NSTAR ELECTRIC GAS
Legal Department, Floor 17
800 Boylston Street, Boston, Massachusetts 02199

William S. Stowe
Assistant General Counsel

Tel: 617-424-2544
Fax: 617-424-2733
William_Stowe@nstaronline.com

February 8, 2002

VIA COURIER

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, Floor 2
Boston, MA 02110

Re: D.T.E. 01-108
Boston Edison Company
Information Responses

Dear Secretary Cottrell:

Enclosed herewith for filing are Boston Edison Company's responses to the Department's Third Set of Information Requests in the above-captioned matter.

If there are any questions regarding this submittal please contact the undersigned. Thank you for your attention to this matter.

Sincerely,

Enclosures

cc: William Stevens, Hearing Officer
Sean Hanley
Claude Francisco
Owen Cahillane
Alexander Cochis, Esq.
George Dean, Esq.
Trudy Reilly, Esq.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Boston Edison Company	)	D.T.E. 01-108

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing responses to information requests in accordance with the Department rules.

William S. Stowe
Attorney for
NSTAR Electric & Gas Corporation
800 Boylston St., Floor 17
Boston, MA 02199

DATED: February 8, 2002

Information Request DTE-3-1

In reference to the Rebuttal Testimony of Henry LaMontagne at 2, when were the combustion turbines built? Please provide a copy of the contract between MWRA and BECo for the construction of combustion turbines.

Response

The combustion turbines completed operational testing in 1995. Attachment DTE 3-1-A is the Backup Electric Generation Equipment and Support Agreement between Boston Edison Company and MWRA dated May 19, 1992 which is the contract for the construction of the turbines. Attachment DTE 3-1-B is an amendment to said agreement dated October 11, 1994 and Attachment DTE 3-1-C is a Settlement Agreement dated March 20, 2001 which pertains to said agreement. The Attachments are bulk documents and thus a single copy is provided to the Hearing Officer and to each party.

AMENDMENT TO BACKUP ELECTRIC GENERATION EQUIPMENT AND SUPPORT AGREEMENT

THIS AMENDMENT TO BACKUP ELECTRIC GENERATION EQUIPMENT AND SUPPORT AGREEMENT is entered into as of the 11th day of October, 1994, by and between BOSTON EDISON COMPANY, a Massachusetts corporation, electric company and public utility, with a principal place of business at 800 Boylston Street, Boston, Massachusetts 02199 ("BECo") and THE MASSACHUSETTS WATER RESOURCES AUTHORITY, a body politic and corporate and a public instrumentality of the Commonwealth of Massachusetts, existing under Massachusetts Acts of 1984, Chapter 372, as amended, with its principal place of business at 100 First Avenue, Charlestown, Massachusetts ("the Authority").

Recitals:

A. The Authority and BECo entered into a BACKUP ELECTRIC GENERATION EQUIPMENT AND SUPPORT AGREEMENT, dated May 19, 1992 (the "Backup Agreement"), pursuant to which BECo agreed to supply, assemble, supervise the installation of and support certain backup electric generation Equipment for certain Treatment Facilities (all capitalized terms not otherwise defined herein shall have the same meaning as is attributed to them in the Backup Agreement).

B. The parties desire to memorialize in greater detail their agreements concerning the implementation of their respective rights and obligations upon Early Termination, by entering into this Amendment to the Backup Agreement.

C. Pursuant to Section 3.3 of the Backup Agreement, the Authority had the right to cause an early termination of the Backup Agreement upon the occurrence of one of a number of specified events, as described therein. Such an event of early termination has occurred, and Authority has notified BECo that it is terminating the Backup Agreement pursuant to Section 3.3.3 thereof, such termination to be effective on the In-Service Date of the Equipment.

D. One of the consequences of such early termination is the requirement that BECo transfer title to the Equipment to the Authority, together with an assignment of warranties and other matters, for which the Authority will pay BECo as provided in Sections 3.3 and 3.4 of the Backup Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual promises and agreements set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1.0 Transfer of the Equipment. In accordance with the provisions of the Backup Agreement, the Authority hereby agrees to purchase the Equipment from BECo and BECo hereby agrees to sell the Equipment to the Authority. The purchase and sale shall be consummated by a transfer of title to the Equipment by bill of sale from BECo to the Authority, and by payment of the purchase price by the Authority to BECo on the Closing Date, as hereinafter defined.

2.0 Purchase Price. The purchase price for the Equipment (the "Purchase Price") shall be Twenty-one Million Six Hundred Fifty-five Thousand One Hundred Ninety and 02/100 Dollars ($21,655,190.02). The Purchase Price shall be paid by wire transfer on the Closing Date to the following account:

State Street Bank and Trust Company
ABA #011-000-028
Account No. 0704-772-3
Account Name: Boston Edison Company

3.0 Closing Date. The bill of sale shall be delivered and the Purchase Price shall be paid at 9:00 A.M. on October 17, 1994 (the "Closing Date"), at the offices of Ropes & Gray, One International Place, Boston, Massachusetts (the "Closing"), unless otherwise agreed to by the parties in writing.

4.0 Closing Deliveries. At the Closing, BECo shall deliver to the Authority the following:

4.1 A bill of sale for the Equipment, in the form of Exhibit A attached hereto and incorporated by reference herein ("Bill of Sale").

4.2 An assignment of warranties and other vendor obligations with respect to the Equipment, in the form of Exhibit B attached hereto and incorporated by reference herein ("Assignment of Warranties").

4.3 Documents evidencing the consent of Turbo Power & Marine Systems, Inc. to the assignment of warranties, and acknowledging that, notwithstanding the transfer of title, the applicable warranty periods shall not commence until the In-Service Date.

4.4 A Release of the Equipment from the Indenture of Trust and First Mortgage dated December 1, 1940 between BECo and State Street Bank and Trust Company, Trustee, substantially in the form of Exhibit C attached hereto and incorporated by reference herein ("Release").

5.0 Additional Obligations. Pursuant to the requirements of Section 3.3.3 of the Agreement, the Authority shall pay to BECo a one-time fee of six hundred and twenty-five thousand dollars at the In-Service Date and BECo shall assign to the Authority all remaining outstanding agreements with respect to warranties, service agreements and vendor obligations continuing beyond the In-Service Date, to the extent not already covered by the Assignment delivered under Section 4.2 above.

6.0 No Change to Existing Obligations. This Amendment modifies Section 3.3 of the Backup Agreement, to the extent provisions of such Section are inconsistent with the provisions of this Amendment. Nothing in this Amendment, however, shall modify or affect the other existing respective rights and obligations of the parties as stated in the Backup Agreement, and the parties intend that such respective rights and obligations continue notwithstanding the execution of this Amendment and the consummation of the transfers contemplated hereby, including the obligation of BECo to continue to complete the supply, assembly and supervision of installation of the Equipment through the In-Service Date, and the performance of other services required by the Backup Agreement, and the obligation of the Authority to pay for such services pursuant to the terms of the Backup Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as a sealed instrument by and through their respective duly authorized representatives, as of the day and year first above written.

BOSTON EDISON COMPANY

By: Marc S Alpert

Marc S. Alpert,
Vice-President and Treasurer

MASSACHUSETTS WATER
RESOURCES AUTHORITY

By: Kate Murray 10/11/94

Douglas B. MacDonald,
Executive Director

EXHIBIT A

BILL OF SALE

KNOW ALL MEN BY THESE PRESENTS, that BOSTON EDISON COMPANY, a Massachusetts corporation whose principal office and place of business is at 800 Boylston Street, Boston, Massachusetts 02199 ("Seller"), for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby grant, bargain, sell, convey, set over, transfer, assign and deliver unto the MASSACHUSETTS WATER RESOURCES AUTHORITY, a body politic and corporate and a public instrumentality of the Commonwealth of Massachusetts, whose principal office and place of business is at 100 First Avenue, Charlestown, Massachusetts ("Buyer"), its successors and assigns, the following (hereinafter, "Personal Property"):

All tangible personal property constituting the "Equipment" under the terms of that certain "Backup Electric Generation Equipment and Support Agreement" dated May 19, 1992, between Buyer and Seller herein ("Backup Agreement"), being more specifically described on Schedule A attached hereto and incorporated by reference herein.

To have and to hold the Personal Property to the said Buyer and its successors and assigns to their own use and behoof forever. Seller hereby covenants with the Buyer that Seller is the lawful owner of said Personal Property; that it is free from all encumbrances, and that Seller has good right to sell the same as aforesaid; and that Seller will warrant and defend the same against the lawful claims and demands of all persons. SELLER DISCLAIMS ALL EXPRESS AND IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, but nothing herein shall be deemed to modify any provisions of the Backup Agreement, including, without limitation, any provision regarding services to be provided by Boston Edison Company under the Backup Agreement.

Seller shall from time to time execute and deliver all such instruments and take all such action as Buyer may reasonably request in order further to effectuate the purposes of this instrument and to carry out the terms hereof.

IN WITNESS WHEREOF, this Bill of Sale has been duly signed and sealed by the Seller this __ day of October, 1994.

BOSTON EDISON COMPANY

By: _____
Title: _____

SCHEDULE A

Two (2) FT8 Power Pac Gas Turbine Generators

1. Each of the two Gas Turbine Packages includes:

   A. Gas generator
   B. Power turbine
   C. Exhaust collector
   D. Fabricated gas turbine base and mount assembly with fuel system hardware
   E. Coupling connecting power turbine output shaft and electric generator
   F. Air starting motor
   G. Ignition system
   H. Gas turbine enclosure

      - Secondary cooling air system
      - Interior lighting - ac and dc
      - CO_2 fire protection system
      - Sound attenuation

   I. Inlet air silencer
   J. Two-stage inlet air filter with coalescing prefilter first stage and high efficiency media second state
   K. Exhaust transition
   L. Exhaust silencer and exhaust stack (150 feet)
   M. Gas turbine heating system for condensation control
   N. Combined gas generator and power turbine air cooled (with water cooled backup) lube oil system including initial fill
   O. Water injection NO_x control system
   P. Water wash system (off-line)
   Q. Liquid fuel fire valves
   R. Liquid fuel filter
   S. Liquid fuel metering

2. Each of the two Electric Generator Packages includes:

   A. 32,500 kVA, 13.8 kV, 3 phase, 60 Hz, 2 pole, 3600 rpm, 0.90 PF, synchronous generator, air cooled
   B. Brushless exciter with pilot exciter
   C. Stator heaters
   D. Enclosure with sound treatment and CO_2 fire protection
   E. Air cooled (with water cooled backup) lube oil system including initial fill
   F. Dual auto voltage regulator with motor rheostat and manual/auto control
   G. Neutral ground transformer (10 sec), neutral resistor and neutral disconnect switch
   H. Twenty differential CTs, relay accuracy class C400, 2000/5A ratio
   I. Twelve stator RTD's (Four sets per phase)
   J. Bearing temperature RTD's (Two per bearing)
   K. Bearing oil drain thermocouples (One per bearing)
   L. Vibration probes
   M. Airstream RTD's
   N. Field ground detection system

3. Each of the two Control Packages, prewired and assembled, includes:

A. One prefabricated, outdoor, finish painted steel enclosure with:

- Electric heating and air conditioning
- Fluorescent lighting
- ac power outlets

B. Control panels mounted and wired in the control enclosure as follows:

1. Operator Control panel

   - Starting and operating controls (manual and automatic)
   - Speed instrumentation for gas turbine and electric generator
   - CRT for operator interface
   - Auxiliary system indicators
   - Wattmeter
   - VAR meter

2. Gas Turbine Control panel

   - Vibration monitor
   - Engine control
   - Fire system instrumentation

3. Generator Instrument panel

   - Static inverter
   - Synchronizer
   - Printer
   - Generator vibration monitor

4. Protective Relay panel

   - Generator protective relays
   - Lockout devices
   - Voltage regulator

5. Unit Control (Equipment mounted in various panels)

   - Programmable logic controller with hot backup and dual power supplies
   - Support equipment
   - Automatic controls for starting, running, loading, unloading and shutdown of the unit

6. One Motor Control Center

   - ac and dc distribution panels
   - Battery chargers
   - Motor starters
   - Distribution transformer
   - Breakers as required

C. Master Terminal boards

D. Ventilated battery compartment containing rack-mounted 125 Vdc and 24 Vdc batteries

E. One Remote Control Panel for Control by Telemetry (telephone line)

F. Revenue metering CT's and VT's (GE JCM-5, JKM-5)

4. Additional Electrical Equipment for each Gas Turbine Generator Package includes:

A. One package of Switchgear -- 15 kV Class module including:

- Current transformers, potential transformers and automatic transfer switch, and surge capacitors

B. One station service transformer 13.8 kV/480 V with 480 V switchgear

SCHEDULE A

Two (2) FT8 Power Pac Gas Turbine Generators

1. Each of the two Gas Turbine Packages includes:

   A. Gas generator
   B. Power turbine
   C. Exhaust collector
   D. Fabricated gas turbine base and mount assembly with fuel system hardware
   E. Coupling connecting power turbine output shaft and electric generator
   F. Air starting motor
   G. Ignition system
   H. Gas turbine enclosure

      - Secondary cooling air system
      - Interior lighting - ac and dc
      - CO_2 fire protection system
      - Sound attenuation

   I. Inlet air silencer
   J. Two-stage inlet air filter with coalescing prefilter first stage and high efficiency media second state
   K. Exhaust transition
   L. Exhaust silencer and exhaust stack (150 feet)
   M. Gas turbine heating system for condensation control
   N. Combined gas generator and power turbine air cooled (with water cooled backup) lube oil system including initial fill
   O. Water injection NO_x control system
   P. Water wash system (off-line)
   Q. Liquid fuel fire valves
   R. Liquid fuel filter
   S. Liquid fuel metering

2. Each of the two Electric Generator Packages includes:

   A. 32,500 kVA, 13.8 kV, 3 phase, 60 Hz, 2 pole, 3600 rpm, 0.90 PF, synchronous generator, air cooled
   B. Brushless exciter with pilot exciter
   C. Stator heaters
   D. Enclosure with sound treatment and CO_2 fire protection
   E. Air cooled (with water cooled backup) lube oil system including initial fill
   F. Dual auto voltage regulator with motor rheostat and manual/auto control
   G. Neutral ground transformer (10 sec), neutral resistor and neutral disconnect switch
   H. Twenty differential CTs, relay accuracy class C400, 2000/5A ratio
   I. Twelve stator RTD's (Four sets per phase)
   J. Bearing temperature RTD's (Two per bearing)
   K. Bearing oil drain thermocouples (One per bearing)
   L. Vibration probes
   M. Airstream RTD's
   N. Field ground detection system

3. Each of the two Control Packages, prewired and assembled, includes:

A. One prefabricated, outdoor, finish painted steel enclosure with:

- Electric heating and air conditioning
- Fluorescent lighting
- ac power outlets

B. Control panels mounted and wired in the control enclosure as follows:

1. Operator Control panel

   - Starting and operating controls (manual and automatic)
   - Speed instrumentation for gas turbine and electric generator
   - CRT for operator interface
   - Auxiliary system indicators
   - Wattmeter
   - VAR meter

2. Gas Turbine Control panel

   - Vibration monitor
   - Engine control
   - Fire system instrumentation

3. Generator Instrument panel

   - Static inverter
   - Synchronizer
   - Printer
   - Generator vibration monitor

4. Protective Relay panel

   - Generator protective relays
   - Lockout devices
   - Voltage regulator

5. Unit Control (Equipment mounted in various panels)

   - Programmable logic controller with hot backup and dual power supplies
   - Support equipment
   - Automatic controls for starting, running, loading, unloading and shutdown of the unit

6. One Motor Control Center

   - ac and dc distribution panels
   - Battery chargers
   - Motor starters
   - Distribution transformer
   - Breakers as required

C. Master Terminal boards

D. Ventilated battery compartment containing rack-mounted 125 Vdc and 24 Vdc batteries

E. One Remote Control Panel for Control by Telemetry (telephone line)

F. Revenue metering CT's and VT's (GE JCM-5, JKM-5)

4. Additional Electrical Equipment for each Gas Turbine Generator Package includes:

A. One package of Switchgear -- 15 kV Class module including:

- Current transformers, potential transformers and automatic transfer switch, and surge capacitors

B. One station service transformer 13.8 kV/480 V with 480 V switchgear

EXHIBIT B

ASSIGNMENT OF WARRANTIES

KNOW ALL MEN BY THESE PRESENTS, that BOSTON EDISON COMPANY, a Massachusetts corporation whose principal office and place of business is at 800 Boylston Street, Boston, Massachusetts 02199 ("Assignor"), for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby assign to the MASSACHUSETTS WATER RESOURCES AUTHORITY, a body politic and corporate and a public instrumentality of the Commonwealth of Massachusetts, whose principal office and place of business is at 100 First Avenue, Charlestown, Massachusetts ("Assignee"), its successors and assigns, all of its rights under any and all warranties, service agreements or other contracts made or entered into by Turbo Power and Marine Systems, Inc. in favor of or for the benefit of Assignor with respect to the Equipment, as defined under the terms of the Bill of Sale of even date herewith made and delivered by Assignor, as Seller, to Assignee, as Buyer, including, without limitation, any such rights arising under Boston Edison Purchase Order No.106896.

By accepting this Assignment, Assignee agrees to look solely to Turbo Power and Marine Systems, Inc. for the satisfaction of any warranty claims relating to the Equipment, and further agrees to take such maintenance or other preventive actions as may be required under the terms of the warranties to keep such warranties in effect.

Assignor covenants and agrees with Assignee that Assignor shall do such things and will execute such further instruments and documents as Assignee, its successors and assigns, may from time to time reasonably request further to evidence this Assignment, and to confirm the transfer of the benefits of the assigned rights to Assignee.

IN WITNESS WHEREOF, this Assignment has been duly signed and sealed by the Assignor this _____ day of October, 1994.

BOSTON EDISON COMPANY

By: _____
Title: _____

CONSENT OF TURBO POWER AND MARINE SYSTEMS, INC.

For good and valuable consideration, Turbo Power and Marine Systems, Inc. ("TPM") hereby consents to the foregoing assignment and agrees with the Assignee that (a) the Assignee shall have all the rights and benefits under the assigned warranties, fully as if Assignee were the first purchaser of the Equipment from TPM; and (b) all relevant time periods under the assigned warranties shall commence upon the In-Service Date of the Equipment, as defined in Boston Edison Purchase Order No. 106896.

TURBO POWER AND MARINE SYSTEMS, INC.

By: _____
Name: Raymond A. Lewicki
Title: Manager, Programs and Systems Engineering

RELEASE

KNOW ALL MEN BY THESE PRESENTS, that State Street Bank and Trust Company, a corporation duly organized and existing under the laws of the Commonwealth of Massachusetts, and Trustee under the Indenture of Trust and First Mortgage by Boston Edison Comany to it under its former name, "State Street Trust Company", dated as of December 1, 1940, although actually executed December 6, 1940, such Indenture being recorded, among other places, with Suffolk Deeds, Book 5889, page 4, and indentures supplemental thereto, for consideration paid, releases to Boston Edison Company and its successors and assigns forever, all the right, title and interest which said State Street Bank and Trust Company, as Trustee as aforesaid, acquired under said Indenture, and said supplemental indentures, in and to the following property:

> The personal property and assets of the Company listed in Schedule A annexed hereto and made a part hereof.

This release is made without covenants or warranties on the part of said State Street Bank and Trust Company, as Trustee as aforesaid, either express or implied, in law or in equity, and without recourse to it in any event; and this release shall not in any way affect or impair the rights of said State Street Bank and Trust Company, as Trustee as aforesaid, to hold under said Indenture and any indentures supplemental thereto upon the terms and conditions and in the manner and for the purposes therein expressed the remainder of the premises thereby conveyed and not hereby or heretofore released.

IN WITNESS WHEREOF, said State Street Bank and Trust Company, as Trustee as aforesaid and not otherwise, has caused its corporate seal to be hereto affixed and these presents to be signed, acknowledged and delivered in its name and behalf by , its this day of , 1994.

STATE STREET BANK AND TRUST COMPANY

By: _____

THE COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, SS _____, 1994

Then personally appeared of State Street Bank and Trust Company, above-named, and acknowledged the foregoing instrument to be his free act and deed and the free act and deed of said State Street Bank and Trust Company, before me

_____
Notary Public
My Commission Expires _____

SETTLEMENT AGREEMENT
BETWEEN
BOSTON EDISON COMPANY
AND
MASSACHUSETTS WATER RESOURCES AUTHORITY

This Settlement Agreement is entered into between Boston Edison Company, a Massachusetts electric company with its principal place of business at 800 Boylston Street, Boston, Massachusetts ("BECO") and the Massachusetts Water Resources Authority, a body politic and corporate and a public instrumentality of the Commonwealth of Massachusetts, existing under the provisions of Massachusetts General Laws, Chapter 92 App., § 1-1, *et seq.*, as amended, with its principal place of business at 100 first Avenue, Charlestown, Massachusetts (the "MWRA").

WHEREAS, BECO and the MWRA have entered into a Backup Electric Generation Agreement, dated May 19, 1992, as amended on October 11, 1994 pursuant to which BECO constructed backup generation facilities on behalf of the MWRA, which backup generation facilities are located on Deer Island; and

WHEREAS, BECO and the MWRA have had a variety of disputes regarding implementation and interpretation of the Backup Electric Generation Agreement have disputed amounts owed by and to each other under the Agreement; and

WHEREAS BECO and the MWRA are interested in settling all of the outstanding disputes between them in connection with the Backup Electric Generation Agreement.

NOW THEREFORE in consideration of the agreements set forth herein the Parties agree as follows:

1. The MWRA shall pay BECO the sum of two hundred and eight-six, thousand, and seventy-nine ($286,079) dollars which represents the taxes paid by BECO on the receipt of the Termination Sum paid by the MWRA to BECO pursuant to Article 3.3 of the Backup Electric Generation Agreement. The MWRA will issue a check in this amount to BECO within thirty (30) days of the date on which this Settlement Agreement is executed. The Parties agree that there will be no additional payments invoiced or paid in connection with partial billings 1 through 7.

2. The MWRA shall pay BECO the sum of five hundred and fifteen thousand, eight hundred and eight dollars and sixty-nine cents ($515,808.69), which amount shall represent full and final payment to BECO for all work performed by BECO under the Backup Electric Generation Agreement. The MWRA will issue a check in this amount to BECO within thirty (30) days of the date on which this Settlement Agreement is executed.

3. BECO and the MWRA agree that all amounts paid under this Settlement Agreement shall be without interest.

4. BECO agrees to execute a general release of all claims and liens that BECO may have against the MWRA in connection with the Backup Electric Generation Agreement. A copy of that release is attached hereto and made a part of this Settlement Agreement.

5. MWRA agrees to execute a release of all claims and liens that the MWRA may have against BECO in connection with the installation of the combustion turbine generators and appurtenances in the On-Site Thermal Power Plant under the Backup Electric Generation Agreement. A copy of that release is attached hereto and made a part of this Settlement Agreement.

6. This Settlement Agreement shall become effective as of the date of execution hereof.

IN WITNESS WHEREOF, the Parties have had their representatives execute this Settlement Agreement on this 20 day of March, 2001.

BOSTON EDISON COMPANY

By: Robert J. Weafer, Jr.
Its: Vice President, Controller and Chief Accounting Officer

THE MASSACHUSETTS WATER RESOURCES AUTHORITY

By: Douglas B. MacDonald
Its: Executive Director

444194_1

Information Request DTE-3-2

In reference to the Rebuttal Testimony of Henry LaMontagne at 3, please provide a copy of the "cable agreement," and all amendments thereto, between Harbor Electric Energy Company and MWRA.

Response

Attachment DTE 3-2-A is a copy of the Interconnection and Facilities Support Agreement between Harbor Electric Energy Company ("HEEC"), Boston Edison Company and MWRA dated August 14, 1990. Attachment DTE 3-2-B is a Settlement Agreement between HEEC and MWRA dated March 20, 2001 which pertains to said agreement. The Attachments are bulk documents and thus a single copy is provided to the Hearing Officer and to each party.

SETTLEMENT AGREEMENT
BETWEEN
HARBOR ELECTRIC ENERGY COMPANY
AND
MASSACHUSETTS WATER RESOURCES AUTHORITY

This Settlement Agreement is entered between Harbor Electric Energy Company, a Massachusetts electric company and wholly-owned subsidiary of Boston Edison Company, with its principal place of business at 800 Boylston Street, Boston, Massachusetts ("HEEC") and the Massachusetts Water Resources Authority, a body politic and corporate and a public instrumentality of the Commonwealth of Massachusetts, existing under the provisions of Massachusetts General Laws, Chapter 92 App., § 1-1,. *et seq.*, as amended, with its principal place of business at 100 First Avenue, Charlestown, Massachusetts (the "MWRA").

WHEREAS, HEEC and the MWRA have entered into an Interconnection and Facilities Support Agreement, dated August 14, 1990 (the "Interconnection Agreement") pursuant to which HEEC constructed, owns, operates and maintains certain interconnection facilities for the delivery of electric power from NSTAR Services Company to the MWRA's facilities located on Deer Island; and

WHEREAS, HEEC and the MWRA have had a variety of disputes regarding interpretation of the Interconnection Agreement and payments owed to or paid by one Party to the other; and

WHEREAS HEEC and the MWRA are interested in settling all of the outstanding disputes between them in connection with the Interconnection Agreement.

NOW THEREFORE in consideration of the agreements set forth herein the Parties agree as follows:

1. HEEC shall pay the MWRA six hundred twenty-five thousand two hundred seventy-nine dollars ($625,279). This amount represents the sum of (a) a credit due from the MWRA to HEEC of $290,000 as a final settlement of all capacity charges and operations and maintenance ("O&M") charges due to HEEC from the Interconnection Agreement's inception to December 31, 1996; (b) a reimbursement from HEEC to the MWRA in the amount of $746,093, for capacity charge payments made from January 1997 to December 1999; and (c) a reimbursement from HEEC to the MWRA of $169,186 in ("O&M") charges for the period 1997 to 1999 all as specified in a letter dated December 11, 2000 from the MWRA to NSTAR Services Company (a copy of which is attached hereto). This amount shall constitute a final settlement for all capacity charges and operations and maintenance charges due to HEEC (as offset by credits to the MWRA) from the inception of the Interconnection Agreement to and

through December 31, 1999, including all change order work that is related to the Interconnection Agreement and which has been performed through the date of this Settlement Agreement, which has not already been incorporated into the Gross Investment Base. HEEC shall pay this amount to the MWRA no later than thirty (30) days from the date on which this Settlement Agreement is executed, by certified or bank check, or by transfer of electronic funds.

2. HEEC and the MWRA agree that the calculation of the Weighted Average Effective Annual Interest Rate (the "DI"), which is used in Schedule C to the Interconnection Agreement to calculate the Annual Capacity Charge that is charged to the MWRA under Article 7 of the Interconnection Agreement, will be calculated as follows from January 1, 1997 and continuing until the termination of the Interconnection Agreement:

> HEEC will remove the amortization of the costs of issue from the annual net total cost of interest used in the calculation of the weighted average effective annual interest rate. The weighted average balance unamortized debt expense will continue to be deducted from the weighted average outstanding balance of principal for the purpose of determining weighted average net proceeds.

Attached as Exhibit 1 to this Settlement Agreement is a sample calculation of the DI for use in Schedule C to the Interconnection Agreement.

3. HEEC also agrees to a net decrease of $826,440 in the Phase I Gross Investment Base as provided for in Schedule C of the Interconnection Agreement, effective with the capacity charge for January 1997 and continuing until the termination of the Interconnection Agreement. This net decrease has been incorporated into the sum specified in Section 1 above.

4. Under Articles 7.10 and 9.4 of the Interconnection Agreement, the MWRA reserves its right to audit bills if within twelve (12) months of the MWRA's receipt of a final bill, the MWRA will notify HEEC in writing of a disputed amount and/or its intent to audit a final bill within that twelve (12) month period. If such written notification is received by HEEC during the twelve (12) month period following issuance of the final bill, the MWRA will have reserved its rights to dispute said final bill until such time as the audit process is complete and all disputed amounts have been satisfactorily resolved. If no such written notification is received by HEEC, the MWRA agrees that said final bill is closed and the MWRA will have waived its rights to dispute any and all portions of said final bill.

5. HEEC agrees to pay to the MWRA the sum of nine hundred fifty-one thousand, five hundred ten dollars ($951,510) for property taxes paid by the MWRA to HEEC and which were either not paid to the City of Boston or were refunded to HEEC by the City of Boston. HEEC shall pay this amount to the MWRA no later than thirty (30) days from the date on which this Settlement Agreement is executed, by certified or bank check, or by transfer of electronic funds.

6. HEEC and the MWRA agree that all amounts paid under this Settlement Agreement shall be without interest.

7. This Settlement Agreement shall become effective as of the date of execution hereof.

IN WITNESS WHEREOF, the Parties have had their representatives execute this Settlement Agreement on this 20 day of March, 2001.

HARBOR ELECTRIC ENERGY COMPANY

By: Robert J. Weafer, Jr.
Its: Vice President, Controller and Chief Accounting Officer

THE MASSACHUSETTS WATER RESOURCES AUTHORITY

By: Douglas B. MacDonald
Its: Executive Director

Information Request DTE-3-3

In reference to the Rebuttal Testimony of Henry LaMontagne at 3, please provide schedules to support BECo's 12.76 percent overall return for 2001 on the cable investment.

Response

The calculation of the overall cost of capital is calculated as described in the section 4.1 of attachment C of the contract between Boston Edison Company and the Massachusetts Water Resources Authority[1].

The Cost of Capital = (.80 X DI) + 3.7% + (3.70% X T/(1-T))

Where DI = 8.334% and T = 0.39225

The Cost of Capital = 6.667 + 3.7 + 3.7 x .6454 = 10.367 + 2.3.880 = 12.755%

While one could conclude that because DI is the cost of debt the 3.7% is the return on equity and that because DI is multiplied by .8 the 3.7% should be divided by .2 to get the unweighted cost of equity to arrive at a number of 18.5%. The contract however does not use the term cost of equity, rather it talks about the overall Cost of Capital. Even if the contract referred to the 3.7% as a return on equity, it is important to note that the return on equity for a project financed with 80% debt would be significantly higher than a project financed at a 50%/50% debt/equity ratio. The higher return would reflect the higher financial risk on equity. For example if the 12.755% return above was earned on a 50/50% debt equity ratio the imputed equity return would be 10.43% ((12.755 – (8.334 *50%)) / 1.6454 /50%).

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[1] MWRA Contract Attachment C

4.0 Annual Return on Investment The Annual Return on Investment shall be equal to the product of (i) the Cost of Capital Rate multiplied by (ii) the Net Investment Base.

4.1 Cost of Capital Rate The Cost of Capital Rate (CCR) shall be determined by the following formula:

CCR . (.80 X DI) + 3.70% + (3.70% X T/(1-T))

Where:

DI = The weighted average effective annual interest rate, expressed in percentage terms, on all debt securities outstanding during the Contract Year in connection with the Facilities. The effective annual interest rate for each debt security shall be computed in accordance with Generally Accepted Accounting Principles and shall include any discounts or premiums, commitment or credit enhancement fees, expense of issue and similar expenses. If during any portion of any Contract Year no debt securities are outstanding, then the base rate, as reported by Citibank, N.A., or its equivalent, shall be used as the effective interest rate during that period of time in the Contract Year when no debt securities are outstanding.

T = The statutory composite federal, state and local income tax rate (Composite Tax Rate) applicable to HEEC during the Contract Year in accordance with the tax statutes in effect during the Contract Year. The tax rates to be used for calculating shall be the *highest marginal* rate in effect during the Contract Year.