares were repurchased at a total cost of approximately \$157 million. NSTAR subsequently announced a second common share repurchase program, which began in November 1999, of \$300 million that was completed in September 2000 with the repurchase of approximately 7.2 million shares.

In July 1999, BEC Funding LLC, a wholly owned special-purpose subsidiary (SPS) of Boston Edison, closed the sale of \$725 million of notes to a special purpose trust created by two Massachusetts state agencies. The trust then concurrently closed the sale of \$725 million of electric rate reduction certificates to the public. A portion of the transition charge assessed to Boston Edison's retail customers, as permitted under the Restructuring Act and authorized by the MDTE, secures the certificates held by BEC Funding. The certificates were issued in five separate classes with variable payment periods ranging from approximately one to ten years and bearing fixed interest rates ranging from 5.99% to 7.03%. The certificates are non-recourse to Boston Edison. Net proceeds (\$719 million received by Boston Edison from BEC Funding) were utilized to finance a portion of the stranded costs that are being collected from customers under Boston Edison's restructuring settlement agreement. Boston Edison will collect a portion of the transition charge on behalf of BEC Funding and remit the proceeds to the SPS. Boston Edison used a portion of the proceeds received from the financing to fund a portion of the nuclear decommissioning fund transferred to Entergy as part of the sale of the Pilgrim generating station. Boston Edison used the remaining proceeds to reduce its capitalization and for general corporate purposes.

NSTAR's goal is to maintain a capital structure that preserves an appropriate balance between debt and equity. Management believes its liquidity and capital resources are sufficient to meet its current and projected requirements.

### ***New Accounting Principles***

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) and as amended by Statements of Financial Accounting Standards No. 137 and 138, collectively referred to as SFAS 133. SFAS 133 established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts possibly including fixed-price fuel supply and power contracts) be recorded on the Consolidated Balance Sheets as either an asset or liability measured at its fair value. SFAS 133 is effective for fiscal years beginning after June 15, 2000.

NSTAR will adopt SFAS 133 as of January 1, 2001. The impact of this adoption has been assessed by the management of NSTAR. As part of this assessment, NSTAR formed an implementation team in 2000 consisting of key individuals from various operational and financial areas of the organization. The primary role of this team was to inventory and determine the impact of potential contractual arrangements for SFAS 133 application. The implementation team has performed extensive reviews of critical operating areas of NSTAR and has documented its procedures in applying the requirements of SFAS 133 to NSTAR's contractual arrangements in effect on January 1, 2001. Based on NSTAR's assessment to date, the adoption of SFAS 133 will not have a material adverse effect on its results of operations, cash flows, or financial position as of January 1, 2001.

### ***RCN Joint Venture and Investment Conversion***

NSTAR Com is a participant in a telecommunications venture with RCN Telecom Services, Inc. of Massachusetts, a subsidiary of RCN Corporation (RCN). NSTAR Com accounts for its Class A Equity investment in the joint venture using the equity method of accounting. As part of the Joint Venture Agreement, NSTAR Com has the option to exchange portions of its joint venture interest for common shares of RCN at specified periods. During 1998, NSTAR Com exercised its option to convert a portion of its interest. In the first quarter of 1999, NSTAR Com received 1.1 million RCN common shares in exchange for a portion of its joint venture interest that had a net book value of \$7.8 million. In May 1999, NSTAR Com notified RCN of its intention to exercise its option to convert an additional portion of its joint venture interest that had a net book value of \$72.3 million at that time. In March 2000, NSTAR Com received approximately three million shares of RCN associated with this second exchange.

The RCN shares received are included in Other investments on the accompanying Consolidated Balance Sheets at their fair value of approximately \$25.9 million at December 31, 2000. This fair value may increase or decrease, at any time, as a result of changes in the market price of RCN common shares. The unrealized gain or loss due to the changes in fair value on these shares during each period is reflected, net of associated income taxes, as Comprehensive (loss) income on the accompanying Consolidated Statements of Comprehensive Income. The cumulative increase or decrease in fair value of these shares as of December 31, 2000 and 1999 is reflected as Accumulated other comprehensive (loss) income, net on the accompanying Consolidated Balance Sheets. Management continues to evaluate the carrying value of its investment in RCN.

As a result of the current decline in the market value of RCN shares, it is reasonably possible that an adjustment may result. Management is unable at this time to estimate the amount, if any, of a potential adjustment.

On April 6, 2000, NSTAR Com issued its third and final notice to exchange substantially all of its remaining interest in the joint venture with a net book value of approximately \$129 million into common shares of RCN that is reflected on the accompanying Consolidated Balance Sheets in Equity investments. Effective with the third notice, NSTAR Com's profit and loss sharing ratio was reduced to zero and therefore NSTAR Com no longer recognized any results of operations from its interest in the joint venture. Through April 6, 2000, NSTAR Com recognized \$5.6 million in equity losses from the joint venture and for the year ended December 31, 1999, it recognized \$16.2 million in losses.

On October 18, 2000, NSTAR Com and RCN signed an agreement in principle to amend the Joint Venture Agreement. Among other items, this proposal would settle the number of shares to be exchanged associated with the third conversion of NSTAR Com's Class A Equity at 7.5 million shares. This amendment also offers NSTAR Com the option to continue to invest in the joint venture through a new "Class B Preferred Equity" guaranteed by RCN. This Class B Equity has no voting rights and no sharing of profits or losses. NSTAR Com has an option to invest up to \$100 million in such security.

NSTAR Com, at its election, may choose to designate the amounts it contributes under future capital calls as either Class A Equity or Class B Equity in the joint venture. Future investments by NSTAR Com will not be convertible into RCN common shares. In addition, under the agreement in principle, the joint venture and NSTAR Com would amend certain of their agreements to incorporate an incentive and penalty provision for construction activities and expand the relevant market in which the joint venture operates. No final agreement has been reached relating to the October 18, 2000 agreement in principle. Management expects to have a final amended Joint Venture Agreement in place during the first half of 2001.

At December 31, 2000 and 1999, NSTAR Com had \$47.9 million and \$26.6 million, respectively, in accounts receivable due from RCN.

#### **Other Matters**

##### *Environmental*

The subsidiaries of NSTAR are involved in approximately 30 state-regulated properties where oil or other hazardous materials were spilled or released. The companies are required to clean up these properties in accordance with specific state regulations. There are uncertainties associated with these properties due to the complexities of cleanup technology, regulatory requirements and the particular characteristics of the different sites. NSTAR subsidiaries also face possible liability as a potentially responsible party (PRP) in the cleanup of six multi-party hazardous waste sites in Massachusetts and other states where it is alleged to have generated, transported or disposed of hazardous waste at the sites. NSTAR generally expects to have only a small percentage of the total potential liability for these sites. Approximately \$7 million is included as a liability on the accompanying Consolidated Balance Sheets related to the non-recoverable portion of these cleanup liabilities. Management is unable to fully determine a range of reasonably possible cleanup costs in excess of the accrued amount. Based on its assessments of the specific site circumstances, management does not believe that it is probable that any such additional costs will have a material impact on NSTAR's consolidated financial position. However, it is reasonably possible that additional provisions for cleanup costs that may result from a change in estimates could have a material impact on the results of a reporting period in the near term.

NSTAR Gas is participating in the assessment of a number of former manufactured gas plant (MGP) sites and alleged MGP waste disposal locations to determine if and to what extent such sites have been contaminated and whether NSTAR Gas may be responsible for remedial action. The MDTE has approved recovery of costs associated with MGP sites. As of December 31, 2000, NSTAR Gas has recorded a liability of \$2.6 million as an estimate for site cleanup costs for several MGP sites for which NSTAR Gas was previously cited as a PRP.

Estimates related to environmental remediation costs are reviewed and adjusted periodically as further investigation and assignment of responsibility occurs. NSTAR is unable to estimate its ultimate liability for future environmental remediation costs. However, in view of NSTAR's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, management does not believe that these matters will have a material adverse effect on NSTAR's consolidated financial position or results of operations for a reporting period.

### *Industry and corporate restructuring legal proceedings*

The MDTE order approving the Boston Edison electric restructuring settlement agreement was appealed by certain parties to the Massachusetts Supreme Judicial Court. One appeal remains pending. However, there has to date been no briefing, hearing or other action taken with respect to this proceeding. Management is currently unable to determine the outcome of this proceeding. However, if an unfavorable outcome were to occur, there could be a material adverse impact on business operations, the consolidated financial position, cash flows or results of operations for a reporting period.

### *Regulatory proceedings*

In the Boston Edison 1999 reconciliation filing with the MDTE, the Massachusetts Attorney General contested cost allocations related to Boston Edison's wholesale customers since 1998. Management is unable to determine the outcome of the MDTE proceedings. However, if an unfavorable outcome were to occur, there would be a material adverse impact on business operations, the consolidated financial position, results of operations and cash flows in the near term.

In October 1997, the MDTE opened a proceeding to investigate Boston Edison's compliance with a 1993 order that permitted the formation of Boston Energy Technology Group and authorized Boston Edison to invest up to \$45 million in non-utility activities. Hearings were completed during 1999. Management is currently unable to determine the timing of and the outcome of this proceeding. However, if an unfavorable outcome were to occur, there could be a material adverse impact on business operations, the consolidated financial position, cash flows and results of operations for a reporting period.

In the normal course of its business, NSTAR and its subsidiaries are also involved in certain other legal matters. Management is unable to fully determine a range of reasonably possible legal costs in excess of amounts accrued. Based on the information currently available, it does not believe that it is probable that any such additional costs will have a material impact on its consolidated financial position. However, it is reasonably possible that additional legal costs that may result from a change in estimates could have a material impact on the results of a reporting period.

### *Employees*

As of December 31, 2000, NSTAR's subsidiaries had approximately 3,300 full-time employees, including approximately 2,300 or 70% of employees represented by nine collective bargaining units covered by separate contracts. In December 2000, the management of NSTAR's utility subsidiaries and eight separate utility union bargaining units reached an agreement to merge most of the unionized workforce, effective January 1, 2001, into Local 369 of the Utility Workers Union of America, AFL-CIO. The new agreement results in a single bargaining unit of approximately 2,000 NSTAR Electric and Gas employees and one five-year contract expiring May 15, 2005 that will replace seven separate and widely diverse agreements. The other remaining collective bargaining unit contract expires March 31, 2002. Management believes it has satisfactory employee relations.

### *Interest rate risk*

NSTAR is exposed to changes in interest rates primarily based on levels of short-term debt outstanding. The weighted average interest rates for mandatory redeemable cumulative preferred stock and long-term indebtedness were 8.0% and 7.5%, respectively, for 2000 and 8.0% and 7.25%, respectively, for 1999. Carrying amounts and fair values of mandatory redeemable cumulative preferred stock and indebtedness (excluding notes payable) as of December 31, 2000 and 1999 were as follows:

(in thousands)	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mandatory redeemable				
cumulative preferred stock	\$ 49,519	\$ 50,890	\$ 49,279	\$ 52,250
Long-term indebtedness	\$ 2,070,180	\$ 2,090,290	\$ 1,854,794	\$ 1,842,373

### *Safe Harbor Cautionary Statement*

NSTAR occasionally makes forward-looking statements such as forecasts and projections of expected future performance or statements of its plans and objectives. These forward-looking statements may be contained in filings with the SEC, press releases and oral statements. Actual results could potentially differ materially from these statements. Therefore, no assurance can be given that the outcomes stated in such forward-looking statements and estimates will be achieved.

The preceding sections include certain forward-looking statements about operating results and environmental and legal issues.

The impact of continued cost control procedures on operating results could differ from current expectations. The effects of changes in economic conditions, tax rates, interest rates, technology, prices and availability of operating supplies could materially affect the projected operating results.

The impacts of various environmental, legal issues, and regulatory matters could differ from current expectations. New regulations or changes to existing regulations could impose additional operating requirements or liabilities other than expected. The effects of changes in specific hazardous waste site conditions and cleanup technology could affect the estimated cleanup liabilities. The impacts of changes in available information and circumstances regarding legal issues could affect the estimated litigation costs.



## Consolidated Statements of Income

(in thousands, except earnings per share)	years ended December 31,		
	2000	1999	1998
Operating revenues	\$ 2,699,506	\$ 1,851,427	\$ 1,622,515
Operating expenses:			
Purchased power, fuel and cost of gas sold	1,390,740	794,748	567,806
Operations and maintenance	414,270	353,768	382,434
Depreciation and amortization	223,491	210,306	195,607
Demand side management and renewable energy programs	78,774	63,425	51,839
Property and other taxes	78,694	77,761	84,091
Income taxes	123,467	87,721	97,798
Total operating expenses	2,309,436	1,587,729	1,379,575
Operating income	390,070	263,698	242,940
Other income (expense), net	(3,715)	8,078	(11,811)
Operating and other income	386,355	271,776	231,129
Interest charges:			
Long-term debt	109,299	84,196	82,951
Transition property securitization certificates	45,505	20,408	-
Other	55,182	22,873	8,800
Allowance for borrowed funds used during construction (AFUDC)	(4,593)	(2,164)	(1,668)
Total interest charges	205,393	125,313	90,083
Net income	180,962	146,463	141,046
Preferred stock dividends of subsidiary	5,960	5,960	8,765
Earnings available for common shareholders	\$ 175,002	\$ 140,503	\$ 132,281
Weighted average common shares outstanding:			
Basic	54,887	50,796	47,973
Diluted	55,045	50,921	48,149
Earnings per common share:			
Basic	\$ 3.19	\$ 2.77	\$ 2.76
Diluted	\$ 3.18	\$ 2.76	\$ 2.75

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

## Consolidated Statements of Comprehensive Income

		years ended December 31,		
(in thousands)	2000	1999	1998	
Net income	\$ 180,962	\$ 146,463	\$ 141,046	
Comprehensive (loss) income, net:				
Unrealized (loss) gain on investments	(53,255)	20,115	-	
Additional minimum non-qualified pension liability	(1,004)	-	-	
Comprehensive income	\$ 126,703	\$ 166,578	\$ 141,046	

## Consolidated Statements of Retained Earnings

		years ended December 31,		
(in thousands)	2000	1999	1998	
Balance at the beginning of the year	\$ 389,989	\$ 360,509	\$ 328,802	
Add:				
Net income	180,962	146,463	141,046	
Subtotal	570,951	506,972	469,848	
Deduct:				
Dividends declared:				
Common shares	109,315	103,099	90,610	
Preferred stock	5,960	5,960	8,765	
Subtotal	115,275	109,059	99,375	
Deduct:				
Provision for preferred stock redemption and issuance costs	239	239	7,833	
Common share repurchase program	8,850	7,685	2,131	
Balance at the end of the year	\$ 446,587	\$ 389,989	\$ 360,509	

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



## Consolidated Balance Sheets

(in thousands)		December 31,	
	2000		1999
<b>Assets</b>			
Utility plant in service, at original cost	\$ 3,724,754	\$ 3,652,257	
Less: accumulated depreciation	1,249,685	1,239,201	\$ 2,413,056
Construction work in progress	48,524		64,644
Net utility plant	2,523,593		2,477,700
Non-utility property, net	105,827		93,887
Goodwill	475,877		485,990
Equity investments	155,457		173,290
Other investments	41,163		69,942
<b>Current assets:</b>			
Cash and cash equivalents	23,198	168,599	
Restricted cash	20,827	147,941	
Accounts receivable, net of allowance of \$28,309 and \$22,699 in 2000 and 1999, respectively	454,499	389,702	
Regulatory assets	242,663	-	
Accrued unbilled revenues	101,732	42,112	
Fuel, materials and supplies, at average cost	44,659	48,756	
Prepaid pension expense	149,890	104,900	
Other	54,246	42,569	944,579
<b>Deferred debits:</b>			
Regulatory assets	1,029,341		1,045,925
Other	146,542		174,830
Total assets	\$ 5,569,514		\$ 5,466,143
<b>Capitalization and liabilities</b>			
Common equity	\$ 1,376,369	\$ 1,523,532	
Accumulated other comprehensive (loss) income, net	(34,144)		20,115
Cumulative preferred stock of subsidiary	43,000		92,279
Long-term debt	1,440,431		986,843
Transition property securitization certificates	584,130		646,559
<b>Current liabilities:</b>			
Long-term debt and preferred stock, due within one year	\$ 58,695	\$ 170,470	
Transition property securitization certificates, due within one year	36,443	50,922	
Notes payable	468,347	458,000	
Accounts payable	275,778	193,937	
Accrued interest	44,220	21,830	
Dividends payable	28,305	29,871	
Other	323,672	338,745	1,263,775
<b>Deferred credits:</b>			
Accumulated deferred income taxes	666,544		608,587
Accumulated deferred investment tax credits	39,960		41,946
Power contracts	25,868		100,741
Other	191,896		181,766
<b>Commitments and contingencies</b>			
Total capitalization and liabilities	\$ 5,569,514		\$ 5,466,143

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



## Consolidated Statements of Cash Flows

		years ended December 31,		
(in thousands)	2000	1999	1998	
Operating activities:				
Net income	\$ 180,962	\$ 146,463	\$ 141,046	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	225,459	212,880	229,668	
Deferred income taxes and investment tax credits	54,835	88,174	(152,798)	
Allowance for borrowed funds used during construction	(3,057)	(2,164)	(1,668)	
Power contract buy out	(11,679)	(65,781)	-	
Net changes (net of effect of acquisition) in:				
Accounts receivable and accrued unbilled revenues	(124,417)	(96,909)	20,544	
Fuel, materials and supplies, at average cost	4,097	(2,192)	29,565	
Accounts payable	93,520	19,469	13,316	
Other current assets and liabilities	(195,158)	(87,032)	(33,535)	
Other, net	(53,587)	(29,548)	18,851	
Net cash provided by operating activities	170,975	183,360	264,989	
Investing activities				
Plant expenditures (excluding AFUDC)	(182,709)	(159,295)	(120,202)	
Costs of nuclear divestiture, net	-	(87,248)	-	
Proceeds from sale of fossil generating assets	-	-	533,633	
Nuclear fuel expenditures	(1,597)	(16,117)	(26,182)	
Investments	(53,843)	(82,403)	(81,589)	
Payment for cost of acquisition, net of cash acquired	-	(296,262)	-	
Net cash (used in) provided by investing activities	(238,149)	(641,325)	305,660	
Financing activities:				
Proceeds from transition property securitization	-	725,000	-	
Issuances/(repurchases):				
Common shares	(212,611)	(189,715)	(53,285)	
Long-term debt	500,000	20,000	-	
Redemptions:				
Preferred stock	-	-	(71,519)	
Long-term debt (including securitization notes)	(257,853)	(255,361)	(201,600)	
Financing costs	(2,100)	-	-	
Net change in short-term notes	10,347	340,550	(59,013)	
Dividends paid	(116,010)	(103,036)	(100,246)	
Net cash (used in) provided by financing activities	(78,227)	537,438	(485,663)	
Net (decrease) increase in cash and cash equivalents	(145,401)	79,473	84,986	
Cash and cash equivalents at the beginning of the year	168,599	89,126	4,140	
Cash and cash equivalents at the end of the year	\$ 23,198	\$ 168,599	\$ 89,126	
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest, net of amounts capitalized	\$ 166,072	\$ 125,840	\$ 89,720	
Income taxes (refund)	\$ (11,441)	\$ 36,092	\$ 230,260	
Supplemental disclosure of investing activity:				
Common shares issued for acquisition of COM/Energy	-	20,251	-	

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

## Notes to Consolidated Financial Statements

### Note A. Summary of Significant Accounting Policies

#### 1. About NSTAR

NSTAR is an energy delivery company serving approximately 1.3 million customers in Massachusetts including more than one million electric customers in 81 communities and 244,000 gas customers in 51 communities. NSTAR also supplies electricity at wholesale for resale to municipalities. NSTAR was created through the merger of BEC Energy (BEC) and Commonwealth Energy System (COM/Energy) on August 25, 1999 and is an exempt public utility holding company. Its retail utility subsidiaries are Boston Edison Company (Boston Edison), Commonwealth Electric Company (ComElectric), Cambridge Electric Light Company (Cambridge Electric) and NSTAR Gas Company (NSTAR Gas) and its wholesale electric subsidiary is Canal Electric Company (Canal Electric). Effective November 1, 2000, NSTAR's three retail electric companies began to operate under the brand name "NSTAR Electric." Reference in this report to "NSTAR Electric" shall mean each of Boston Edison, ComElectric and Cambridge Electric. NSTAR's non-utility operations include telecommunications - NSTAR Communications, Inc. (NSTAR Com), district heating and cooling operations (Advanced Energy Systems, Inc. and NSTAR Steam Corporation) and liquefied natural gas services (Hopkinton LNG Corp.).

NSTAR is focusing its utility operations on the transmission and distribution of energy. The 1997 Massachusetts Electric Restructuring Act (Restructuring Act) required all electric utilities to divest their generating assets and leave the retail power supply business in exchange for the right to recover all non-mitigable stranded costs associated with the creation of customer choice and competition.

#### 2. Basis of Consolidation and Accounting

The accompanying consolidated financial statements reflect the results of operations, comprehensive income, financial position and cash flows of NSTAR and its subsidiaries. All significant intercompany transactions have been eliminated. Certain reclassifications have been made to the prior year data to conform with the current presentation.

NSTAR's utility subsidiaries follow accounting policies prescribed by the Federal Energy Regulatory Commission (FERC) and the Massachusetts Department of Telecommunications and Energy (MDTE). In addition, NSTAR and its subsidiaries are subject to the accounting and reporting requirements of the Securities and Exchange Commission (SEC). The accompanying consolidated financial statements conform with Generally Accepted Accounting Principles (GAAP). The utility subsidiaries are subject to Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). The application of SFAS 71 results in differences in the timing of recognition of certain expenses from that of other businesses and industries. The distribution business remains subject to rate-regulation and continues to meet the criteria for application of SFAS 71. Refer to Note D to these Consolidated Financial Statements for more information on the accounting implications of the electric utility industry restructuring.

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

#### 3. Revenues

Utility revenues are based on authorized rates approved by the FERC and the MDTE. Estimates of transmission and distribution revenues for electricity and natural gas used by customers but not yet billed are accrued at the end of each accounting period. NSTAR Electric also recognizes unbilled revenue related to transition charges similar to transmission and distribution.

Revenues for NSTAR's non-utility subsidiaries are recognized when services are rendered or when the energy is delivered.

#### **4. Utility Plant**

Utility plant is stated at original cost of construction. The costs of replacements of property units are capitalized. Maintenance and repairs and replacements of minor items are expensed as incurred. The original cost of property retired, net of salvage value, and the related costs of removal are charged to accumulated depreciation. Non-utility property is stated at cost or its net realizable value.

#### **5. Depreciation**

Depreciation of utility plant is computed on a straight-line basis using composite rates based on the estimated useful lives of the various classes of property. The overall composite depreciation rates were 3.20%, 3.31% and 3.28% in 2000, 1999 and 1998, respectively. Depreciation of non-utility property is computed on a straight-line basis over the estimated life of the asset.

#### **6. Costs Associated with Issuance and Redemption of Debt and Preferred Stock**

Consistent with the recovery in utility rates, discounts, redemption premiums and related costs associated with the issuance and redemption of long-term debt and preferred stock are deferred. The costs related to long-term debt are recognized as an addition to interest expense over the life of the original or replacement debt. Consistent with an accounting order received from the FERC, costs related to preferred stock issuances and redemptions are reflected as a direct reduction to retained earnings upon redemption or over the average life of the replacement preferred stock series as applicable.

#### **7. Allowance for Borrowed Funds Used During Construction (AFUDC)**

AFUDC represents the estimated costs to finance utility plant construction. In accordance with regulatory accounting, AFUDC is included as a cost of utility plant and a reduction of current interest charges. Although AFUDC is not a current source of cash income, the costs are recovered from customers over the service life of the related plant in the form of increased revenues collected as a result of higher depreciation expense. Average AFUDC rates in 2000, 1999 and 1998 were 6.16%, 5.82% and 5.88%, respectively, and represented only the cost of short-term debt. AFUDC also includes capitalized interest on non-utility plant.

#### **8. Cash and Cash Equivalents**

Cash and cash equivalents are comprised of liquid securities with maturities of 90 days or less when purchased. Restricted cash represents the net proceeds from the sale of Canal Electric's generation assets that are required to be used to reduce the transition costs that otherwise would be billed to customers.

#### **9. Equity Method of Accounting**

NSTAR uses the equity method of accounting for investments in corporate joint ventures in which it does not have a controlling interest. Under this method, it records as income or loss the proportionate share of the net earnings or losses of the joint ventures with a corresponding increase or decrease in the carrying value of the investment. The investment is reduced as cash dividends are received.

#### **10. Amortization of Goodwill and Costs to Achieve**

The merger of BEC and COM/Energy was accounted for as an acquisition of COM/Energy by BEC using the purchase method of accounting. Under this method, the accompanying consolidated financial statements of NSTAR for 2000 include the results of operations, comprehensive income, financial position and cash flows of NSTAR for the entire period presented. However, the accompanying consolidated financial statements of NSTAR for the year 1999 reflect the results of BEC consolidated with those of COM/Energy from the date of the merger (August 25, 1999). Goodwill amounted to approximately \$490 million, while the original estimate of transaction and integration costs to achieve the merger was \$111 million. Goodwill is being amortized over 40 years and will amount to approximately \$12.2 million annually, while the cost to achieve is being amortized over 10 years and will initially be approximately \$11.1 million annually. The ultimate amortization of the costs to achieve will reflect the total actual costs.

## 11. Regulatory Assets

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

Regulatory assets consisted of the following:

(in thousands)	2000	December 31, 1999
Generation-related regulatory assets, net	\$ 694,902	\$ 631,639
Purchased power costs	-	95,654
Costs to achieve	119,519	79,681
Power contracts	61,131	96,911
Income taxes, net	55,887	71,057
Postretirement benefits costs	26,692	24,887
Redemption premiums	14,403	16,014
Other	56,807	30,082
	1,029,341	1,045,925
Current assets		
Purchased power costs	242,663	-
Total regulatory assets	\$ 1,272,004	\$ 1,045,925

The current purchased power costs shown in the table above as of December 31, 2000 is based on a recent MDTE approval of standard offer and default service rates and it is anticipated that this amount will be collected from customers during 2001.

## Note B. Earnings Per Common Share

Basic earnings per common share (EPS) is calculated by dividing net income, after deductions for preferred dividends, by the weighted average common shares outstanding during the year. Statement of Financial Accounting Standards No. 128, "Earnings per Share," requires the disclosure of diluted EPS. Diluted EPS is similar to the computation of basic EPS except that the weighted average common shares is increased to include the number of dilutive potential common shares. Diluted EPS reflects the impact on shares outstanding of the deferred (nonvested) shares and stock options granted under the NSTAR Stock Incentive Plan.

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

(in thousands, except per share amounts)	2000	1999	1998
Earnings available for common shareholders	\$ 175,002	\$ 140,503	\$ 132,281
Basic EPS	\$ 3.19	\$ 2.77	\$ 2.76
Diluted EPS	\$ 3.18	\$ 2.76	\$ 2.75
Weighted average common shares			
outstanding for basic EPS	54,887	50,796	47,973
Effect of dilutive shares:			
Weighted average dilutive potential common shares	158	125	176
Weighted average common shares			
outstanding for diluted EPS	55,045	50,921	48,149

## **Note C. RCN Joint Venture and Investment Conversion**

NSTAR Com is a participant in a telecommunications venture with RCN Telecom Services, Inc. of Massachusetts, a subsidiary of RCN Corporation (RCN). NSTAR Com accounts for its Class A Equity investment in the joint venture using the equity method of accounting. As part of the Joint Venture Agreement, NSTAR Com has the option to exchange portions of its joint venture interest for common shares of RCN at specified periods. During 1998, NSTAR Com exercised its option to convert a portion of its interest. In the first quarter of 1999, NSTAR Com received 1.1 million RCN common shares in exchange for a portion of its joint venture interest that had a net book value of \$7.8 million. In May 1999, NSTAR Com notified RCN of its intention to exercise its option to convert an additional portion of its joint venture interest that had a net book value of \$72.3 million at that time. In March 2000, NSTAR Com received approximately three million shares of RCN associated with this second exchange.

The RCN shares received are included in Other investments on the accompanying Consolidated Balance Sheets at their fair value of approximately \$25.9 million at December 31, 2000. This fair value may increase or decrease, at any time, as a result of changes in the market price of RCN common shares. The unrealized gain or loss due to the changes in fair value on these shares during each period is reflected, net of associated income taxes, as Comprehensive (loss) income on the accompanying Consolidated Statements of Comprehensive Income. The cumulative increase or decrease in fair value of these shares as of December 31, 2000 and 1999 is reflected as Accumulated other comprehensive (loss) income, net on the accompanying Consolidated Balance Sheets. Management continues to evaluate the carrying value of its investment in RCN. As a result of the current decline in the market value of RCN shares, it is reasonably possible that an adjustment may result. Management is unable at this time to estimate the amount, if any, of a potential adjustment.

On April 6, 2000, NSTAR Com issued its third and final notice to exchange substantially all of its remaining interest in the joint venture with a net book value of approximately \$129 million into common shares of RCN that is reflected on the accompanying Consolidated Balance Sheets in Equity investments. Effective with the third notice, NSTAR Com's profit and loss sharing ratio was reduced to zero and therefore NSTAR Com no longer recognized any results of operations from its interest in the joint venture. Through April 6, 2000, NSTAR Com recognized \$5.6 million in equity losses from the joint venture and for the year ended December 31, 1999, it recognized \$16.2 million in losses.

On October 18, 2000, NSTAR Com and RCN signed an agreement in principle to amend the Joint Venture Agreement. Among other items, this proposal would settle the number of shares to be exchanged associated with the third conversion of NSTAR Com's Class A Equity at 7.5 million shares. This amendment also offers NSTAR Com the option to continue to invest in the joint venture through a new "Class B Preferred Equity" guaranteed by RCN. This Class B Equity has no voting rights and no sharing of profits or losses. NSTAR Com has an option to invest up to \$100 million in such security.

NSTAR Com, at its election, may choose to designate the amounts it contributes under future capital calls as either Class A Equity or Class B Equity in the joint venture. Future investments by NSTAR Com will not be convertible into RCN common shares. In addition, under the agreement in principle, the joint venture and NSTAR Com would amend certain of their agreements to incorporate an incentive and penalty provision for construction activities and expand the relevant market in which the joint venture operates. No final agreement has been reached relating to the October 18, 2000 agreement in principle. Management expects to have a final amended Joint Venture Agreement in place during the first half of 2001.

At December 31, 2000 and 1999, NSTAR Com had \$47.9 million and \$26.6 million, respectively, in accounts receivable due from RCN.

## **Note D. Electric Utility Industry Restructuring**

### **1. Accounting Implications**

Under the traditional revenue requirements model, electric rates are based on the cost of providing electric service. Under this model, NSTAR Electric is subject to certain accounting standards that are not applicable to other businesses and industries in general. The application of SFAS 71 requires companies to defer the recognition of certain costs when incurred if future rate recovery of these costs is expected. NSTAR's remaining generation business, Canal Electric's 3.52% joint ownership interest in the Seabrook Nuclear Power Station is subject to the provisions of SFAS 71.

The implementation of electric utility industry restructuring has certain accounting implications. The

- highlights of these include:

#### *a. Generation-related plant and other regulatory assets*

Plant and other regulatory assets related to the generation business are recovered through the transition charge. This recovery occurs over a 12-year period for Boston Edison and over an 11-year period for ComElectric and Cambridge Electric, beginning on March 1, 1998, the retail access date in Massachusetts.

#### *b. Fuel and purchased power charge*

The fuel and purchased power charge ceased as of the retail access date. The net remaining over-collection of fuel and purchased power costs were returned to customers through March 31, 2000. These over-recovered costs are included as an offset to the settlement recovery mechanisms and were included in Regulatory assets on the accompanying Consolidated Balance Sheets.

#### *c. Standard offer and default service charges*

Customers have the option of continuing to buy power from the retail electric distribution businesses at standard offer prices as of the retail access date through 2004. The cost of providing standard offer service includes fuel and purchased power costs. Default service is the electricity that is supplied by the local distribution company when a customer is not receiving power from standard offer service. The market price for default service will fluctuate based on the average market price for power. Amounts collected through standard offer and default service are recovered on a fully reconciling basis.

#### *d. Distribution and transmission charges*

An integral part of the merger is the rate plan of the retail utility subsidiaries of NSTAR that was approved by the MDTE on July 27, 1999. Significant elements of the rate plan include a four-year distribution rate freeze, recovery of the acquisition premium (goodwill) over 40 years and recovery of transaction and integration costs (costs to achieve) over 10 years.

Boston Edison distribution rates were subject to a minimum and maximum return on average common equity (ROE) from its distribution business through December 31, 2000. The ROE was subject to a floor of 6% and a ceiling of 11.75%. If the ROE was below 6%, Boston Edison was authorized to add a surcharge to distribution rates in order to achieve the 6% floor. If the ROE was above 11%, it was required to adjust distribution rates by an amount necessary to reduce the calculated ROE between 11% and 12.5% by 50%, and a return above 12.5% by 100%. No adjustment was made if the ROE was between 6% and 11%. In addition, distribution rates continue to be subject to adjustment for any changes in tax laws or accounting principles that result in a change in costs of more than \$1 million. No adjustments have been made to Boston Edison's distribution rates due to either one of these rate mechanisms.

The cost of providing transmission service to all NSTAR Electric distribution customers is recovered on a fully reconciling basis.

### **2. Generating Assets Divestiture**

On July 13, 1999, Boston Edison completed the sale of the Pilgrim Nuclear Generating Station to Entergy Nuclear Generating Company (Entergy), a subsidiary of Entergy Corporation, for \$81 million. In addition to the amount received from the buyer, Boston Edison received a total of approximately \$233 million from the Pilgrim contract customers, including \$103 million from ComElectric, to terminate their contracts. Approximately \$5 million remains to be collected under these termination agreements at December 31, 2000. This compares to \$80 million at December 31, 1999. As part of the sale, Boston Edison, the first company in the nation to successfully sell a nuclear facility, transferred its decommissioning trust fund to Entergy. In order to provide Entergy with a fully funded decommissioning trust fund, Boston Edison contributed approximately \$271 million to the fund at the time of the sale. As a result of a favorable IRS tax ruling, Boston Edison received \$43 million from Entergy reflecting a reduction in the required decommissioning funding. The difference between the total proceeds received and the net book value of the Pilgrim assets sold plus the net amount to fully fund the decommissioning trust is included in Regulatory assets on the accompanying Consolidated Balance Sheets as such amounts are currently being collected from customers under Boston Edison's settlement agreement. The final amounts to be collected from customers related to Pilgrim are subject to regulatory review.

Completion of the sale of Boston Edison's fossil generating assets took place in May 1998. Boston Edison received proceeds from the sale of \$674 million, including \$121 million for a six-month transitional power purchase contract. The amount received above net book value on the sale of these assets is being returned to Boston Edison's customers over the settlement period.



On July 27, 1999, BEC Funding LLC, a wholly owned special-purpose subsidiary of Boston Edison, closed the sale of \$725 million of notes to a special purpose trust created by two Massachusetts state agencies. The trust then concurrently closed the sale of \$725 million of electric rate reduction certificates to the public. The certificates are secured by a portion of the transition charge assessed on Boston Edison's retail customers as permitted under the Restructuring Act and authorized by the MDTE. These certificates are non-recourse to Boston Edison.

COM/Energy completed the sale of substantially all of its investment in electric generation assets in 1998. Proceeds from the sale of these assets, after construction-related adjustments at the closing that occurred on December 30, 1998, amounted to approximately \$453.9 million, or 6.1 times their book value of approximately \$74.2 million. The proceeds from the sale, net of book value, transaction costs and certain other adjustments, amounted to \$358.6 million and are being used to reduce stranded costs related to electric industry restructuring that otherwise would have been collected from customers.

COM/Energy established Energy Investment Services, Inc. (EIS) as the vehicle to invest the net proceeds from the sale of Canal Electric generation assets. These proceeds were invested in a portfolio of securities that are designed to maintain principal and earn a reasonable return. Both the principal amount and income earned were used to reduce the future stranded costs that would otherwise have been billed to customers of Cambridge Electric and ComElectric. The net proceeds were classified as Restricted cash on the accompanying Consolidated Balance Sheets for 2000 and 1999.

On October 26, 2000, the MDTE approved the filing made by Cambridge Electric and ComElectric (together, "the Companies") for the partial buydown of their contract with Canal Electric for power from the Seabrook nuclear generating facility (Seabrook Contract). The buydown transaction is effected by means of an amendment to the Seabrook Contract. On November 8, 2000, \$120.5 million of funds held by EIS, was transferred to ComElectric and Cambridge Electric in the amount of \$113.4 million and \$7.1 million, respectively. EIS was established as the vehicle to invest the net proceeds from the sale of these assets. The Companies, in turn, have reduced their respective future stranded costs to be recovered from customers. In addition, Cambridge Electric also made a \$21.1 million payment to Canal Electric as a further buydown of its share of the Seabrook Contract with after-tax proceeds received from the sale of Cambridge Electric's Kendall Station in December 1998. Approval of a November 1, 2000 buydown amount is pending at the MDTE.

The impact of these transactions are shown on the accompanying Consolidated Balance Sheets at December 31, 2000 as reductions in Restricted cash and Regulatory assets.

Canal Electric also made a filing with the FERC to amend the Seabrook Contract to reflect the buydown effective November 1, 2000. Action by FERC on this filing is pending.

#### Note E. Income Taxes

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). SFAS 109 requires the recognition of deferred tax assets and liabilities for the future tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. In accordance with SFAS 109, net regulatory assets of \$55.9 million and \$71.1 million and corresponding net increases in accumulated deferred income taxes were recorded as of December 31, 2000 and 1999, respectively. The regulatory assets represent the additional future revenues to be collected from customers for deferred income taxes.

Accumulated deferred income taxes consisted of the following:

(in thousands)	2000	December 31, 1999
Deferred tax liabilities:		
Plant-related	\$ 487,714	\$ 484,021
Other	490,079	424,128
	977,793	908,149
Deferred tax assets:		
Plant-related	82,898	78,587
Investment tax credits	25,791	29,013
Other	202,560	191,962
	311,249	299,562
Net accumulated deferred income taxes	\$ 666,544	\$ 608,587

No valuation allowances for deferred tax assets are deemed necessary.

Previously deferred investment tax credits are amortized over the estimated remaining lives of the property giving rise to the credits.

Components of income tax expense were as follows:

(in thousands)	years ended December 31,		
	2000	1999	1998
Current income tax expense (benefit)	\$ 68,944	\$ (33,121)	\$ 239,717
Deferred income tax expense (benefit)	56,508	123,393	(137,992)
Investment tax credit amortization	(1,985)	(2,551)	(3,927)
Income taxes charged to operations	123,467	87,721	97,798
Tax expense (benefit) on other income (expense), net	5,433	(27,580)	(24,116)
Total income tax expense	\$ 128,900	\$ 60,141	\$ 73,682

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

	2000	1999	1998
Statutory tax rate	35.0%	35.0%	35.0%
State income tax, net of federal income tax benefit	5.1	5.5	5.2
Investment tax credits	(0.6)	(11.3)	(6.9)
Other	2.1	(0.1)	1.0
Effective tax rate	41.6%	29.1%	34.3%

Income tax expense is reflected net of \$20.8 million in 1999 and \$10.9 million in 1998, representing investment tax credits recognized as a result of generation asset divestitures. Excluding this shareholder benefit, the effective tax rate would have been approximately 39% in each year.

## Note F. Pensions and Other Postretirement Benefits

### 1. Pensions

NSTAR sponsors a defined benefit funded retirement plan that covers substantially all employees. NSTAR also maintains unfunded supplemental retirement plans for certain management employees. Effective January 1, 2001, the defined benefit plan was amended to reflect the impact of the transition of all NSTAR union locals to the pension benefits provided under the Local 369 formula. This amendment is reflected in the December 31, 2000 benefit obligation.

Effective January 1, 2000, the defined benefit plan was amended to provide management employees lump sum benefits under a final average pay pension equity formula. Prior to January 1, 2000, these pension benefits were provided under a traditional final average pay formula. This amendment is reflected in the December 31, 1999 benefit obligation.

The changes in benefit obligation and plan assets were as follows:

(in thousands)	2000	1999
Change in benefit obligation:		
Benefit obligation, beginning of the year	\$ 800,084	\$ 497,988
COM/Energy obligation	-	405,868
Service cost	14,636	14,741
Interest cost	59,798	42,426
Plan participants' contributions	81	170
Plan amendments	(4,387)	(12,697)
Actuarial loss/(gain)	59,815	(62,464)
Curtailment loss	-	18,424
Special termination benefits	-	13,582
Settlement payments	(77,256)	(92,484)
Benefits paid	(48,413)	(25,470)
Benefit obligation, end of the year	\$ 804,358	\$ 800,084



(in thousands)	2000	1999
Change in plan assets:		
Fair value of plan assets, beginning of the year	\$ 955,498	\$ 474,552
COM/Energy plan assets	-	395,783
Actual (loss) return on plan assets, net	(28,041)	143,116
Employer contribution	44,338	59,831
Plan participants' contributions	81	170
Settlement payments	(77,256)	(92,484)
Benefits paid	(48,413)	(25,470)
Fair value of plan assets, end of the year	\$ 846,207	\$ 955,498

The plans' funded status was as follows:		December 31,
(in thousands)	2000	1999
Funded status	\$ 41,849	\$ 155,414
Unrecognized actuarial net loss/(gain)	104,817	(59,254)
Unrecognized transition obligation	2,182	2,783
Unrecognized prior service (benefit)/cost	(3,340)	1,495
Net amount recognized	\$ 145,508	\$ 100,438

Amounts recognized in the Consolidated Balance Sheets consisted of:		December 31,
(in thousands)	2000	1999
Prepaid retirement cost	\$ 149,890	\$ 104,900
Accrued retirement liability	(13,306)	(10,148)
Intangible asset	7,285	5,686
Accumulated other comprehensive income	1,639	-
Net amount recognized	\$ 145,508	\$ 100,438

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the supplemental retirement plan with accumulated benefit obligations in excess of plan assets were \$14,067,000, \$13,306,000 and \$0, respectively, as of December 31, 2000 and \$14,291,000, \$10,148,000 and \$0, respectively, as of December 31, 1999.

Weighted average assumptions were as follows:

	2000	1999	1998
Discount rate at the end of the year	7.5%	8.0%	6.5%
Expected return on plan assets for the year (net of investment expenses)	9.3%	9.0%	9.0%
Rate of compensation increase at the end of the year	4.0%	4.0%	4.0%

Components of net periodic benefit cost were as follows:

(in thousands)	2000	1999	December 31, 1998
Service cost	\$ 14,636	\$ 14,741	\$ 13,645
Interest cost	59,798	42,426	31,981
Expected return on plan assets	(85,884)	(53,059)	(39,140)
Amortization of prior service cost	448	1,610	1,847
Amortization of transition obligation	601	664	860
Recognized actuarial loss	-	3,594	808
Net periodic benefit (income) cost	\$ (10,401)	\$ 9,976	\$ 10,001

As a result of merger-related separation agreements and nuclear divestiture, amounts recognized for curtailment, settlement and special termination benefit costs were \$19,823,000, \$930,000 and \$13,582,000, respectively, for 1999. In addition, \$9,623,000 was recognized as a result of pension settlements in 2000. The majority of these charges will be recovered from customers and is a component of Regulatory assets on the accompanying Consolidated Balance Sheets. The amounts resulting from the merger-related separation agreements and generation divestitures are recoverable as part of the approved rate plans of the retail utility subsidiaries of NSTAR.

NSTAR also provides defined contribution 401(k) plans for substantially all employees. Matching contributions (which are equal to 50% of the employees' deferral up to 8% of compensation) included in the accompanying Consolidated Statements of Income amounted to \$7 million in 2000, \$9 million in 1999 and \$8 million in 1998.

## 2. Other Postretirement Benefits

In addition to pension benefits, NSTAR also provides health care and other benefits to retired employees who meet certain age and years of service eligibility requirements. These benefits include health and life insurance coverage and reimbursement of certain Medicare premiums. Under certain circumstances, eligible employees are required to make contributions for postretirement benefits. Effective January 1, 2001, amendments were added to reflect negotiated changes to Local 369 as well as the impact of the transition of all NSTAR union locals to the benefits provided under the Local 369 formula. These amendments are reflected in the December 31, 2000 benefit obligation. Effective January 1, 2000, an amendment was added to include certain new managed care features. This amendment is reflected in the December 31, 1999 benefit obligation.

The changes in benefit obligation and plan assets were as follows:

(in thousands)	2000	1999
Change in benefit obligation:		
Benefit obligation, beginning of the year	\$ 370,914	\$ 258,756
COM/Energy obligation	-	146,741
Service cost	3,563	4,505
Interest cost	29,574	21,896
Plan participants' contributions	926	37
Plan amendments	2,807	(14,062)
Actuarial loss/(gain)	44,939	(24,186)
Curtailment loss	-	1,408
Settlement payments	-	(5,810)
Benefits paid	(24,382)	(18,371)
Benefit obligation, end of the year	\$ 428,341	\$ 370,914
Change in plan assets:		
Fair value of plan assets, beginning of the year	\$ 201,053	\$ 113,818
COM/Energy plan assets	-	73,558
Actual (loss)/return on plan assets	(16,411)	23,337
Employer contribution	63,465	14,484
Plan participants' contributions	926	37
Settlement payments	-	(5,810)
Benefits paid	(24,382)	(18,371)
Fair value of plan assets, end of the year	\$ 224,651	\$ 201,053

The plans' funded status and amounts recognized in the accompanying Consolidated Balance Sheets were as follows:

(in thousands)	2000	December 31, 1999
Funded status	\$ (203,690)	\$ (169,861)
Unrecognized actuarial net loss/(gain)	70,836	(9,524)
Unrecognized transition obligation	67,400	73,016
Unrecognized prior service cost	(17,644)	(22,154)
Net amount recognized	\$ (83,098)	\$ (128,523)

Weighted average assumptions were as follows:

	2000	1999	1998
Discount rate at the end of the year	7.5%	8.0%	6.5%
Expected return on plan assets for the year	9.0%	9.0%	9.0%

For measurement purposes an 11% weighted annual rate of increase in per capita cost of covered medical claims was assumed for 2001. This rate is assumed to decrease gradually to 5% in 2012 and remain at that level thereafter. Dental claims and Medicare premiums are assumed to increase at a weighted annual rate of 4% and 5%, respectively.

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

(in thousands)	One-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost components for 2000	\$ 4,672	\$ (3,477)
Effect on December 31, 2000 postretirement benefit obligation	\$ 57,499	\$ (44,494)

Components of net periodic benefit cost were as follows:

(in thousands)	years ended December 31,		
	2000	1999	1998
Service cost	\$ 3,563	\$ 4,505	\$ 3,892
Interest cost	29,574	21,896	16,895
Expected return on plan assets	(19,010)	(12,329)	(8,563)
Amortization of prior service cost	(1,703)	(683)	(942)
Amortization of transition obligation	5,616	6,162	8,474
Recognized actuarial loss	-	957	662
Net periodic benefit cost	\$ 18,040	\$ 20,508	\$ 20,418

As a result of merger-related separation packages and nuclear divestiture, amounts recognized for curtailment and settlement costs were \$8,114,000 and \$172,000, respectively, for 1999. As a result of the nuclear divestiture, amounts recognized for curtailment and special termination benefit costs were \$21,187,000 and \$79,000, respectively, for 1998. The amounts resulting from the merger-related separation packages are recoverable as part of the approved rate plans of the retail utility subsidiaries of NSTAR. The amounts resulting from the nuclear divestiture are recoverable under the Boston Edison settlement agreement.

#### Note G. Stock-Based Compensation

NSTAR maintains a Stock Incentive Plan (the Plan) that permits a variety of stock and stock-based awards, including stock options and deferred (non-vested) stock to be granted to certain key employees. The Plan limits the terms of awards to ten years. Subject to adjustment for stock-splits and similar events, the aggregate number of common shares that may be awarded under the Plan is 2,000,000, including shares issued in lieu of or upon reinvestment of dividends arising from awards. During 2000, 69,750 deferred shares and 316,700 ten-year non-qualified stock options were granted. During 1999, 58,500 deferred shares and 248,000 ten-year non-qualified stock options were granted. During 1998, 19,150 deferred shares and 419,200 ten-year non-qualified stock options were granted under the Plan. The weighted average grant date fair value of the deferred stock issued during 2000, 1999 and 1998 was \$44.375, \$41.73 and \$39.75, respectively. The options were granted at the full market price of the common shares on the date of the grant. All the awards vest ratably over a three-year period.

Compensation cost for stock-based awards is computed by measuring the quoted stock market price at the measurement date less the amount, if any, an employee is required to pay. The fair value disclosures were as follows:

(in thousands, except per share amounts)	2000	1999	1998
Net income			
Actual	\$ 180,962	\$ 146,463	\$ 141,046
Pro forma	\$ 180,237	\$ 145,955	\$ 140,661
Basic earnings per common share			
Actual	\$ 3.19	\$ 2.77	\$ 2.76
Pro forma	\$ 3.18	\$ 2.76	\$ 2.75
Diluted earnings per common share			
Actual	\$ 3.18	\$ 2.76	\$ 2.75
Pro forma	\$ 3.17	\$ 2.75	\$ 2.74

Stock option activity of the Plan was as follows:

	2000	1999	1998
Options outstanding at January 1	814,267	666,600	273,000
Options granted	316,700	248,000	419,200
Options exercised	(125,432)	(4,400)	(3,800)
Options forfeited	(87,400)	(95,933)	(21,800)
Options outstanding at December 31	918,135	814,267	666,600

Summarized information regarding stock options outstanding at December 31, 2000:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Numbers Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Numbers Outstanding	Weighted Average Exercise Price
\$25.75-\$26.00	162,400	6.45	\$ 25.90	162,400	\$ 25.90
\$39.75-\$41.375	467,402	7.26	\$ 40.36	242,576	\$ 40.14
\$44.375	288,333	9.40	\$ 44.375	-	-

There were 404,976, 298,333 and 87,200 stock options exercisable on December 31, 2000, 1999 and 1998, respectively.

The stock options granted during 2000, 1999 and 1998 have a weighted average grant date fair value of \$7.00, \$4.86 and \$4.61, respectively. The fair value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2000	1999	1998
Expected life (years)	4.0	4.0	4.0
Risk-free interest rate	6.48 %	5.31 %	5.66 %
Volatility	20 %	17 %	16 %
Dividends	4.64 %	4.86 %	4.88 %

Compensation cost recognized in the accompanying Consolidated Statements of Income for stock-based compensation awards in 2000, 1999 and 1998 was \$1,717,000, \$1,044,000 and \$850,000, respectively.

## Note H. Capital Stock

### Common Shares

	December 31,	
(in thousands, except per share amounts)	2000	1999
Common equity:		
Common shares, par value \$1 per share, 100,000,000 shares authorized; 53,032,546 and 58,059,646 shares issued and outstanding	\$ 53,033	\$ 58,060
Premium on common shares	876,749	1,075,483
Retained earnings	446,587	389,989
Total common equity	\$ 1,376,369	\$ 1,523,532

Dividends declared per common share were \$2.015, \$1.955 and \$1.895 in 2000, 1999 and 1998, respectively.

### Cumulative Preferred Stock

(in thousands, except per share amounts)

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

Non-mandatory redeemable series:

Series	Current Shares Outstanding	Redemption Price/Share	December 31,	
			2000	1999
4.25%	180,000	\$ 103.625	\$ 18,000	\$ 18,000
4.78%	250,000	\$ 102.80	25,000	25,000
Total non-mandatory redeemable series			43,000	43,000

Mandatory redeemable series:

Series	Current Shares Outstanding	Redemption Price/Share	December 31,	
			2000	1999
8.00%	500,000	\$ 100.00	50,000	50,000
Less redemption and issuance costs			481	721
Total mandatory redeemable series			49,519	49,279
			92,519	92,279
Less amount due within one year			49,519	-
Total cumulative preferred stock of subsidiary		\$	43,000	\$ 92,279

### 1. Common Shares

Common share issuances and repurchases in 1998 through 2000 were as follows:

(in thousands)	Number of Shares	Total Par Value	Premium on Common Shares
Balance at December 31, 1997	48,515	\$ 48,515	\$ 696,137
Common share repurchase program	(1,331)	(1,331)	(49,823)
Stock incentive plan	-	-	(2,109)
Balance at December 31, 1998	47,184	47,184	644,205
Common share repurchase program	(4,839)	(4,839)	(179,593)
Stock incentive plan	-	-	(3,189)
Shares issued to COM/Energy shareholders	20,251	20,251	809,524
BEC Energy shares repurchased under merger agreement	(4,536)	(4,536)	(195,464)
Balance at December 31, 1999	58,060	58,060	1,075,483
Common share repurchase program	(5,027)	(5,027)	(198,113)
Stock incentive plan	-	-	(621)
Balance at December 31, 2000	53,033	\$ 53,033	\$ 876,749

## 2. Cumulative Mandatory Redeemable Preferred Stock

Boston Edison is not able to redeem any part of the 500,000 shares of 8% series cumulative preferred stock prior to December 2001. The entire series is subject to mandatory redemption in December 2001 at \$100 per share plus accrued dividends.

### Note I. Indebtedness

#### 1. Long-term debt

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

(in thousands)	2000	December 31, 1999
Mortgage Bonds, collateralized by property of operating subsidiaries:		
8.99%, due December 2001	\$ 3,500	\$ 7,150
6.54%, due September 2007	10,000	10,000
7.04%, due September 2017	25,000	25,000
9.95%, due December 2020	25,000	25,000
7.11%, due December 2033	35,000	35,000
Notes:		
7.75%, due June 2002	2,200	2,301
9.30%, due January 2002	29,989	29,978
7.43%, due March 2003	15,000	15,000
9.50%, due December 2004	4,000	5,000
7.62%, due November 2006	20,000	20,000
8.70%, due March 2007	5,000	5,000
9.55%, due December 2007	10,000	10,000
7.70%, due March 2008	10,000	10,000
8.0%, due February 2010	498,008	-
9.37%, due January 2012	12,632	13,684
7.98%, due March 2013	25,000	25,000
9.53%, due December 2014	10,000	10,000
9.60%, due December 2019	10,000	10,000
6.924%, due June 2021	105,994	105,250
8.47%, due March 2023	15,000	15,000
Debentures:		
6.80%, due February 2000	-	65,000
6.05%, due August 2000	-	100,000
6.80%, due March 2003	150,000	150,000
7.80%, due May 2010	125,000	125,000
9.875%, due June 2020	-	34,035
9.375%, due August 2021	24,270	24,270
8.25%, due September 2022	60,000	60,000
7.80%, due March 2023	181,000	181,000
Sewage facility revenue bonds, due through 2015	23,014	24,645
Massachusetts Industrial Finance Agency (MIFA) bonds:		
5.75%, due February 2014	15,000	15,000
Transition Property Securitization Certificates:		
5.99%, due March 2003	4,073	80,981
6.45%, due September 2005	170,610	170,610
6.62%, due March 2007	103,390	103,390
6.91%, due September 2009	170,876	170,876
7.03%, due March 2012	171,624	171,624
	2,070,180	1,854,794
Amounts due within one year	(45,619)	(221,392)
Total long-term debt	\$ 2,024,561	\$ 1,633,402

The 9.375% series due 2021 are first redeemable in August 2001 at 104.612%, the 8.25% series due 2022 are first redeemable in September 2002 at 103.780% and the 7.80% series due 2023 are first redeemable in March 2003 at 103.730%. None of the other series are redeemable prior to maturity. There is no sinking fund requirement for any series of debentures.

Sewage facility revenue bonds are tax-exempt, subject to annual mandatory sinking fund redemption requirements and mature through 2015. Scheduled redemptions of \$1.6 million were made in 2000, 1999 and 1998. The weighted average interest rate of the bonds was 7.3%.

The 5.75% tax-exempt unsecured MIFA bonds due 2014 are redeemable beginning in February 2004 at a redemption price of 102%. The redemption price decreases to 101% in February 2005 and to par in February 2006.

Boston Edison's Financing Application with the MDTE was approved in October 2000 for authorization to issue from time to time up to \$500 million of debt securities through 2002. Proceeds from such issuances covered under this approved financing will be used for repayment or refinancing of certain outstanding equity securities, long-term indebtedness, and for other corporate purposes. On February 20, 2001, Boston Edison filed a registration statement on Form S-3 with the SEC, using a shelf registration process, to issue up to \$500 million in debt securities. The registration statement was declared effective by the SEC on February 28, 2001. When issued, Boston Edison will use the proceeds to pay at maturity long-term debt and equity securities, refinance short-term debt and for other corporate purposes.

The aggregate principal amounts of NSTAR long-term debt (including securitization certificates and sinking fund requirements) due for the five years subsequent to 2000 are approximately \$72 million in 2001, \$109 million in 2002, \$241 million in 2003, \$79 million in 2004 and \$78 million in 2005.

In 1999, BEC Funding LLC, a wholly owned subsidiary of Boston Edison, issued notes in the principal amount of \$725 million to a special purpose trust created by two Massachusetts state agencies, in exchange for the net proceeds from the sale of \$725 million of Rate Reduction Certificates issued by the trust on July 29, 1999.

## **2.Short-term Debt**

NSTAR has a \$450 million revolving credit agreement with a group of banks effective through November 2002. As of December 31, 2000, there were no amounts outstanding and as of December 31, 1999 there was \$350 million outstanding under its revolving credit agreement. Also, NSTAR has a \$450 million commercial paper program. At December 31, 2000 and 1999, NSTAR had \$252 million outstanding and no amount outstanding, respectively, under its commercial paper program. The primary purpose of its revolving agreement is to provide back-up liquidity for the NSTAR commercial paper program. Under the terms of this agreement, NSTAR is required to maintain a consolidated common equity ratio of not less than 35% at all times and to maintain a ratio of consolidated earnings before interest and taxes to consolidated total interest expense of not less than 2 to 1 for each period of four consecutive fiscal quarters. Commitment fees must be paid on the total agreement amount.

Boston Edison has regulatory approval to issue up to \$350 million of short-term debt. Boston Edison also has a \$200 million revolving credit agreement with a group of banks effective through December 31, 2001. In addition, it has a \$100 million line of credit. Both of these arrangements serve as back-up to Boston Edison's \$300 million commercial paper program. As of December 31, 2000, there was \$97 million outstanding under its commercial paper program. There was no amount outstanding under this program as of December 31, 1999. Under the terms of this agreement, Boston Edison is required to maintain a common equity ratio of not less than 30% at all times. Commitment fees must be paid on the total agreement amount.

In addition, ComElectric, Cambridge Electric and NSTAR Gas, collectively, have \$185 million available under several lines of credit that will expire at varying intervals in 2001. These lines are normally renewed upon expiration and require annual fees of approximately .1875%. Approximately \$120 million and \$108 million were outstanding under these lines of credit as of December 31, 2000 and 1999, respectively.

Interest rates on the outstanding borrowings generally are money market rates and averaged 6.65% and 5.81% in 2000 and 1999, respectively. Notes payable to banks totaled \$468.3 million and \$458 million at December 31, 2000 and 1999, respectively.



## Note J. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of securities for which it is practicable to estimate the value:

### 1. Cash and cash equivalents

The carrying amounts of \$23.2 million and \$168.8 million for 2000 and 1999, respectively, approximates fair value due to the short-term nature of these securities.

### 2. Mandatory redeemable cumulative preferred stock and indebtedness (excluding notes payable)

The fair values of these securities are based upon the quoted market prices of similar issues. Carrying amounts and fair values as of December 31, 2000 and 1999 were as follows:

(in thousands)	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mandatory redeemable cumulative preferred stock	\$ 49,519	\$ 50,890	\$ 49,279	\$ 52,250
Long-term indebtedness	\$ 2,070,180	\$ 2,090,290	\$ 1,854,794	\$ 1,842,373

## Note K. Segment and Related Information

For the purpose of providing segment information, NSTAR's principal operating segments, or its traditional core businesses, are the electric and natural gas utilities that provide energy delivery services in over 100 cities and towns in Massachusetts. NSTAR subsidiaries also supply electricity at wholesale for resale to municipalities. The unregulated operating segments engage in non-utility business activities. Such activities include telecommunications, district heating and cooling operations, and liquefied natural gas services. Financial data for the operating segments were as follows:

(in thousands):	2000	1999 (b)	1998
Operating revenues			
Electric utility operations	\$ 2,237,939	\$ 1,710,576	\$ 1,622,435
Gas utility operations	370,416	108,117	-
Unregulated non-utility operations	91,151	32,734	80
Consolidated total	\$ 2,699,506	\$ 1,851,427	\$ 1,622,515
Depreciation and amortization			
Electric utility operations	\$ 202,209	\$ 190,560	\$ 192,644
Gas utility operations	15,573	5,566	-
Unregulated non-utility operations	5,709	14,180	2,963
Consolidated total	\$ 223,491	\$ 210,306	\$ 195,607
Operating income tax expense (benefit)			
Electric utility operations	\$ 125,597	\$ 98,125	\$ 101,492
Gas utility operations	16,570	4,208	-
Unregulated non-utility operations	(18,700)	(14,612)	(3,694)
Consolidated total	\$ 123,467	\$ 87,721	\$ 97,798
Equity income (loss) in investments accounted for by the equity method (a)			
Electric utility operations	\$ 4,241	\$ 999	\$ 1,725
Unregulated non-utility operations	(5,467)	(10,505)	(11,967)
Consolidated total	\$ (1,226)	\$ (9,506)	\$ (10,242)
Interest charges			
Electric utility operations	\$ 134,767	\$ 106,878	\$ 88,516
Gas utility operations	10,828	3,742	-
Unregulated non-utility operations	59,798	14,693	1,567
Consolidated total	\$ 205,393	\$ 125,313	\$ 90,083
Segment net income (loss)			
Electric utility operations	\$ 187,646	\$ 165,626	\$ 170,374
Gas utility operations	24,238	5,379	-
Unregulated non-utility operations	(30,922)	(24,542)	(29,328)
Consolidated total	\$ 180,962	\$ 146,463	\$ 141,046

(in thousands):	2000	1999 (b)	1998
Equity investments			
Electric utility operations	\$ 43,230	\$ 32,995	\$ 20,769
Gas utility operations	1,097	9	-
Unregulated non-utility operations	111,130	140,286	64,001
Consolidated total	\$ 155,457	\$ 173,290	\$ 84,770
Expenditures for property			
Electric utility operations	\$ 141,400	\$ 134,906	\$ 108,344
Gas utility operations	19,500	7,669	-
Unregulated non-utility operations	21,809	16,720	11,858
Consolidated total	\$ 182,709	\$ 159,295	\$ 120,202
Segment assets			
Electric utility operations	\$ 4,529,379	\$ 4,409,630	\$ 3,073,058
Gas utility operations	534,430	459,887	-
Unregulated non-utility operations	505,705	596,626	130,978
Consolidated total	\$ 5,569,514	\$ 5,466,143	\$ 3,204,036

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

(b) Financial data for 1999 includes eight months of BEC Energy and four months of NSTAR.

## Note L. Commitments and Contingencies

### 1. Contractual Commitments

At December 31, 2000, NSTAR and its subsidiaries had estimated contractual obligations for plant and equipment of approximately \$295 million.

NSTAR also has leases for certain facilities and equipment. The estimated minimum rental commitments under both transmission agreements and non-cancellable operating leases for the years after 2000 are as follows: (in thousands)

2001	\$ 28,905
2002	26,720
2003	21,174
2004	19,920
2005	17,787
Years thereafter	75,686
Total	\$ 190,192

The total expense for both lease rentals and transmission agreements was \$45.3 million in 2000, \$38.7 million in 1999 and \$29.6 million in 1998, net of capitalized expenses of \$1.7 million in 2000, \$1.5 million in 1999 and \$1.6 million in 1998.

Total rent expense for all operating leases, except those with terms of a month or less, amounted to \$8.7 million in 2000, \$10.8 million in 1999 and \$11.5 million in 1998.

### 2. Electric Equity Investments and Joint Ownership Interest

NSTAR Electric has an equity investment of approximately 14.5% in two companies that own and operate transmission facilities to import electricity from the Hydro-Quebec system in Canada. As an equity participant, NSTAR Electric is required to guarantee, in addition to each companies' own share, the total obligations of those participants who do not meet certain credit criteria. At December 31, 2000, NSTAR Electric's portion of these guarantees amounted to \$18 million.

Canal Electric owns a 3.52% joint ownership interest in the Seabrook Nuclear Power Station, and sells its entitlement to Seabrook energy and capacity to ComElectric and Cambridge Electric. The estimate of NSTAR's share of the Seabrook investment and costs of decommissioning was approximately \$4.5 million as of December 31, 2000. These estimates were recorded on the accompanying Consolidated Balance Sheets as a Power contract liability and an offsetting asset in Other investments.

NSTAR Electric also has a 2.5% equity investment in the 540 MW Vermont Yankee nuclear power plant. NSTAR Electric is entitled to electricity produced from the facility based on its ownership interest, and is billed for its entitlement pursuant to a contractual agreement that is approved by the FERC. The estimated cost to decommission this plant is \$451.9 million in current dollars. NSTAR Electric's share of this liability is approximately \$11.3 million, less its share of the market value of the assets held in a decommissioning trust of approximately \$7 million, is approximately \$4.3 million at December 31, 2000. Vermont Yankee has received the approval of FERC to include charges for the estimated costs of decommissioning its unit in the cost of energy that it sells. Periodically, Vermont Yankee re-estimates the cost of decommissioning and applies to FERC for increased rates in response to increased decommissioning costs. The Vermont Yankee unit was under agreement to be sold to Amergen Energy Company, but this transaction was disapproved on February 14, 2001 by Vermont's regulatory authority.

NSTAR Electric has a 14% equity investment in Yankee Atomic Electric Company (Yankee Atomic). In 1992, the board of directors of Yankee Atomic voted to discontinue operations of the Yankee Atomic nuclear generating station permanently and decommission the facility. Yankee Atomic received approval from the FERC to continue to collect its investment and decommissioning costs through July 9, 2000, the expiration date of the unit's power contracts. Also, as of that date, the equity owners of the unit completed the recovery of closure (decommissioning) costs and net unrecovered assets. Subsequently, Yankee Atomic initiated a stock buy-back program, approved by the SEC, to redeem 95% of the outstanding stock of Yankee Atomic. Through December 31, 2000, 50% of the 95% of shares outstanding, or 72,866 shares, were redeemed. NSTAR Electric's reduction of its equity ownership resulting from the buy-back of 10,201 shares was approximately \$1 million.

NSTAR Electric also has a 14% equity investment in the Connecticut Yankee Atomic Power Company (CYAPC) unit that has been retired. NSTAR Electric's share of Connecticut Yankee's remaining investment and estimated costs of decommissioning is approximately \$38 million as of December 31, 2000. This estimate was recorded on the accompanying Consolidated Balance Sheets as a Power contract liability and an offsetting Regulatory asset.

In December 1996, CYAPC filed for rate relief at the FERC seeking to recover certain post-operating costs, including decommissioning. In August 1998, the FERC Administrative Law Judge (ALJ) released an initial decision regarding CYAPC's filing. This decision called for the disallowance of the common equity return on the CYAPC investment subsequent to the shutdown. The decision also stated that decommissioning collections should continue to be based on a previously approved estimate, with an adjustment for inflation, until a more reliable estimate is developed. In October 1998, both CYAPC and Northeast Utilities, a 49% equity investor in CYAPC, filed briefs on exceptions to the ALJ decision. The case is still pending before the FERC. If the initial decision is upheld by the FERC, CYAPC could be required to write off a portion of its investment in the generating unit and refund a portion of the previously collected return on investment to ratepayers. Management is currently unable to determine the ultimate outcome of this proceeding. However, the estimate of the effect of the ALJ's initial decision does not have a material impact on NSTAR's consolidated financial position, the results of operations or its cash flows.

NSTAR Electric has a 4% equity investment in the Maine Yankee Atomic Power Company (Maine Yankee). In 1997, the board of directors of Maine Yankee voted to discontinue operations of the Maine Yankee nuclear generating station permanently and decommission the facility.

NSTAR Electric's share of Maine Yankee's remaining decommissioning is approximately \$23 million as of December 31, 2000. This estimate was recorded on the accompanying Consolidated Balance Sheets as a Power contract liability and an offsetting Regulatory asset.

### **3. Nuclear Insurance**

Under the Price-Anderson Act (the Act), owners of nuclear power plants have the benefit of approximately \$9.5 billion of public liability coverage that would compensate the public for covered bodily injury and property loss in the event of an accident at a commercial nuclear power plant. The first \$200 million of nuclear liability is covered by commercial insurance. Additional nuclear liability insurance up to \$9.3 billion is provided by a retrospective assessment of up to \$88.1 million per incident levied on each of the 106 nuclear generating units currently licensed to operate in the United States, with a maximum assessment of \$10 million per incident per year.

NSTAR has an equity ownership interest in four nuclear generating facilities and a 3.52% joint ownership interest in Seabrook 1. The operators of these units maintain nuclear insurance coverage (on behalf of the owners of the facilities) with either Nuclear Electric Insurance Limited (NEIL), a combination of NEIL and the American Nuclear Insurers (ANI) or ANI only depending on the limit of insurance required to be maintained. NEIL provides \$2.25 billion of property, boiler, machinery and decontamination insurance coverage, including accidental premature decommissioning insurance. All companies insured with NEIL are subject to retroactive assessments. ANI provides \$500 million of "all risk" property damage, boiler, machinery and decontamination insurance. Three of the four units in which NSTAR has an equity ownership interest have permanently ceased operations. The Nuclear Regulatory Commission has approved each of these units' requests to withdraw from participation in the financial protection insurance program of the Act and reduce their limits of property insurance.

Based on its equity ownership interests in nuclear generating facilities and its joint ownership interest in Seabrook 1, NSTAR's retrospective premium could be \$600,000 annually or a cumulative total of \$5.3 million under the Act.

#### **4. Environmental Matters**

The subsidiaries of NSTAR are involved in approximately 30 state-regulated properties where oil or other hazardous materials were previously spilled or released. The companies are required to clean up these properties in accordance with specific state regulations. There are uncertainties associated with these costs due to the complexities of cleanup technology, regulatory requirements and the particular characteristics of the different sites. NSTAR subsidiaries also face possible liability as a potentially responsible party (PRP) in the cleanup of six multi-party hazardous waste sites in Massachusetts and other states where it is alleged to have generated, transported or disposed of hazardous waste at the sites. NSTAR generally expects to have only a small percentage of the total potential liability for these sites. Approximately \$7 million is included as a liability in the accompanying December 31, 2000 Consolidated Balance Sheets related to the non-recoverable portion of these cleanup liabilities. Management is unable to fully determine a range of reasonably possible cleanup costs in excess of the accrued amount. Based on its assessments of the specific site circumstances, management does not believe that it is probable that any such additional costs will have a material impact on NSTAR's consolidated financial position. However, it is reasonably possible that additional provisions for cleanup costs that may result from a change in estimates could have a material impact on the results of a reporting period in the near term.

NSTAR Gas is participating in the assessment of a number of former manufactured gas plant (MGP) sites and alleged MGP waste disposal locations to determine if and to what extent such sites have been contaminated and whether NSTAR Gas may be responsible for remedial action. The MDTE has approved recovery of costs associated with MGP sites. As of December 31, 2000, NSTAR Gas has recorded a liability of \$2.6 million as an estimate for site cleanup costs for several MGP sites for which NSTAR Gas was previously cited as a PRP.

Estimates related to environmental remediation costs are reviewed and adjusted periodically as further investigation and assignment of responsibility occurs. NSTAR is unable to estimate its ultimate liability for future environmental remediation costs. However, in view of NSTAR's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, management does not believe that these matters will have material adverse effect on NSTAR's consolidated financial position or results of operations for a reporting period.

#### **5. Generating Unit Performance Program**

The MDTE's generating unit performance programs ceased March 1, 1998. Under these programs the recovery of incremental purchased power costs resulting from generating unit outages occurring through the retail access date was subject to review by the MDTE. Comprehensive settlements relative to generating unit performance including the review of replacement power costs associated with the shutdown of the Connecticut Yankee nuclear electric generating unit that is discussed in item 2, were approved by the MDTE on August 1, 2000. The approved MDTE settlements did not have a material impact on NSTAR's consolidated financial position, cash flows, or results of operations.

## **6. Legal Proceedings**

### *Industry and corporate restructuring legal proceedings*

The MDTE order approving the Boston Edison electric restructuring settlement agreement was appealed by certain parties to the Massachusetts Supreme Judicial Court. One appeal remains pending. However, there has to date been no briefing, hearing or other action taken with respect to this proceeding. Management is currently unable to determine the outcome of this proceeding. However, if an unfavorable outcome were to occur, there could be a material adverse impact on business operations, the consolidated financial position, cash flows and the results of operations for a reporting period.

### *Regulatory proceedings*

In the Boston Edison 1999 reconciliation filing with the MDTE, the Massachusetts Attorney General contested cost allocations related to Boston Edison's wholesale customers since 1998. Management is unable to determine the outcome of the MDTE proceedings. However, if an unfavorable outcome were to occur, there would be a material adverse impact on Boston Edison's consolidated financial position, results of operations and cash flows in the near term.

In October 1997, the MDTE opened a proceeding to investigate Boston Edison's compliance with a 1993 order that permitted the formation of Boston Energy Technology Group and authorized Boston Edison to invest up to \$45 million in non-utility activities. Hearings were completed during 1999. Management is currently unable to determine the timing of and the outcome of this proceeding. However, if an unfavorable outcome were to occur, there could be a material adverse impact on business operations, the consolidated financial position, cash flows and results of operations for a reporting period.

### *Other litigation*

In October 1998, the town of Plymouth, Massachusetts, the site of Pilgrim Station, filed suit against Boston Edison. The town claimed that Boston Edison had wrongfully failed to execute an agreement with the town for payments in addition to or in lieu of taxes due to the town under the Restructuring Act. Boston Edison and the town of Plymouth settled the suit and agreed in March 1999 on a 15-year \$141 million payment as required by the Restructuring Act. Payments in each of the first four years are approximately \$15 million after which payments gradually decline. All payments under this agreement will be recovered from customers through the transition charge.

In the normal course of its business, NSTAR and its subsidiaries are also involved in certain other legal matters. Management is unable to fully determine a range of reasonably possible legal costs in excess of amounts accrued. Based on the information currently available, it does not believe that it is probable that any such additional costs will have a material impact on its consolidated financial position. However, it is reasonably possible that additional legal costs that may result from a change in estimates could have a material impact on the results of a reporting period in the near term.

## Note M. Long-Term Contracts for the Purchase of Energy

### 1. NSTAR Electric Agreements

NSTAR Electric entered into various six-month agreements during 2000 to transfer substantially all of the unit output entitlements in long-term power purchase contracts to certain suppliers, who in turn provided full energy service to meet NSTAR Electric's standard offer and default service load requirements.

Capacity costs reflect NSTAR Electric's proportionate share of capital and fixed operating costs of certain generating units. Energy costs are paid to generators based on a price per kWh actually received into NSTAR Electric's distribution system and are included in the total cost. In 2000, these costs were attributed to 1,121.4 MW of capacity purchased.

Information related to long-term power contracts as of December 31, 2000 was as follows:

Fuel Type of Generating Unit	Range of Contract Expiration Dates	Units of Capacity Purchased %	Units of Capacity MW	proportionate share (in thousands)		
				2000 Capacity Cost	2000 Total Cost	Capacity Charge Obligation Through Contract Expiration Date
Natural Gas	2008-2017	11.1-100	28.8-135	\$ 132,963	\$ 361,969	\$ 1,519,211
Nuclear	2004-2026	2.3-89	11.9-747.1	35,204	223,437	497,894
Refuse	2015	100	76.9	-	54,006	-
Hydro	2014-2023	100	1.3-20	-	11,126	-
Oil	2002-2019	50-100	34-282	18,511	69,888	80,555
Total				\$ 186,678	\$ 720,426	\$ 2,097,660

NSTAR Electric entered into a six-month agreement effective January 1, 2001 through June 30, 2001 with a supplier to provide full default service energy and ancillary service requirements at contract rates substantially similar to MDTE-approved tariff rates. A default service request for proposal, applicable to the second half of 2001, will be issued in early 2001. NSTAR Electric's existing portfolio of power purchase contracts is supplying the majority of its standard offer (including wholesale) energy requirements, supplemented with long-term and daily purchases/sales in the bilateral and spot markets. In addition, NSTAR Electric is managing its Independent System Operator-New England Power capability responsibilities, congestion and uplift costs associated with default service and standard offer load throughout 2001.

NSTAR Electric's total capacity and/or energy costs associated with these contracts in 2000, 1999 and 1998 were approximately \$720 million, \$410 million and \$267 million, respectively. NSTAR Electric's capacity charge obligation under these contracts for the years after 2000 are as follows:

(in thousands)	Capacity Charge Obligation
2001	\$ 158,899
2002	158,286
2003	146,036
2004	146,255
2005	150,196
Years thereafter	1,337,988
Total	\$ 2,097,660

### 2. NSTAR Gas Contracts

NSTAR Gas has various contractual agreements covering the transportation of natural gas, underground storage facilities and the purchase of natural gas, which are recoverable under NSTAR Gas' CGAC. These contracts expire at various times from 2003 to 2013.

## Report of Independent Accountants

### To the Shareholders and Trustees of NSTAR:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, retained earnings and cash flows present fairly, in all material respects, the consolidated financial position of NSTAR and its subsidiaries at December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of NSTAR's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Boston, Massachusetts  
January 26, 2001



## Selected Consolidated Financial Statistics (Unaudited)

	2000	1999 (a)	1998	1997	1996
Operating revenues (000)	\$ 2,699,506	\$ 1,851,427	\$ 1,622,515	\$ 1,778,531	\$ 1,668,856
Earnings available for common (000)	\$ 175,002	\$ 140,503	\$ 132,281	\$ 131,493	\$ 126,181
Per common share:					
Basic earnings	\$ 3.19	\$ 2.77	\$ 2.76	\$ 2.71	\$ 2.61
Dividends declared	\$ 2.015	\$ 1.955	\$ 1.895	\$ 1.88	\$ 1.88
Dividends paid	\$ 2.00	\$ 1.94	\$ 1.88	\$ 1.88	\$ 1.88
Book value	\$ 25.95	\$ 26.24	\$ 22.29	\$ 22.13	\$ 21.37
Dividend payout ratio	63 %	70 %	68 %	69 %	72 %
Return on average common equity	12.3 %	11.7 %	12.3 %	12.4 %	12.4 %
Year-end dividend yield	4.8 %	4.9 %	4.7 %	5.0 %	7.0 %
Fixed charge coverage (SEC)	2.24 X	2.33 X	2.74 X	2.50 X	2.42 X
Capitalization:					
Total debt	57 %	50 %	48 %	51 %	52 %
Preferred equity	2 %	3 %	4 %	7 %	8 %
Common equity	41 %	47 %	48 %	42 %	40 %
Long-term debt (000)	\$ 1,440,431	\$ 986,843	\$ 955,563	\$ 1,057,076	\$ 1,058,644
Mandatory redeemable preferred stock (000)	\$ 49,519	\$ 49,279	\$ 49,040	\$ 80,093	\$ 83,465
Total assets (000)	\$ 5,569,514	\$ 5,466,143	\$ 3,204,036	\$ 3,622,347	\$ 3,729,291
Internal cash generation after dividends (000)	\$ 330,510	\$ 276,536	\$ 116,002	\$ 240,362	\$ 257,446
Plant expenditures (000)	\$ 182,709	\$ 159,295	\$ 120,202	\$ 114,110	\$ 145,347
Internal generation	181 %	174 %	97 %	211 %	177 %
Common shares outstanding (Basic):					
Weighted average	54,886,991	50,795,874	47,973,402	48,514,958	48,264,734
Year-end	53,032,546	58,059,646	47,184,073	48,514,973	48,509,537
Stock price:					
High	\$ 47.00	\$ 44.625	\$ 44.9375	\$ 38.375	\$ 30.125
Low	\$ 36.375	\$ 36.4375	\$ 35.0625	\$ 24.625	\$ 21.75
Year-end	\$ 42.875	\$ 40.50	\$ 41.1875	\$ 37.875	\$ 26.875
Year-end market value (000)	\$ 2,273,770	\$ 2,351,416	\$ 1,943,394	\$ 1,837,505	\$ 1,303,694
Trading volume (shares)	33,957,700	42,395,600	33,574,000	37,732,900	41,105,700
Market/book ratio (year-end)	1.65	1.54	1.85	1.71	1.26
Price/earnings ratio (year-end)	13.4	14.6	14.9	14.0	10.3
Number of employees at year-end	3,291	3,381	2,919	3,227	3,362

(a) Due to the application of the purchase method of accounting, the results for 1999 reflect eight months of BEC Energy and four months of NSTAR.

## Selected Consolidated Quarterly Financial Data (Unaudited)

(in thousands, except earnings per share)

	Operating Revenues	Operating Income	Net Income	Earnings Available for Common Shareholders	Basic Earnings Per Average Common Share (a)
<u>2000</u>					
First quarter	\$ 665,262	\$ 79,401	\$ 37,099	\$ 35,609	\$ 0.62
Second quarter	\$ 630,194	\$ 76,955	\$ 32,928	\$ 31,438	\$ 0.57
Third quarter	\$ 709,519	\$ 127,158	\$ 66,286	\$ 64,796	\$ 1.21
Fourth quarter	\$ 694,531	\$ 106,556	\$ 44,649	\$ 43,159	\$ 0.81
<u>1999</u>					
First quarter	\$ 371,870	\$ 43,729	\$ 19,562	\$ 18,072	\$ 0.38
Second quarter	\$ 379,290	\$ 58,669	\$ 36,253	\$ 34,763	\$ 0.76
Third quarter	\$ 517,151	\$ 85,022	\$ 68,260	\$ 66,770	\$ 1.32
Fourth quarter	\$ 583,116	\$ 76,278	\$ 22,388	\$ 20,898	\$ 0.35

(a) The sum of the quarters may not equal basic annual earnings per average common share since the result is based on the weighted average number of common shares outstanding each quarter.

## NSTAR – Officers

Thomas J. May, Chairman of the Board and Chief Executive Officer  
Russell D. Wright, President and Chief Operating Officer  
Deborah A. McLaughlin, Executive Vice President – Customer Care/Shared Services  
Douglas S. Horan, Senior Vice President/Strategy, Law & Policy, Clerk and General Counsel  
James J. Judge, Senior Vice President, Treasurer and Chief Financial Officer  
Joseph R. Nolan, Jr., Senior Vice President – Corporate Relations  
Robert J. Weafer, Jr., Vice President, Controller and Chief Accounting Officer  
Donald Anastasia, Assistant Treasurer  
Philip J. Lembo, Assistant Treasurer  
Richard J. Morrison, Assistant Clerk

## NSTAR – Board of Trustees

- b Kevin C. Bryant, General Manager, FleetBoston Financial - Europe
- a, c, d Sheldon A. Buckler, Retired Vice Chairman of the Board, Polaroid Corporation
- a, c Gary L. Countryman, President and Chief Executive Officer, Liberty Financial Companies, Inc.
- c, d Thomas G. Dignan, Jr., Of Counsel, Ropes & Gray
- a, d Charles K. Gifford, President and Chief Operating Officer, FleetBoston Financial
- b, c Nelson S. Gifford, Principal, Fleetwing Capital
- a, b Matina S. Horner, Executive Vice President, Teachers Insurance and Annuity Association and College Retirement Equities Fund
- b, c Franklin M. Hundley, Of Counsel, Rich, May, Bilodeau & Flaherty, P.C.
- b, d Paul A. La Camera, President and General Manager, WCVB-TV Channel 5
- a, d Thomas J. May, Chairman of the Board and Chief Executive Officer, NSTAR and its subsidiaries
- c, d Sherry H. Penney, Professor of Leadership, College of Management, University of Massachusetts at Boston
- b, d Gerald L. Wilson, Vannevar Bush Professor of Engineering, Massachusetts Institute of Technology
- a, d Russell D. Wright, President and Chief Operating Officer, NSTAR and its subsidiaries
  
- a Member of Executive Committee
- b Member of Audit, Finance and Risk Management Committee
- c Member of Executive Personnel Committee
- d Member of Board Governance and Nominating Committee

## **Important Shareholder Information**

### **Shareholder Inquiries**

If you have questions concerning your stock account, please contact us at the following address:

NSTAR  
c/o EquiServe  
P.O. Box 43016  
Providence, RI 02940-3016

Toll Free Phone: 1-800-338-8446  
Internet Address: [www.equiserve.com](http://www.equiserve.com)  
Telecommunication Device  
for the Deaf (TDD) 1-800-952-9245.

### **Common Dividend Payment Dates**

1st of February, May, August and November

### **Tax Status of 2000 Dividends**

Generally, unless you are subject to certain exemptions, all dividends on our common shares are to be considered 100% taxable.

### **Stock Symbol and Exchange Listings**

Ticker Symbol: NST  
New York (NYSE) and Boston stock exchanges

### **Dividend Payments - Direct Deposit Service**

Shareholders can arrange for direct deposit of their dividend checks into a bank account. Electronic deposit is safe, reliable and convenient. For authorization materials contact our transfer agent.

### **Dividend Reinvestment and Common Shares Purchase Plan**

Our Dividend Reinvestment and Common Shares Purchase Plan is available to our common shareholders, our residential retail electric or gas customers and our employees. Some important features of the plan are as follows:

- Optional cash payments invested monthly
- \$50 per month minimum not to exceed \$60,000 per calendar year
- Safekeeping of common stock certificates

Beneficial owners of our stock whose shares are registered in names other than their own (e.g., a broker or bank nominee) must arrange participation with the record holder. If for any reason you are unable to arrange participation with your broker or bank nominee, you must become a record holder by having the shares transferred to your own name.

### **Electronic Annual Meeting Information**

Shareholders may elect to receive future proxy materials electronically instead of receiving copies through the mail.

To elect this option, go to our website **[www.nstaronline.com](http://www.nstaronline.com)**. Shareholders who elect electronic distribution will be notified each year by e-mail on how to access proxy materials and how to use the Internet to vote their shares.

Consent will remain in effect unless it is withdrawn by calling, writing, or e-mailing our transfer agent as noted above. Also, if while this consent is in effect you decide you would like to receive a hard copy of the proxy materials, contact our transfer agent.

### **SEC Form 10-K and Form 10-Q**

Shareholders may obtain a copy of our annual report and quarterly reports to the Securities and Exchange Commission on Form 10-K and Form 10-Q, respectively, by contacting our Investor Relations Department or visiting our website at **[www.nstaronline.com](http://www.nstaronline.com)**.

### **Mid-Year Report to Shareholders**

Beneficial owners whose shares are registered in names other than their own may obtain a copy of our Mid-Year Shareholder Report by contacting our Investor Relations Department. Note that the Annual Report will continue to be distributed to beneficial owners directly by their bank or broker.

### **Investor and Shareholder Contacts**

John F. Gavin  
Manager, Investor Relations  
(617) 424-3562  
or  
Jean M. Carella  
Investor Relations Analyst  
(617) 424-2658

### **Email Address**

[ir@nstaronline.com](mailto:ir@nstaronline.com)

### **Internet Address**

[www.nstaronline.com](http://www.nstaronline.com)

### **General Offices**

800 Boylston Street  
Boston, MA 02199-8003  
(617) 424-2000