KEEGAN, WERLIN & PABIAN, LLP

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

(617) 951-1400

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

January 28, 2004

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

Re: D.T.E. 03-129, Boston Edison Company, d/b/a NSTAR Electric

Dear Secretary Cottrell:

Enclosed for filing in the above-referenced matter are the responses to the Information Request 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-1-1
Information Request DTE-1-2
Information Request DTE-1-3
Information Request DTE-1-4
Information Request DTE-1-5
Information Request DTE-1-6
Information Request DTE-1-7
Information Request DTE-1-8
Information Request DTE-1-9
Information Request DTE-1-10
Information Request DTE-1-11
Information Request DTE-1-12
Information Request DTE-1-13
Information Request DTE-1-14
Information Request DTE-1-15
Information Request DTE-1-16
Information Request DTE-1-17

Information Request DTE-1-1

Refer to the Company's Application at 4, item C. Please explain how the requested exemption from G.L. c. 164, § 15A is in the public interest. As part of your answer, discuss the following: (a) the effect, if any, of current market conditions on the ability of the Company to price the securities at par value; (b) whether and how the issuance of debt securities below par value will offer the Company enhanced flexibility in entering the market quickly to take advantage of prevailing interest rates; and (c) what, if any, benefit the Company's ratepayers will receive in the form of lower rates and a lower cost of capital.

Response

Current market conditions continue to make it difficult for the Company to price its debt securities at par value at all times and still achieve the lowest interest rate available for such securities. The Company's debt securities are generally issued with a coupon rate equal to a multiple of one-eighth of one-percent or 0.05 percent. However, financial markets price debt securities by reference to a comparable maturity U.S. Treasury security. U.S. Treasury securities, as well as the spread over such securities, are priced in increments of 0.01 percent. Accordingly, the face value of the security is often discounted a very small amount to reflect the finer pricing of the security. For example, in October 2002, the Company's Debentures due 2012 were priced with a coupon rate of 4.875 percent. However, the rate actually required by the markets was 4.965 percent, which is not a multiple of one-eighth. Accordingly, the face value of the security was discounted from 100 percent to 99.297 percent, resulting in the required yield.

The requested exemption from the par value requirements of G.L. c. 164, § 15A will provide greater flexibility for the Company in structuring the terms for the proposed debt securities so that it can price its securities at the lowest precise rates available to the Company for that issue of debt securities. This flexibility will allow the Company to issue the debt securities regardless of daily vagaries of the financial markets. Without this ability to set the effective interest rate most precisely through a small discount on the par value of the bonds, the Company would likely have to pay a slightly higher interest rate to sell the debt securities resulting in a higher cost of capital.

The Company's requested exemption meets the standards set forth in Boston Edison Company, D.T.E. 00-62, at 4 (2000). In Boston Edison the Department recognized that an exemption from Section 15A is appropriate where "market conditions make it difficult at times for a company to price a particular issue at par and simultaneously offer an acceptable coupon rate to prospective buyers." See also, Southern Union Company, D.T.E. 01-32, at 8, 12 (2001) and Bay State Gas Company, D.P.U. 91-25, at 10 (1991). The Department also has found that it is in the public interest to authorize debt securities below par value where this technique offers a company enhanced flexibility in entering the market quickly to take advantage of prevailing market rates, particularly if this benefits the company's ratepayers in the form of lower interest rates and a lower cost of capital. Id. See also, Southern Union Company, D.T.E. 01-32, at 8 (2001), Boston Gas Company, D.P.U. 92-127 at 8 (1992); Boston Edison Company, D.P.U. 91-47, at 12-13 (1991).

Information Request DTE-1-2

Refer to the Company's Application at 5, item E. Please explain how the requested exemption from G.L. c. 164, § 15 is in the public interest.

Response

The Company requests an exemption from the competitive bidding requirements in view of the continued high volatility of the financial markets. During periods of high volatility it is extremely important that the Company be able to take advantage of the flexibility offered by negotiated transactions and the underwriters' expert knowledge of marketing securities.

As shown on Exhibits BE-5A and BE-5, particularly Exhibit BE-5B, the markets continue to be volatile in terms of rates associated with a particular security. In such markets, the competitive bidding requirement would inhibit the Company's ability to vary the form and timing of its issuances, which is necessary in today's continued fluctuating financial markets. In addition, potential underwriters do not employ strong pre-marketing efforts in a formal bid transaction because they cannot be assured they will be awarded the securities. In a volatile market, this may result in less aggressive bids because without a strong pre-marketing effort, the underwriters cannot be assured that a strong market exists for the particular security. In Boston Edison Company, D.P.U. 92-253-A (1993) the Department recognized that negotiated transactions benefits customers and are more appropriate than bid transactions, especially during periods of fluctuating securities markets.

Information Request DTE-1-3

Discuss in detail how the requested financing complies with the net plant test requirements of G.L. c. 164, § 16.

Response

The net plant test provides that a company is required to present evidence that its net utility plant (original cost of capitalizable plant, less accumulated depreciation) equals or exceeds its total capitalization (the sum of its long-term debt and its preferred and common stock outstanding) and will continue to do so following the proposed issuance. Colonial Gas Company, D.P.U. 84-96, at 5 (1984). The Department has stated that this test is derived from the requirements of G.L.c. 164 § 16, which provides (in pertinent part):

> If, when the [D]epartment approves an issue of new stock, bonds or other securities by a gas or electric company, it determines that the fair structural value of the plant and of the land and the fair value of the nuclear fuel, gas inventories or fossil fuel inventories owned by such company is less than its outstanding stock and debt, it may prescribe such conditions and requirements as it deems best adapted to make good within a reasonable time the impairment of the capital stock; or before allowing an increase, it may require the capital stock to be reduced by a prescribed amount, not exceeding the amount of such impairment.

As stated in the Company's filing, the Company has a sufficient balance of total capitalizable plant less reserve for depreciation, to satisfy the net plant test for the $500,000,000 financing application (Exh. BE-1, pp. 4-5; Exh. BE-4). As shown in Exhibit BE-4, the Company has a balance of capitalizable plant less reserve for depreciation of $2,008,168,602 and total outstanding stock and debt of $1,142,795,234, for a total available net plant of $865,373,368.

Information Request DTE-1-4

Refer to Exh. BE-1, at 7, lines 6-8. Please explain how the Company determined a maximum rate of ten percent per annum for both the fixed and variable rate securities proposed in this application. Discuss how the maximum rate is reasonable in light of current and anticipated market conditions.

Response

In determining the requested long-term interest rates, the Company considered current market rates for similarly rated securities, historical rate trends and rate forecasts by various investment banks. Current yields are approximately 200 basis points lower than in late 2000 when the Department considered the Company's 2001-2002 finance plan. The proposed maximum rates are considerably lower than the fixed rate (11 percent) and the variable rate (20 percent) approved by the Department in Boston Edison Company, D.T.E. 00-62 (2000).

With respect to the maximum rate for variable rate debt, a 10 percent maximum is necessary in order to assure investors that the variable rate instrument will continue to be valuable even when interest rates rise.

Information Request DTE-1-5

Refer to Exh. BE-1, at 16, line 17. Please explain why the Company is proposing a maximum rate of ten percent for both fixed and variable rate securities. As part of this response, discuss why the same maximum rate for these two different types of securities is appropriate.

Response

The same principle applies for both fixed and adjustable rates. Given that the Company is proposing a two-year financing plan, the plan must include sufficient flexibility to address volatile markets. Exhibit BE-5B shows that from April 2003 to May 2003, the interest rate for 30-year government obligations changed by 42 basis points (0.42 percentage points) in that one month alone.

With respect to variable rate debt, there must be sufficient flexibility over the entire life of the security. The lower the cap on the maximum rate, the more difficult it is to market the security which could result in a higher effective cost.

Information Request DTE-1-6

Provide examples of significant benefits of the proposed financing to the Company and its customers aside from the maturity terms and interest rate.

Response

The flexibility provided by the proposed finance plan is to achieve the best terms and conditions for the Company's securities. In connection with the issuance of debt securities, the Company considers the current interest rate environment, as well as historical and projected rates. The Company also considers short-term rates versus intermediate and long-term rates, as well as the maturities of its already outstanding debt securities. The primary benefits of the finance plan are to allow the Company to achieve a favorable interest rate and maturity for the particular security being issued. However, this flexibility also allows the Company to achieve, for example, appropriate redemption and covenant terms for the particular issuance.

Information Request DTE-1-7

Refer to Exh. BE-1, at 9, lines 1-4. Please explain how the Company would use the market indices in determining the applicable rate for adjustable rate debt. Identify which indices would be used.

Response

An adjustable rate debt security would most likely be priced off of the three-month London Interbank Offered Rates ("LIBOR") index. A fixed spread over three-month LIBOR would be determined at the time of pricing.

Information Request DTE-1-8

Refer to the Company's Application at 3, item 11. Please explain the Company's definition of "favorable market conditions."

Response

As described in the pre-filed testimony of Mr. Lembo and Ms. O'Neil (at pages 7-8), the financial markets continue to be volatile and are increasingly more complex. Favorable market conditions means such time, within the period of the finance plan, that the Company determines that, given the need for the proceeds of the financing ,interest rates, maturity and other terms, such as redemption provisions, available to the Company are appropriate. For example, if during the term of the finance plan investor demand for a particular maturity of debt securities has increased at a certain time, resulting a lower interest rates, and the desired maturity corresponded with the needs of the Company, the Company would consider this to be a favorable market condition.

Information Request DTE-1-9

Refer to the Company's Application at 3, item 12. Please explain why "it is in the public interest that the purchasers of the long-term debt securities be selected not by competitive bidding, but rather by the Company on the basis of standards and criteria which in management's judgment will result in significant benefits to the Company and its customers, including but not limited to the terms and interest rate."

Response

Please see the Company's response to Information Request DTE-1-2.

Information Request DTE-1-10

Refer to Exh. BE-1, at 6, lines 18-20. Please provide workpapers, calculations, assumptions, etc. used to forecast an anticipated capital expenditure of approximately $440,000,000 for the 2004-2005 period.

Response

Below please find the calculations used to forecast capital expenditures for the 2004 – 2005 period.

Boston Edison Company Forecasted Capital Spending
($ Millions)

	2004	**2005**	**Total**
Distribution (Upgrades & Maintenance)	$168	$171	$339
Transmission (Upgrades & Maintenance)	17	18	35
Meters/Information Technology/Facilities	33	33	66
Total Capital	**$218**	**$222**	**$440**

Information Request DTE-1-11

Refer to Exh. BE-1, at 7, lines 2-4. Please provide workpapers, calculations, assumptions, etc. used to forecast the $560,000,000 in cash expected to be generated from operations over the 2004-2005 period.

Response

In order to determine a possible amount of debt securities that the Company might need to issue over the two-year period of the finance plan, the Company forecasted its preliminary capital expenditures and internal cash from operations. As described in the pre-filed testimony of Mr. Lembo and Ms. O'Neil, a detailed capital budget for 2004-2005 is not available. The forecast of internal cash from operations is preliminary and, by definition, is subject to change. Any forecast of internal cash generation consists of assumptions on virtually every aspect of the Company's business and will be effected by such things as energy utilization, changes in costs and expenses, taxes, etc. Although such a projection involves many assumptions and variables, the key variable assumed by the Company was growth of unit sales of electricity of 1 percent to 2 percent. Of course, the assumptions will be affected by many factors and will likely vary from the forecast.

Information Request DTE-1-12

Refer to Exh. BE-1, at 6, lines 15-23. Please provide a breakdown of what portion of the proposed $500,000,000 will be utilized to satisfy the $100,000,000 in outstanding Notes which will become due during the 2004-2005 period and what portion of the $500,000,000 will be used to finance the anticipated $440,000,000 in capital expenditures.

Response

To avoid the cost of multiple, small, long-term debt offerings, and to avoid making a larger issue of debt securities before the Company needs all of the proceeds (thereby avoiding the cost of investing the proceeds at a rate lower than the cost of the debt until the proceeds are needed – so-called negative arbitrage), the Company typically meets its day–to-day cash needs through internally generated funds and short-term borrowings, generally commercial paper. At such point in time that its short-term borrowings are at an appropriate level to make a long-term debt financing efficient, and the Company determines that market conditions are favorable, it will issue the long-term debt securities and use the cash proceeds to repay short-term debt. Because all of the cash collected by the Company in the form of internal cash generation, short-term borrowings and long-term borrowings is fungible, it is not possible to determine at this time whether some or any portion of the actual cash proceeds from the long-term debt securities will be used directly to pay the $100,000,000 of outstanding Notes.

Information Request DTE-1-13

Refer to Exh. BE-1, at 9-15. Please provide, in chart format, a brief summary stating the advantages and disadvantages of utilizing the following procedures: (a) a public offering in a negotiated transaction; (b) a competitive bidding process; and (c) a private offering. Outline and compare the benefits of each of these placement methods to the (1) Company; (2) investors; and (3) rate payers. Finally, state which placement method will be most likely used by the Company in this case and explain why.

Response

	Negotiated Transaction	**Competitive Bid**	**Private Placement**
Cost of Registration Statement	Yes - Disadvantage	Yes - Disadvantage	No - Advantage
Underwriter assists in market assessment	Yes – Advantage	No – Disadvantage	No – Disadvantage
Underwriter assists in determining best type and terms of security	Yes – Advantage	No – Disadvantage	No – Disadvantage
Ability to take advantage of market opportunities	Yes – Advantage	Limited – Disadvantage	Limited – Disadvantage
Pre-sale marketing effort	Yes- Advantage	No – Disadvantage	No – Disadvantage
Investors	Broad group – Advantage	Broad Group – Advantage	Limited group – Disadvantage
Cost of invitation for proposals	No –Advantage	Yes – Disadvantage	No – Advantage
Flexibility to change terms to meet changing market conditions	Yes – Advantage	Limited – Disadvantage	Limited – Disadvantage
Banker fees	Lower – Advantage	Lower – Advantage	Higher – Disadvantage
Covenants	No – Advantage	No – Advantage	Yes – Disadvantage

Advantages generally result in lower effective interest rates and more favorable maturity, redemption and other terms. These advantages inure to both the Company and its customers.

There is no particular advantage or disadvantage to purchasers of the debt securities (investors) from any one particular method versus another. Investors are generally the same in a public transaction, whether negotiated or competitively bid. Investors in a private placement generally consist solely of large institutional investors.

A negotiated public offering is the most likely method to be used to sell the debt securities due to the numerous advantages identified above.

Information Request DTE-1-14

Refer to Exh. BE-3. Please explain the following: (a) the item and amount of "Due to affiliates-Securitization" of $377,390,163 listed under Long-term debt; (b) the item and amount of "Other" of $90,823,747 listed under Current and accrued liabilities; and (c) the item and amount of "Other" of $211,165,777 listed under Deferred credits.

Response

Below please find explanations to the following.

Item	**Amount**	**Explanation**
(a) "Due to Affiliates – Securitization"	$377,390,163	This number constitutes the long-term portion of the outstanding Rate Refunding Bonds issued by Boston Edison Company's subsidiary BEC Funding.
(b) "Other"	$90,823,747	$64.1 million relates to federal, state and property taxes. $21.7 million relates to DSM spending accrual and the balance of $5 million relates to miscellaneous current and accrued liabilities.
(c) "Other"	$211,165,777	$151 million relates to Boston Edison's pension liability. $31.8 million relates to interconnection work/prepaid construction being performed by Boston Edison. $11.8 million relates to overcharges that have been repaid under the MASSPOWER contracts and will be returned to customers. $8.8 million relates to storm contingency funds that have been reserved for and expensed. The balance of $7.7 million relates to various miscellaneous other deferred credits.

Information Request DTE-1-15

Please explain whether the interest on term loans will be based on an adjustable rate or a fixed rate. If both fixed and adjustable rates are anticipated, please explain the reason.

Response

Depending upon market conditions at the time of the financing, the Company could consider issuing either fixed or adjustable rate debt, based on which option had the most favorable terms.

Information Request DTE-1-16

Refer to Exh. BE-1, at 16, line 16. Please explain why the Company proposed a 40-year maximum term period for maturity of the requested long-term debt securities.

Response

There is currently not a high investor demand for debt securities carrying a maturity of greater than 40 years.

Information Request DTE-1-17

Refer to Exh. BE-1, at 11, lines 20-21. Please explain why the Company is unable to rely on the services of a designated underwriter and that underwriter's regular counsel in preparing the registration statement for a competitively bid transaction.

Response

As described in the pre-filed testimony of Mr. Lembo and Ms. O'Neil at pages 11-12, in a competitive bid process, the Company is unable to rely on the services of a designated underwriter and that underwriter's regular counsel in preparing the registration statement because the underwriter is selected through the bid process at the time of the sale of the securities. No one underwriter is willing to commit the resources and expense associated with assisting the Company in its pre-marketing efforts, drafting the prospectus for the debt securities or using its own legal counsel to help solve legal issues because it will not recover those expenses if it is not selected in the competitive bid process.