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NORTHEAST UTILITIES SYSTEM

Form U-1/A

September 29, 2004

File No. 70-10234

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM U-1

APPLICATION/DECLARATION

Under

THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

NORTHEAST UTILITIES

107 Selden Street

Berlin, Connecticut 06037-5457

(Name of company filing this statement and address of principal
executive offices)

NORTHEAST UTILITIES

(Name of top registered holding company parent of declarant)

Gregory B. Butler, Esq.

Senior Vice President, Secretary

and General Counsel

Northeast Utilities Service Company

P.O. Box 270

Hartford, Connecticut 06141-0270

(Name of address of agent for service)

The Commission is requested to mail signed copies of all orders,
notices and communications to:

Randy A. Shoop

Assistant Treasurer - Finance

Northeast Utilities Service

Company

P.O. Box 270

Hartford, Connecticut 06141-0270

Jane P. Seidl, Esq.

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Northeast Utilities Service

Company

P.O. Box 270

Hartford, Connecticut 06141-0270

The Application/Declaration in this file, as heretofore
amended is hereby further amended and restated as follows:

ITEM 1

DESCRIPTION OF PROPOSED TRANSACTIONS

1. Northeast Utilities, a Massachusetts business
trust and registered holding company ("NU" or the "Company")
under the Public Utility Holding Company Act of 1935, as amended
(the "Act"), hereby requests authority, through June 30, 2007
(the "Authorization Period"), for it to guarantee, indemnify and

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otherwise provide credit support (each, a "Guarantee") in the aggregate amount of up to \$100 million (the "Guarantee Limit") in respect of the debt or obligations of Northeast Utilities Service Company, a service company subsidiary of NU ("NUSCO"), and The Rocky River Realty Company, a non-utility subsidiary of NU ("RRR", and together with NUSCO, the "Service Subsidiaries").

2. NU is the parent of a number of companies comprising the Northeast Utilities system (the "System") and is not itself an operating company. The System furnishes franchised retail electric service in Connecticut, New Hampshire and western Massachusetts through three of NU's wholly-owned subsidiaries, The Connecticut Light and Power Company ("CL&P"), Public Service Company of New Hampshire ("PSNH") and Western Massachusetts Electric Company ("WMECO" and collectively with CL&P and PSNH, the "NU Utility Companies"). In addition to their retail electric service business, the NU Utility Companies together furnish wholesale electric service to various municipalities and other utilities throughout the Northeast United States.

3. NU is also the parent of Yankee Energy System, Inc. ("YES"), an exempt gas utility holding company. YES is primarily engaged in the retail distribution of natural gas through its wholly-owned subsidiary, Yankee Gas Services Company ("Yankee Gas"), a Connecticut retail gas distribution company, and also has several non-utility subsidiaries. In addition, NU Enterprises, Inc. ("NUEI"), a wholly-owned holding company subsidiary of NU, acts as the holding company for NU's unregulated businesses, including Northeast Generation Company ("NGC"), the System's only exempt wholesale generator.

4. NUSCO and RRR are wholly-owned subsidiaries of NU. NUSCO, a Connecticut corporation, provides centralized support services to NU System companies, including accounting, administrative, information technology, engineering, financial, legal, operational, planning and purchasing services. RRR, also a Connecticut corporation, performs various real estate functions for associate companies at cost, including among other things, the acquisition or construction, and ownership of office and other buildings and the leasing thereof to associate companies. (See, Holding Company Act Release No. 15884, Oct. 24, 1967). As of June 30, 2004, RRR had total assets of approximately \$71 million, mainly made up of real estate property and equipment, including the main office facilities of the NU System located in Berlin, CT, which it leases to affiliated companies in the NU System.

5. NU requests authorization, through the Authorization Period, to provide Guarantees with respect to the obligations of the Service Subsidiaries as may be appropriate or necessary to enable such Service Subsidiaries to carry on in the ordinary course of their respective businesses, including guarantees of obligations of the Service Companies to non-affiliated third-parties incurred in the ordinary course of the System's business, in an aggregate amount which shall not exceed \$100 million outstanding at any one time. Guarantees may take the form of NU agreeing to guarantee, undertake reimbursement obligations or assume liabilities or other obligations with respect to or act as surety on, real estate and equipment leases, letters of credit, evidences of indebtedness, equity commitments and performance and other obligations undertaken by the Service Subsidiaries. It is currently anticipated that the majority of any guarantees issued by NU for the benefit of RRR would be

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guaranteeing real estate leases and the majority of Guarantees issued by NU for the benefit of NUSCO will be guarantees of equipment leases, though NU wishes to have the flexibility to guarantee other obligations undertaken by the Service Companies.

6. As part of normal business activities, from time to time, NU is requested to provide financial or performance assurances of the obligations of the Service Subsidiaries to third parties. Such agreements include contract guarantees, surety bonds and rating-contingent collateralization provisions. In addition, NU is requested to provide payment and performance guarantees in connection with the real-estate contracting activities of RRR, including construction, acquisition and leasing of properties and facilities utilized by certain NU System companies.

7. Guarantees may be provided from time to time with respect to obligations of the Service Subsidiaries that are not capable of exact quantification because of the nature of the services or performance being guaranteed, and therefore the amount of such Guarantee must be estimated. For example, NU might have to guarantee RRR's completion of a particular project (as distinct from guaranteeing payment of a specific sum of money). In such cases, NU will determine the exposure under such Guarantee for purposes of measuring compliance with the \$100 million limitation in accordance with standard and customary financial practices, including estimation of exposure based on loss experience or projected potential payment amounts. If appropriate, such estimates will be made in accordance with generally accepted accounting principles. Such estimation will be re-evaluated periodically. NU may, in its discretion, charge each Service Subsidiary a fee for each Guarantee provided on its behalf that will be determined by multiplying the amount of the Guarantee provided by the cost of obtaining the liquidity necessary to perform the Guarantee (for example, bank line commitment fees or letter of credit fees, plus other transactional expenses) for the period of time the Guarantee remains outstanding. The Service Companies will allocate these costs to their affiliates receiving the services being guaranteed on a pro rata basis based on the value of the services received by such affiliate. Any guarantees or other credit support arrangements outstanding at the end of the Authorization Period will remain in place and expire or terminate in accordance with their terms.

8. The System attempts to have each individual responsibility for its own financial obligations. NU, the NU Utility Companies, Yankee Gas and NGC have credit ratings which enable them to incur obligations to non-affiliates without parent support. However, in some instances, the Service Subsidiaries need to enter into obligations with third parties on behalf of all or some of the System companies, which obligations and associated costs are then allocated to the System companies which receive the benefit of such obligations. This has occurred in the past with a number of shared resources such as real estate, insurance policies, operating leases for vehicle fleets, etc. At the present time, the System needs to lease several large office facilities which will be utilized for the benefit of most of the System. While a number of possible lease structures might be possible (e.g. CL&P leases the facility and subleases to affiliates), the most efficient structure is to have RRR be the lessee, backstopped by some form of external

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credit. The Service Subsidiaries do not themselves have independent credit standing and depend upon service or reimbursement agreements with each of the System companies to meet their obligations. As the recent financial difficulties of large holding company systems demonstrate, creditors can be harmed if the underlying credit structure of a transaction is not handled properly. It is now apparent that NU will need to have the ability to guarantee relatively routine commitments of the Service Subsidiaries to enable necessary resources to be procured on a shared basis. These commitments for which third parties are now requiring Guarantees are the same sorts of commitments for which, in prior years, third parties did not require parent guarantees. In a similar scenario, the Commission authorized NU to guaranty the debt obligations of RRR in 1992 (Rel. No. 35-25514, File 70-7878, April 10, 1992).

9. By Commission Order, NU and NUEI are authorized to issue guarantees and similar forms of credit support or enhancements for the benefit of NUEI and NUEI's non-utility affiliates, which do not include the Service Subsidiaries, in an aggregate amount not to exceed \$750 million through June 30, 2007 (Holding Co. Act Release No. 27868, June 30, 2004, the "2004 Order"). NU seeks an order herein for the authorization of separate guarantee authority which would allow it to issue Guarantees on behalf of the Service Subsidiaries. The authorization sought herein is also separate from the guaranty authority provided under the Commission's Rule 45(b)(6). The issuance of Guarantees by NU, as proposed in this application, is not expected to have any impact on its credit ratings. The credit rating agencies (Standard & Poor's, Moody's and Fitch) look at the total debt of the entire NU system in establishing their respective credit ratings. The granting of Guarantees would not increase the overall indebtedness of the NU System, since the same amount of underlying debt would still be outstanding whether or not guaranteed by NU. Cash flows under the agreements which are currently anticipated to be guaranteed pursuant to the order granted in this file aggregated approximately \$1.1 million in the first quarter of 2004 and approximately \$1.3 million in the second quarter of 2004, and are projected to aggregate approximately \$1.35 million in the third quarter of 2004 and for each quarter of 2005.

OTHER MATTERS

10. Except in accordance with the Act, neither NU nor any subsidiary thereof (a) has acquired an ownership interest in an EWG or a FUCO, as defined in Sections 32 and 33 of the Act, or (b) now is or as a consequence of the transactions proposed herein will become a party to, or has or will as a consequence of the transactions proposed herein have a right under, a service, sales, or construction contract with an EWG or a FUCO.