KEEGAN WERLIN LLP

ATTORNEYS AT LAW
265 FRANKLIN STREET
BOSTON, MASSACHUSETTS 02110-3113

(617) 951-1400

TELECOPIERS:
(617) 951-1354
(617) 951-0586

April 29, 2005

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: D.T.E. 04-113, Boston Edison Company – 2004 Reconciliation Filing

Dear Secretary Cottrell:

Enclosed for filing in the above-referenced matter are the responses to the Information Requests set forth on the accompanying list.

Thank you for your attention to this matter.

Sincerely,

Robert N. Werlin

Enclosures

cc: Service List

Responses to Information Requests

Information Request DTE-1-3 **[BULK ATTACHMENTS]**
Information Request DTE-1-6 **[BULK ATTACHMENT]**

Information Request DTE-1-3

Please refer to Exhibits BEC-CLV at 20-21 and BEC-CLV-2 (Supp) at 8.

(a) Provide complete and detailed documentation, including invoices, and an itemization of the total 2003 Legal Costs - Market Issues and total 2004 Legal Costs - Market Issues found in BEC-CLV-2 (Supp) at 8.

(b) Explain why these NSTAR costs are allocated by load for the NSTAR companies.

(c) Explain how each of these costs qualify as transition costs.

(d) Cite to the location in BECo's restructuring plan or other Department orders where the ability to collect such items in the transition charge is allowed.

(e) To the extent that any of these items appeared before the Department or the Federal Energy Regulatory Commission ("FERC"), provide the docket number.

Response

[BULK ATTACHMENTS]

(a) Please refer to Attachment DTE-1-3(a) and Attachment DTE-1-3(b) for invoices supporting "Legal Costs – Market Issues" for the years 2003 and 2004, respectively. Please note that Attachment DTE-1-3(a) and Attachment DTE-1-3(b) each constitute a bulk document. Because the detailed descriptions included in attorney invoices contain privileged attorney-client communications, the descriptions have been redacted in Attachment DTE-1-3(a) and Attachment DTE-1-3(b).

(b) The invoices provided in the Attachments referenced in part (a) are total costs for NSTAR Electric. These costs are best allocated among the retail companies according to load because the impact on customers relating to the market issues is dependent on the amount of electricity purchased by retail customers, who will all be affected by the proposed changes in wholesale competitive markets being considered at FERC.

(c) The legal costs are directly related to generation-market-pricing issues being considered by FERC (e.g., LICAP) that have resulted from electric

companies divesting their generation as part of the restructuring of the electric industry. In the absence of such divestiture, customers would not be exposed to the high market costs at issue at FERC, since customers would have access to the Companies' generation assets at regulated rates. As part of the Companies' ongoing responsibility to provide service to its customers in a least-cost manner, NSTAR Electric views that it has a stewardship responsibility to its customers to ensure that prices are not excessive. Accordingly, NSTAR Electric has intervened at FERC, in some cases working directly with the Attorney General, to protect the interests of customers. All retail electric customers are affected by the outcome of the market-issues litigation through payments for generation to competitive suppliers or through Default (Basic) Service prices, which reflect market prices. The Companies are incurring these legal costs on behalf of their customers to mitigate the transition costs being paid by customers and to ensure that the prices for Default (Basic) Service are reasonable.

The recovery of these costs is a matter of rate structure, in which the Department generally considers a number of factors, including fairness, cost-causation, etc. In this case, the market-pricing issues being considered at the FERC affect all customers, are related to generation, in general, and the divested generation mandated by electric restructuring, in particular. The transition charge is a non-bypassable charge, which is collected from all customers and recovers costs associated with divested generation. Accordingly, and consistent with the Department's fairness and cost-causation principles, it is most appropriate to recover such costs through the transition charge.

It should be noted that, prior to electric industry restructuring, energy and capacity needs were hedged through the utility ownership of entitlements in generation plants and long-term contracts. After restructuring, the vast majority of New England utility capacity was sold to merchant generators as part of the restructuring. This has left utilities and their customers dependant on the competitive wholesale and retail markets for their power needs. This dependence includes all products needed to meet firm load obligations, including capacity, which the FERC and ISO-NE is redefining to include a locational component termed Locational Installed Capacity or LICAP. The LICAP market requires load-serving entities such as NSTAR Electric to procure a portion of its capacity needs within the zone where load is located, such as NEMA. If NSTAR Electric had not divested of its

generation in NEMA, that capacity would serve to satisfy NSTAR Electric's LICAP obligation. Since NSTAR Electric has divested itself of its generation assets, customers are exposed to the high cost of LICAP. Although restructuring has not occurred in all states in New England, the scope of industry restructuring has resulted in the divestiture of the vast majority of capacity has provided the impetus for the proposals at the FERC to address the evolving markets. The fact that not all states have restructured is irrelevant to NSTAR Electric customers because NSTAR Electric did divest generation and NSTAR Electric customers are exposed to the cost of LICAP. By intervening in the FERC LICAP proceeding, NSTAR Electric is seeking to lower the cost of LICAP in order to mitigate the impact on customers.

(d) Boston Edison's Transition Settlement obligates it to mitigate generation related costs (Section V.C.). Since legal expenses relating to market issues are being incurred on behalf of customers to mitigate generation related costs, the Companies are entitled to recover these costs. NSTAR Electric divested its generation assets into a market that did not have a locational component such as the LICAP market, and therefore, the mitigation could not have included consideration of LICAP amounts. Capacity from anywhere in New England could be used to satisfy capacity needs in order to serve firm load. LICAP is defining new attributes for the capacity that NSTAR Electric divested and ISO-NE is requiring local sourcing of that capacity, which will be at higher prices than if local sourcing was not required. NSTAR Electric is seeking further mitigation of cost impacts to customers relating to that capacity. Alternatively, because the impact of the litigation at FERC would directly affect the price of Default (Basic) Service, it would also be a recoverable cost that could be included in rates for Default (Basic) Service.

(e) The Legal Costs – Markets Issues are incurred relating to the FERC docket number ER03-563-030.

Information Request DTE-1-6

Please refer to Exhibits BEC-CLV at 20-21 and BEC-CLV-2 (Supp).

(a) Provide complete and detailed documentation, including invoices, and an itemization of the DOE/SNF Litigation Expense items found in BEC-CLV-2 (Supp) at 7.

(b) Explain why these NSTAR costs are allocated by load for the NSTAR companies.

(c) Explain how each of these costs qualify as transition costs.

(d) Cite to the location in BECo's restructuring plan or other Department orders where the ability to collect such items in the transition charge is allowed.

(e) To the extent that any of these items appeared before the Department or FERC, provide the docket number.

Response

[BULK ATTACHMENT]

(a) Please refer to Attachment DTE-1-6 for copies of the invoices relating to the DOE/SNF Litigation Expense items found in Exhibit BEC-CLV-2 (Supp) at 7. Because the detailed descriptions included in attorney invoices contain privileged attorney-client communications, the descriptions have been redacted in Attachment DTE-1-6.

(b) The DOE/SNF Litigation Expense is not allocated by load. Boston Edison pays for 100 percent of this item. Commonwealth Electric and Montaup Electric are allocated a total of 22 percent of these expenses, consistent with their obligations under the Pilgrim Station Sales Agreement (D.T.E. 98-119/126 (1999)).

(c) The litigation expenses relating to a lawsuit with the United States Department of Energy ("DOE") are costs being incurred on behalf of customers to mitigate transition costs. The lawsuit alleges that because DOE has not completed a permanent Spent Nuclear Fuel facility, as was required by law, the amount received from the sale by the owners of the Pilgrim Nuclear Generating Station was lower than it should have been. Pilgrim buyout costs were included in Boston Edison's transition charge

because they are generation related, and any proceeds received by the lawsuit would go back to customers through the transition charge. The Department routinely requires that only "net" mitigation, i.e., total mitigation less transaction costs, be returned to customers. See e.g., Cambridge Electric Light Company, D.T.E. 02-76, at 4 n.3, 11 (2003).

(d) Boston Edison's Restructuring Settlement (D.P.U./D.T.E. 96-100 and D.P.U./D.T.E. 96-23), Section V.C, describes the Company's commitments with respect to the continued operation, shutdown, or divestiture of the existing generation business. Subsection V.C.2 of the Restructuring Settlement addresses the commitments with respect to Pilgrim. In addition, Boston Edison is under an ongoing obligation under the Restructuring Act, to mitigate its transition costs (G.L. c. 164, §§ 1A, 1G). Because these costs relate to Boston Edison's mitigation obligations associated with the Pilgrim Station Sale Agreement, they are recoverable as a transition cost.

(e) Boston Edison's obligation, relating to on-going Pilgrim Station costs, is covered under the Pilgrim Station Sale Agreement, which was approved by the Department in D.T.E. 98-119/126. The DOE/SNF Litigation Expense was included in Boston Edison's 2003 Annual Reconciliation Filing Settlement Agreement approved by the Department in D.T.E. 03-117.