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November 21, 2002

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

Re: Cambridge Electric Light Company, D.T.E. 02-____

Dear Secretary Cottrell:

Enclosed is an original and nine (9) copies of the Petition for Approval of Asset Divestiture (the "Petition"), with accompanying testimony and supporting exhibits, submitted by Cambridge Electric Light Company (the "Company"). The Petition concerns the sale by the Company of the Blackstone Station Facility ("Blackstone" or the "Facility") to President and Fellows of Harvard College ("Harvard") for $14.6 million (subject to certain adjustments at closing).

In support of the Petition, Cambridge has enclosed the Prefiled Direct Testimony of Geoffrey O. Lubbock, Vice President, Financial Strategic Planning & Policy of NSTAR Electric & Gas Corporation, providing an overview of the filing and the background relating to the Company's divestiture of Blackstone to Harvard. In addition, Mr. Lubbock's testimony describes the Company's proposal to apply the proceeds from the divestiture to reduce the Company's Transition Charge.

The asset divestiture set forth in the Petition culminates a multi-year process undertaken by the Company to mitigate transition costs through the divestiture of Blackstone. As described in the Petition and Mr. Lubbock's testimony, the sales price of $14.6 million offered by Harvard for Blackstone is equivalent to approximately $911 per kilowatt, a price comparable to the highest price paid for a generating facility, on a per kilowatt of capacity basis, since the passage of the Electric Restructuring Act of 1997 (the "Restructuring Act"). Therefore, the divestiture will produce significant rate benefits for the Company's retail customers.

Moreover, the process used by Company to divest Blackstone resulted in a price offered for the Facility that mitigates the Company's Transition Costs associated with the Facility to the maximum extent possible. Therefore, the divestiture of Blackstone to Harvard is consistent with the Company's Restructuring Plan, as approved by the Department in D.P.U./D.T.E. 97-111, and the Restructuring Act. Accordingly, the Company respectfully requests the Department's approval of this Petition.

Also enclosed is the $100 filing fee. Thank you for your attention to this matter.

Very truly yours,

David S. Rosenzweig

Enclosures

cc: Paul Afonso, General Counsel
Joseph Rogers, Esq.
John DeTore, Esq.
Neven Rabadjija, Esq.
Geoffrey Lubbock

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COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Cambridge Electric Light Company	)	D.T.E. 02-___

PETITION FOR APPROVAL OF ASSET DIVESTITURE

Cambridge Electric Light Company ("Cambridge" or the "Company") d/b/a NSTAR Electric hereby petitions the Department of Telecommunications and Energy (the "Department") to review and approve the enclosed asset divestiture (the "Divestiture"), pursuant to which the Company will sell its interests in the land and buildings that comprise the Blackstone Station Facility ("Blackstone") to President and Fellows of Harvard College ("Harvard"). As described below and in the accompanying pre-filed testimony, attached exhibits and supporting documents, the Company's Divestiture complies with Chapter 164 of the Acts of 1997 (the "Act"), the Department's Order in D.P.U./D.T.E. 97-111, and applicable precedent.

1. The Company is an electric company providing retail service in Massachusetts and is subject to the regulatory jurisdiction of the Department. Blackstone has produced electricity and steam over the years, with the steam production sold by NSTAR Steam Corporation ("NSTAR Steam") to retail customers. Two major customers currently purchase steam produced by Blackstone: Harvard and Genzyme Corporation.
2. The Company provides retail electric service to approximately 44,000 customers in the City of Cambridge.

3. The Department has broad authority to regulate the ownership and operation of electric utilities in the Commonwealth. On February 27, 1998, the Department approved the restructuring plan of Cambridge and Commonwealth Electric Company (the "Plan") and determined that the Plan was consistent with and substantially complied with the Act. Cambridge Electric Light Company, et al., D.P.U./D.T.E. 97-111 (1998). Moreover, in its Order, the Department held that the Companies were "committed to full mitigation of their transition costs, principally by auctioning off their PPAs and generating plants." D.P.U./D.T.E. 97-111, at 64.

4. In this proceeding, the Company requests that the Department approve the Divestiture, as provided by the Purchase and Sale Agreement (the "PSA") and other related agreements, as consistent with the Act. See Cambridge Electric Light Company, et al., D.T.E. 98-78/83, at 12 (1998). As is explained below and in the accompanying testimony and exhibits, the Company submits that the Divestiture is consistent with the Plan and the Act because, as required, "the sale process is equitable and maximizes the value of the existing generation facilities being sold" as set forth in G.L. c. 164, § 1A(b)(1). Further, the Divestiture meets the Act's standard for divestiture of assets not resulting from a formal auction (i.e., the value obtained is both reasonable and appropriate in comparison to the sale value of comparable plants and is equivalent to the highest price per kilowattage of capacity for any capacity sold in New England). See G.L. c. 164, § 1A (b)(2)(ii). In addition, the Company is seeking appropriate approvals of the

various agreements relating to the Divestiture pursuant to the Act and as may be deemed required by G.L. c. 164, §§ 1A, 1G, 76, and 94.

5. On August 1, 2002, the Company entered into a series of agreements with Harvard under which Cambridge will divest its interests in Blackstone as required by Cambridge Electric Light Company et al., D.T.E. 99-90-C, its approved Plan and pursuant to the Act. As set forth in detail in the attached testimony of Geoffrey Lubbock, the Company's proposal will benefit customers by divesting Blackstone via an arms'-length negotiation that resulted in a price for the facility that maximized its value, and thus will allow the Company to maximize the mitigation of its transition costs.

6. Harvard is a charitable and educational corporation existing under the laws and the Constitution of the Commonwealth of Massachusetts, whose principal place of business is Cambridge, Massachusetts. Harvard will acquire the Blackstone generating assets of the Company that are part of the Divestiture. The specific contractual arrangements are set forth in the accompanying testimony of Geoffrey Lubbock.

7. The Divestiture involves the transfer from the Company to Harvard of Blackstone pursuant to the PSA. The Company proposes to sell approximately 16 megawatts ("MW") of generating assets to Harvard for $14.6 million (subject to certain adjustments at closing).[1] The purchase price represents a substantial premium over

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[1] Although Blackstone formerly produced electricity with a nameplate rating of approximately 16 MW, it has not been in active service to produce electricity since November 19, 2001.

the book value of the assets being transferred. The transaction is structured to close in early 2003, contingent upon, inter alia, the receipt of applicable regulatory approvals.

8. The net proceeds of the Divestiture will reduce Cambridge's Transition Charge. As approved by the Department, the Transition Charge recovers the above-market costs of generation-related investments and obligations that utilities have undertaken to provide service to their customers under traditional utility regulation. The Divestiture will reduce the total amount of transition costs to be recovered through the Transition Charge, as compared to the levels approved by the Department most recently, in D.T.E. 00-83-A. The Company proposes to flow back Blackstone's net proceeds to customers through a reduction in the variable component of the Company's transition charge.

9. The Company's ratemaking proposal benefits customers by: (1) expediting the return of the net proceeds to customers; and (2) creating headroom in meeting the rate-cap requirements set forth in G.L. c. 164, § 1B(b), which will allow the Company to reduce deferrals. Eliminating deferrals benefits customers because it avoids the necessity for customers to pay for those deferrals at a later date, with carrying charges, as would otherwise occur. Moreover, given the compliance with the above-referenced rate-cap requirements, these deferrals can be recovered from customers without affecting the overall level of the Company's rates.

10. The Company and Harvard (together, the "Parties") have negotiated the terms of a sale of Blackstone to Harvard subject to a Right of First Offer for Harvard,

executed by the Parties on February 5, 1993.[2] These negotiations included several analyses of Blackstone's market value and arms'-length discussions regarding the market price of the facility and related assets. These efforts have ensured an equitable sale process whereby the maximum value of the Company's Blackstone assets have been attained through a confidential, arms'-length negotiation. The Company's Divestiture efforts are described in detail in the testimony of Mr. Lubbock.

11. The Divestiture is embodied in four agreements, copies of which are attached to the testimony of Mr. Lubbock. The agreements are discussed in Mr. Lubbock's testimony and include the following:

- a Purchase and Sale Agreement between Cambridge and Harvard;
- a Steam Asset Purchase and Sale Agreement between NSTAR Steam and Harvard;
- a lease agreement between Cambridge and Harvard; and
- an Operating Agreement between NSTAR Steam and Harvard.

In addition to these agreements, NSTAR Steam has entered into a separate Services Agreement with NSTAR Electric & Gas Corporation governing NSTAR Electric & Gas Corporation's employee-related obligations under the Operating Agreement.

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[2] Cambridge and Harvard are subject to an Indenture signed on February 5, 1993, which limits Cambridge's rights to sell or agree to sell the land, buildings and improvements constituting Blackstone Station (the "Premises"), or the steam operations of Blackstone Station (the "Steam Operations"), or both, without first offering in writing to Harvard to convey the Premises or the steam operations to Harvard (i.e., the Right of First Offer). Indenture at § 2. The Right of First Offer is valid for at least 60 years. Id. at § 2(g). The Indenture states that, once Harvard receives an offer from Cambridge, Harvard shall have 60 days either: (i) to accept the offer at the purchase price estimated by Cambridge to be the Premises' fair market value; or (ii) to request an appraisal. Id. at § 2(b). Conversely, if Harvard fails (within 60 days) to accept an offer from the Company to convey, then, except as otherwise provided in the Indenture, Cambridge may sell the Premises (or the Steam Operations) free from any obligation under the Indenture, and Harvard must reimburse Cambridge for all appraisal, legal and other documented expenses that are paid by Cambridge in connection with its performance of its obligations under the Indenture. Id. at § 2(f).

12. The Divestiture of Blackstone, as set forth herein, is consistent with the Plan as approved by the Department and with the Act, and ensures that the Company's transition costs are mitigated to the full extent of the market value of the Company's assets. Divestiture will significantly reduce Cambridge's Transition Charge obligations. The resulting impact on Cambridge's Transition Charge is explained in the testimony of Mr. Lubbock.

13. The Department has jurisdiction and authority to review and approve the subject Divestiture by the Company, and associated ratemaking treatment, pursuant to the Order in D.P.U./D.T.E. 97-111, and G.L. c. 164, §§ 1A, 1G, 76 and 94. The Divestiture is consistent with the public interest because it complies with the Plan, as approved by the Department in D.P.U./D.T.E. 97-111, and will reduce rates to Cambridge's customers. The Divestiture is another important step in furtherance of restructuring and customer choice in Massachusetts, and should be approved by the Department.

WHEREFORE, Cambridge Electric Light Company petitions the Department to approve the proposed divestiture of Blackstone and make the following findings:

A. That the Divestiture process used by the Company to sell Blackstone was equitable as required by G.L. c. 164, § 1A(b)(1) and (2);

B. That the Divestiture process used by the Company resulted in a price for Blackstone that maximized the value of the generating assets for customers as required by G.L. c. 164, § 1A(b)(1) and G.L. c. 164, § 1G;

C. That the proposed ratemaking treatment, as described by Mr. Lubbock, is consistent with and in substantial compliance with § 1A(b)(3) of the Act, and with the Company's Plan, and is approved;

D. That the Company will submit in its next transition cost reconciliation filing, following approval of the Petition by the Department and subsequent transfer of title of Blackstone to Harvard, a proposed transition charge to be approved by the Department and to be placed in effect, in accordance with the Act and with G.L. c. 164, § 94, reflecting the application of the net proceeds of the sale to customers; and

E. That the Department grant any other approvals and make any requisite findings as may be necessary or appropriate in relation to this Petition.

Respectfully submitted,

CAMBRIDGE ELECTRIC LIGHT COMPANY

By Its Attorneys,

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