MAINE PUBLIC SERVICE CO
Form 10-K
March 14, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SEC. 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

Commission File No. 1-3429

Maine Public Service Company

(Exact name of registrant as specified in its charter)

Maine

(State or other jurisdiction of incorporation or organization)

01-0113635

(I.R.S. Employer Identification No.)

209 State Street, Presque Isle, Maine

(Address of principal executive offices)

04769

(Zip Code)

Registrant's telephone number, including area code: 207-768-5811

Securities registered pursuant to Section 12(b) of the Act:

Title of each class: Common Stock, $7.00 par value

Name of each exchange on which registered: American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Title of Class

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X . No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of the voting stock held by non-affiliates at March 14, 2002: $46,910,149.

The number of shares outstanding of each of the issuer's classes of common stock as of March 14, 2002.

Common Stock, $7.00 par value - 1,573,638 shares

DOCUMENTS INCORPORATED BY REFERENCE

1. The Company's 2001 Annual Report to Stockholders is incorporated by reference into Parts I, II and IV.

2. The Company's definitive proxy statement, to be filed pursuant to Regulation 14A no later than 120 days after December 31, 2001, which is the end of the fiscal year covered by this report, is incorporated by reference into Part III.

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MAINE PUBLIC SERVICE COMPANY

FORM 10-K

For the Fiscal Year Ended December 31, 2001

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PART I

Item 1. Business

General

The Company was originally incorporated as the Gould Electric Company in April, 1917 by a special act of the Maine legislature. Its name was changed to Maine Public Service Company in August, 1929. Until 1947, when its capital stock was sold to the public, it was a subsidiary of Consolidated Electric & Gas Company. Maine and New Brunswick Electrical Power Company, Limited, the Company's wholly-owned Canadian subsidiary (the "Canadian Subsidiary") was incorporated in 1903 under the laws of the Province of New Brunswick, Canada. Energy Atlantic, LLC (EA), the Company's unregulated marketing subsidiary, formally began operations in January, 1999.

The Company, until the generating assets were sold on June 8, 1999, produced electric energy, and currently engages in the transmission and distribution of electric energy to retail and, until March 1, 2000, wholesale customers in all of Aroostook County and a small portion of Penobscot County in northern Maine. Geographically, the service territory is approximately 120 miles long and 30 miles wide, with a population of approximately 77,000. The service area of the Company includes one of the most important potato growing and processing sections in the United States. In addition, the area produces wood products, principally lumber, as well as pulp wood and wood chips for paper manufacturing. On March 1, 2000, customers in the Company's service territory began purchasing energy from suppliers other than the Company, either from competitive electricity providers or, if they are unable or did not wish to choose a competitive supplier, the Standard Offer Service (SOS), marking the beginning of retail competition in Maine.

The Canadian Subsidiary was primarily a hydro-electric generating company. It owned and operated the Tinker hydro plant in New Brunswick, Canada until June 8, 1999, when these assets were sold to WPS-PDI. Prior to the generating asset sale, the Canadian Subsidiary sold to the Company the energy not needed to supply its wholesale New Brunswick customer. During 1999, sales to the Company amounted to 65,333 MWH out of the 78,109 MWH generated for sale at Tinker.

See Item 1, "Regulation and Rates", below for further discussion of Maine's electric utility deregulation law and the sale of the Company's generating assets.

EA participated in the wholesale power market during 1999 and until March 1, 2000, when it began selling energy in the competitive retail electricity market in Maine. EA was the standard offer service (SOS) provider for approximately 525,000 residential and small commercial customers in Central Maine Power's (CMP) territory from March 1, 2000

until it expired on February 28, 2002. EA also provided energy to several large commercial customers in CMP's territory under one- year competitive energy supply (CES) contracts, which expired throughout 2001. In the Company's service territory, EA provided 20% of the medium non-residential SOS from March 1, 2000 until February 28, 2001. Originally, power for the sales noted above was obtained under an exclusive Wholesale Power Sales Agreement with Engage Energy America, LLC, (Engage), which expired February 28, 2002. As part of a contract settlement reached in May 2001, EA was allowed to purchase energy from sources in addition to Engage. EA has secured several sources of power, enabling it to participate in the competitive markets throughout Maine. These new sales, however, produce far less revenue than EA received in 2001 from SOS in CMP's territory. SOS activity is recorded on a net margin basis, while CES activity is recorded on a gross basis to include the related revenues and purchased power expenses. For further information regarding EA, its contract settlement and efforts to expand sales, see Exhibit 13, 2001 Annual Report to Stockholders, Note 12 to the Consolidated Financial Statements, "Commitments, Contingencies and Regulatory Markets", incorporated herein by reference.

As of June 4, 1984, the Company entered into a Power Purchase Agreement (PPA) with Sherman Power Company, which assigned its interest in the Agreement to Wheelabrator-Sherman Energy Company (W-S), formerly Signal-Sherman Energy Company, (a cogenerator), for 17.6 MW of capacity which began July, 1986. The original contract was scheduled to expire in 2001. The Company and W-S agreed to amend the PPA. Under the terms of this amendment, W-S agreed to reductions in the price of purchased power of approximately $10 million over the PPA's current term. The Company and W-S

PART I

Item 1. Business - Continued

also agreed to renew the PPA for an additional six years at agreed-upon prices. The Company made an up-front payment to W-S of $8.7 million on May 29, 1998, with the financing provided by the Finance Authority of Maine (FAME). This payment has been reflected as a regulatory asset and, based on an MPUC order, included in stranded costs and recovered in the rates of the transmission and distribution utility, beginning January 1, 2001. The amended PPA helped relieve the financial pressure caused by the closure of Maine Yankee in 1997 as well as the need for substantial increases in its retail rates, and is therefore in the best interests of the Company, its customers and shareholders. Beginning on March 1, 2000, WPS Energy Services began taking delivery of W-S output and reimbursing the Company for the market rate. The Company records the above-market cost of the W-S contract as stranded costs.

Financial Information about Foreign and Domestic Operations

(In Thousands of U.S. Dollars)

	2001	2000	1999
Revenues from			
Unaffiliated Customers:			
Parent-United States	31,780	37,443	58,677
Subsidiary-United States	15,771	38,021	8,429
Subsidiary-U.S. - SOS Margin	2,147	2,774	-
Total Domestic	49,698	78,238	67,106
Subsidiary-Canada	-	-	350
Intercompany Revenues:			
Parent-United States	-	-	323

Subsidiary-United States	3	70	311
Total Domestic	3	70	634
Subsidiary-Canada	-	-	1,027
Operating Income (Loss):			
Parent-United States	5,379	5,404	7,308
Subsidiary-United States	1,006	1,515	(335)
Total Domestic	6,385	6,919	6,973
Subsidiary-Canada	(25)	86	104
Net Income (Loss)			
Parent-United States	4,331	3,354	3,811
Subsidiary-United States	897	1,688	(354)
Total Domestic	5,228	5,042	3,457
Subsidiary-Canada	9	259	549
Identifiable Assets:			
Parent-United States	136,931	143,716	160,782
Subsidiary-United States	5,632	6,385	1,445
Total Domestic	142,563	150,101	162,227
Subsidiary-Canada	772	756	9,321

The identifiable assets, by company, are those assets used in each company's operations, excluding intercompany receivables and investments.

PART I

Item 1. Business - Continued

Regulation and Rates

The information with respect to regulation and rates is presented in Exhibit 13, 2001 Annual Report to Stockholders, Note 12 to the Consolidated Financial Statements, "Commitments, Contingencies and Regulatory Matters", which information is incorporated herein by reference.

Franchises and Competition

Except for consumers served at retail by the Company's wholesale customers, the Company has practically an exclusive franchise to deliver electric energy in the Company's service area. For additional information on changes to the structure of the electric utility industry in Maine and the generating asset sale, see Exhibit 13, 2001 Annual Report to Stockholders, Note 12 to the Consolidated Financial Statements, "Commitments, Contingencies and Regulatory Matters", incorporated herein by reference.

Employees

The information with respect to employees is presented in Exhibit 13, 2001 Annual Report to Stockholders, page 11, "Employees", which information is incorporated herein by reference.

Subsidiaries and Affiliated Companies

The Company owns 100% of the Common Stock of Maine and New Brunswick Electrical Power Company, Limited (the Canadian Subsidiary). The Canadian Subsidiary owned and operated the Tinker Station located in the Province of New Brunswick, Canada prior to its sale on June 8, 1999, and has not conducted an active business since the sale.

On August 24, 1998, the MPUC approved the formation of the Company's unregulated subsidiary, Energy Atlantic, LLC (EA). EA began formal operations on January 1, 1999, performing various non-core activities, such as wholesale marketing of electric power and the sales of energy-related products and services. EA began retail sales activity on March 1, 2000, the start of retail competition in Maine. As a start-up unregulated subsidiary, the Board of Directors and the MPUC limited the capital contributions to a maximum of $2 million.

The Company owns 5% of the Common Stock of Maine Yankee, which operated an 860 MW nuclear power plant (the "Plant") in Wiscasset, Maine. On August 6, 1997, the Board of Directors of Maine Yankee voted to permanently cease power operations and to begin decommissioning the Plant. The Plant experienced a number of operational and regulatory problems and did not operate after December 6, 1996. The decision to close the Plant permanently was based on an economic analysis of the costs, risks and uncertainties associated with operating the Plant compared to those associated with closing and decommissioning it. The Plant's operating license from the Nuclear Regulatory Commission (NRC) was due to expire on October 21, 2008. For further information regarding Maine Yankee and its deregulation progress, see Exhibit 13, 2001 Annual Report to Stockholders, Note 12 to the Consolidated Financial Statements, "Commitments, Contingencies and Regulatory Matters", incorporated herein by reference.

The Company also owns 7.49% of the Common Stock of Maine Electric Power Company, Inc. (MEPCO). MEPCO owns and operates a 345-KV (kilovolt) transmission line about 180 miles long which connects the New Brunswick Power (NB Power) system with the New England Power Pool.

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PART I

Item 2. Properties

Until June 8, 1999, the Company owned and operated electric generating facilities consisting of: oil-fired steam units with a total capability of 23,000 kilowatts, diesel generation totaling 12,300 kilowatts, and hydro-electric facilities of 2,300 kilowatts. The Canadian Subsidiary owned and operated a hydro-electric plant of 33,500 kilowatts and a small diesel unit with 1,000 kilowatt capacity. As discussed in Exhibit 13, 2001 Annual Report to Stockholders, Note 12 to the Consolidated Financial Statements, "Commitments, Contingencies and Regulatory Matters", incorporated herein by reference, the Company sold its generating assets on June 8, 1999 in accordance with the State's electric deregulation law.

As of December 31, 2001, the Company and Subsidiary had approximately 392.45 pole miles of transmission lines and the Company owned approximately 1,738.91 miles of distribution lines.

The Company was a part-owner of a 600,000 kilowatt oil-fired steam unit built by Central Maine Power Company at its Wyman Station in Yarmouth, Maine. The Company's share of that unit was 3.3455%, or approximately 20,000 kilowatts, and was included in the generating asset sale on June 8, 1999, as more fully described in Exhibit 13, 2001 Annual Report to Stockholders, Note 12 to the Consolidated Financial Statements, "Commitments, Contingencies and Regulatory Matters", incorporated herein by reference.

Substantially all of the properties owned by the Company are subject to the liens of the First and Second Mortgage Indentures and Deeds of Trust.

Item 3. Legal Proceedings

(a) WPS Energy Services, Inc., Complaint against Maine Public Service Company, and Petition to Alter or Amend the MPUC's Order Authorizing the Formation of Energy Atlantic, LLC, MPUC Docket Nos. 98-138 and 00-894

On October 30, 2000, WPS Energy Services (WPS), a Competitive Electricity Provider (CEP) offering retail sales of electricity in the Company's service territory, filed a Complaint (Docket No. 00-894) against the Company as well as a Petition to Alter or Amend the MPUC's September 2, 1998 Order in Docket No. 98-138.

The Complaint alleged that the Company violated various provisions of Chapter 304 of the MPUC's Regulations governing relations between the Company and all CEPs, including the Company's own marketing subsidiary, Energy Atlantic, LLC (EA). According to the Complaint, various of the Company's employees engaged in conduct that either awards EA a competitive advantage over other CEPs or burdened WPS with an unfair disadvantage relative to EA. These allegations included such practices as denying WPS information made available to EA, or providing EA with information about WPS's customers that is not available publicly. The Company did not believe it in any way violated any provisions of Chapter 304 and so argued to the MPUC.

In its September 2, 1998 Order in Docket No. 98-138 authorizing the formation of EA, the Commission allowed the Company and EA to share the services of certain employees under certain conditions on the ground that such sharing was in the public interest and would not have any anti-competitive effect on the retail market for electricity. WPS claims that the sharing does not conform to the conditions set forth in the Order and that, in any event, the Commission should now find such sharing not in the public interest, thereby amending its original September 2, 1998 Order.

The Complaint and Petition to Amend the September 2, 1998 Order, in addition to requesting a

prohibition on the sharing of certain employees, particularly Maine Public Service Company's General Counsel, also seeks a formal investigation of the Complaint, penalties for any violations of the Commission's rules and certain specific relief for violations of Chapter 304.

PART I

Item 3. Legal Proceedings - Continued

In its response, the Company strongly denied the allegations in the WPS Complaint and asked the Commission to dismiss the Complaint and for Summary Judgment in its favor.

On May 1, 2001, the Commission issued its Order in this matter, finding that some counts in the WPS Complaint should be dismissed but that others raised factual issues that could be resolved only through a more formal hearing process. The Commission declined, however, to take initial jurisdiction over the Complaint. Instead, the Commission ordered the parties to submit their dispute to the informal dispute resolution process set forth in MPS's Chapter 304 Implementation Plan. Under this Plan, the dispute must be submitted to an independent law firm which must issue its decision within 30 days. Only if the matter is not resolved to both parties' satisfaction would the Commission then take jurisdiction over the dispute. The Commission also stated that it would open

an investigation into the issues of whether MPS's General Counsel's dual role with MPS and EA is inherently problematic and the standards that should govern any MPS employees who also provide services to EA. A schedule for this investigation has not yet been announced.

The parties submitted the dispute to an independent arbitrator who issued his proposed findings on June 29, 2001. The arbitrator found that MPS did not violate any provisions of Chapter 304, except for the Company's unintentional failure to identify WPS as a Standard Offer Service provider on its March and April 2000 bills to customers. The arbitrator recommended that MPS refund to WPS its billing fees for these two months, approximately $18,000. On July 5, 2001, the Company and WPS informed the Commission of their acceptance of the arbitrator's findings. As a result, the Commission, in its July 13, 2001 Order, stated that it would not be necessary for it to further address the allegations in the WPS complaint, even though it would continue its investigation into the sharing of employee services.

This investigation continues and the Company is unable to predict the timing or nature of the MPUC's ultimate decision.

(b) Maine Public Utilities Commission Investigation of Maine Public Service Company's Stranded Cost Revenue Requirement in MPUC Docket No. 0l-240.

Reference is made to the Company's 1999 Annual Report in which the Company noted that the MPUC had allowed it to begin an annual recovery of $12.5 million in stranded investment beginning on March 1, 2000. On May 8, 2001, the MPUC issued a notice of investigation in the above docket for the purpose of determining whether the Company's rates must be changed, effective March 1, 2002, to reflect any changes in its stranded costs. On July 12, 2001, the Company filed its proposal in which it advocated continuing the $12.5 million annual recovery of stranded costs and also proposed to begin the recovery of deferred amounts associated with the discounted rates it had made available to certain industrial customers. Also at issue in the proceeding was an insurance refund associated with Maine Yankee, of which the Company's share is $1,005,000. As of December 31, 2001, the Company reflected the refund as a miscellaneous deferred credit. A stipulation placed before the MPUC in January, 2002 includes annual stranded cost recovery of $11,540,000 and a 15% sharing of the Maine Yankee insurance refund with the Company's shareholders. This stipulation was approved by the MPUC on January 7, 2002, and the appropriate order was issued on February 27, 2002.

(c) Maine Public Utilities Commission, Investigation of Rate Design of Transmission and Distribution Utilities, MPUC Docket No. 01-245.

On May 8, 2001, the MPUC issued a Notice of Investigation into certain common fundamental issues regarding the rates for the State's three major electric utilities - the Company, Central Maine Power Company (CMP) and Bangor Hydro-Electric Company (BHE). These issues have been defined by the MPUC as follows:

PART I

(i) The extent to which stranded cost recovery should be shifted from variable kwh and kw charges to a fixed charge;

(ii) The redefinition of time of use periods for rate design; and

(iii) The elimination or reduction of seasonal rates.

The Company believes that at least a substantial portion of its stranded costs should be recovered through fixed charges that its customers cannot avoid by reducing or eliminating their usage. Such a fixed charge would reduce the risk of the Company's ability to recover its stranded costs from customers. The Company, together with CMP and BHE, will be filing testimony in support of its position in early April, 2002.

The Company cannot predict the nature or the outcome of any decision in this proceeding.

Item 4. Submission of Matters To a Vote of Security Holders

At the Company's Annual Meeting of Stockholders, held on May 8, 2001 the only matter voted upon was the uncontested election of the following directors to serve until the 2004 Annual Meeting of Stockholders, each of whom received the votes shown:

Nominee	For	Against	Non-votes and Abstentions
Paul R. Cariani	1,373,796	17,482	181,782
Richard G. Daigle	1,374,996	16,282	181,782
J. Gregory Freeman	1,383,019	8,259	181,782

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock is listed and traded on the American Stock Exchange. As of December 31, 2001, there were 1,001 holders of record of the Company's Common Stock.

Dividend data and market price related to the Common Stock are tabulated as follows for the two most recent calendar years:

	Market Price		Dividends	Dividends
	High	Low	Paid Per Share	Declared Per Share
2001				
First Quarter	$26.63	$23.37	$ .32	$.32
Second Quarter	$30.50	$26.00	.32	.32
Third Quarter	$29.60	$27.00	.32	.35

Fourth Quarter	$30.75	$27.75	.35	.35
Total Dividends			$ 1.31	$1.34
2000				
First Quarter	$18.00	$16.00	$ .30	$.30
Second Quarter	$20.75	$17.38	.30	.30
Third Quarter	$25.60	$20.25	.30	.32
Fourth Quarter	$27.13	$23.75	.32	.32
Total Dividends			$1.22	$1.24

Dividends declared within the quarter are paid on the first day of the succeeding quarter.

See Exhibit 13, 2001 Annual Report to Stockholders, Note 7 to the Consolidated Financial Statements, "Common Shareholders' Equity", incorporated herein by reference, concerning restrictions on payment of dividends on Common Stock.

Item 6. Selected Financial Data

A five-year summary of selected financial data (1997-2001) is included on page 14 of Exhibit 13, 2001 Annual Report to Stockholders, which summary is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required to be furnished in response to this Item is submitted as pages 4 to 14, Exhibit 13, 2001 Annual Report to Shareholders, which pages are hereby incorporated herein by reference. Information regarding "Construction" is also furnished in Note 12 to the Consolidated Financial Statements, "Commitments, Contingencies and Regulatory Matters", of the Notes to the Consolidated Financial Statements, pages 29 to 37 of Exhibit 13, 2001 Annual Report to Stockholders, which pages are hereby incorporated herein by reference.

PART II

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

(a) The Company has interest rate risk with three variable rate debt issues of the regulated business as of December 31, 2001 for purposes other than trading. One issue, $9 million of tax-exempt bonds, issued on the Company's behalf

by the Maine Public Utility Financing Bank (MPUFB) on October 19, 2000, Public Utility Revenue Bonds, 2000 Series is discussed in detail in Exhibit 13, the Company's 2000 Annual Report, in Note 8 to the Consolidated Financial Statements, "Long-Term Debt", and is hereby incorporated by reference. The other two variable rate debt issues include $11,540,000 of Taxable Electric Rate Stabilization Revenue Notes issued on May 29, 1998 by the Finance Authority of Maine and Public Utility Refunding Revenue Bonds, 1996 Series, issued by the MPUFB on behalf of the Company in 1996, with $13.6 million outstanding as of December 31, 2001. As discussed in Note 8 incorporated above, the Company purchased interest rate caps for each of these issues.

(b) The Company's unregulated marketing subsidiary, Energy Atlantic, LLC (EA) is engaged in retail and wholesale energy transactions for purposes other than trading. This activity exposes EA to a number of risks such as market liquidity, deliverability and credit risk. EA seeks to assure that risks are identified, evaluated and actively managed.

Item 8. Financial Statements and Supplementary Data

(a) The following financial statements and supplementary data are included in Exhibit 13, the Company's 2001 Annual Report to Stockholders on pages 15 through 37, and are incorporated herein by reference:

Report of Independent Accountants.

Statements of Consolidated Income for the years ended December 31, 2001, 2000 and 1999.

Statements of Consolidated Cash Flows for the years ended December 31, 2001, 2000 and 1999.

Consolidated Balance Sheets as of December 31, 2001 and 2000.

Statements of Consolidated Common Shareholders' Equity for the years ended December 31, 2001, 2000 and 1999.

Consolidated Statements of Capitalization as of December 31, 2001 and 2000.

Notes to Consolidated Financial Statements.

Item 9. Changes In And Disagreements With Accountants On Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information with regard to the Directors of the registrant is set forth in the proxy statement of the registrant relating to its 2002 Annual Meeting of Stockholders, which information is incorporated herein by reference. Certain information regarding executive officers is set forth below and also in the proxy statement of the registrant relating to the 2001 Annual Meeting of Stockholders, under "Compliance with Section 16(a) of the Securities and Exchange Act of 1934", which information is incorporated by reference.

Executive Officers

The executive officers of the registrant are as follows:

Name		Age	Office Continuously Held Since
Paul R. Cariani	President and Chief Executive Officer	61	6/1/94
J. Nicholas Bayne	President and Chief Executive Officer-Elect	48	3/18/02
Larry E. LaPlante	Vice President, Treasurer and Chief	50	6/1/99
	Financial Officer		
Stephen A. Johnson	Vice President and General Counsel	54	3/2/01 (until 2/15/02)
William L. Cyr	Vice President, Power Delivery	42	6/1/00

Michael A. Thibodeau	Vice President, Human Resources	45	12/1/00

Paul R. Cariani has been an employee of the Company since November 1, 1977, starting as an Assistant to the Treasurer. In May 1978, he was appointed Assistant Treasurer until his election as Treasurer, Secretary and Clerk, on March 1, 1983. In May 1985, he was elected Vice President, Finance and Treasurer effective June 1, 1985. On February 25, 1992, Mr. Cariani was elected a Director of the Company to fill an existing vacancy on the Board. On May 11, 1993, he was elected Executive Vice President, Chief Financial Officer and Treasurer, effective June 1, 1993. Effective June 1, 1994, he was elected President and CEO, replacing the retiring G. Melvin Hovey. Mr. Hovey remains Chairman of the Board of Directors. Mr. Cariani has announced his intention to retire on September 1, 2002.

James Nicholas Bayne was elected to the position of President and Chief Executive Officer-Elect on March 1, 2002 to be effective March 18, 2002. He will replace Paul R. Cariani as President on June 1, 2002, and upon Mr. Cariani's retirement effective September 1, 2002, he will also assume the position of Chief Executive Officer. Immediately prior to joining the Company, Mr. Bayne served as an executive consultant to the energy, utilities, and energy-software industries. During 2001, he served as the Chief Executive Officer and as a member of the Board of Directors for Aspect, LP, a Houston, Texas-based energy risk management and FASB 133 ASP software firm wholly owned by Koch Ventures / Koch Industries. From 2000 to 2001, he served as Senior Vice President for Strategic Advisory Services for Energy E-Comm.com, a web-based, advanced knowledge management software firm serving the energy and utilities industries. From 1997 to 2000 he served as a member of executive management and as a member of the Board of Directors of DukeSolutions, Inc., Duke Energy's unregulated retail energy services company, serving as Senior Vice President for Energy Sales and Operations. Prior to joining DukeSolutions, Mr. Bayne served as a member of executive management and Vice President of Marketing, Economic Development and Participant Services for MEAG Power, the nation's largest electric generation and transmission joint action agency headquartered in Atlanta, Georgia.

PART III

Item 10. Directors and Executive Officers of the Registrant - Continued

Larry E. LaPlante was elected to the position of Vice President, Treasurer and Chief Financial Officer on June 1, 1999. Mr. LaPlante was appointed Secretary and Clerk of the Company effective February 15, 2002, due to Mr.

Johnson's resignation. He has been an employee of the Company since November 4, 1983, starting as Controller. In May, 1984, he was also appointed Assistant Secretary and Assistant Treasurer until his election as Vice President, Finance and Treasurer effective June 1, 1994. Effective June 1, 1996, he was elected to Vice President, Finance, Administration and Treasurer.

Stephen A. Johnson was elected to the position of Vice President and General Counsel, effective March 2, 2001, until his resignation effective February 15, 2002. Mr. Johnson also served as Secretary and Clerk of the Company, a position he had held since June 1, 1985. Mr. Johnson was appointed General Counsel of the Company on March 5, 1985. On September 1, 1988, he was elected Vice President of Administration and General Counsel, a position he held until his election as Vice President, Customer Service and General Counsel. Effective June 1, 1990, he was elected to Vice President, Customer Service and General Counsel. On June 1, 1999, he was elected Vice President, Energy Atlantic and General Counsel. Prior to joining the Company, Mr. Johnson was the General Counsel of the Maine Office of the Public Advocate from 1983 to 1985 and prior to that was a Staff Attorney of the Maine Public Utilities Commission.

William L. Cyr was elected to the position of Vice President, Power Delivery effective June 1, 2000. He has been a full-time employee of the Company since July 1, 1982 in various engineering capacities until his appointment to Assistant Vice President, Power Delivery, effective June 1, 1999.

Michael A. Thibodeau was elected to the position of Vice President, Human Resources effective December 1, 2000. He has been an employee of the Company since August 3, 1981, serving in various accounting, finance and human resource capacities. He served as Assistant Treasurer from June 1, 1986 until his appointment to Assistant Vice President, Administration effective April 1, 1991. Effective April 1, 1996, he was appointed Assistant Vice President, Human Resources.

Each executive office is a full-time position and has been the principal occupation of each officer since first elected. All officers were elected to serve until the next annual election of officers and until their successors shall have been duly chosen and qualified. The next annual election of officers will be on May 14, 2002.

There are no family relationships among the executive officers.

Item 11. Executive Compensation

Information for this item is set forth in the proxy statement of the registrant relating to its 2002 Annual Meeting of Stockholders, which information (with the exception of the "Board Executive Compensation Committee Report") is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information for this item is set forth in the proxy statement of the registrant relating to its 2002 Annual Meeting of Stockholders, which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Not applicable.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) Financial Statements

Report of Independent Accountants

Incorporated by reference into Part II of this report from pages 15 through 37 of the 2001 Annual Report to Stockholders:

Statements of Consolidated Income for years ended December 31, 2001, 2000 and 1999

Statements of Consolidated Cash Flows for the years ended December 31, 2001, 2000 and 1999

Consolidated Balance Sheets as of December 31, 2001 and 2000

Statements of Consolidated Common Shareholders' Equity for the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Capitalization as of December 31, 2001 and 2000

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Included in Part IV of this report:

Schedules other than those listed above are omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto.

(3) Exhibits

(b) A Form 8-K was filed on: May 24, 2001, under item 5, Other Events.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized, on the 14th of March, 2002.

MAINE PUBLIC SERVICE COMPANY

By: /s/ Kurt A. Tornquist

Kurt A. Tornquist

Controller, Assistant Secretary and Assistant Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the date indicated.

Signature	Title	Date
/s/ G. Melvin Hovey	Chairman of the Board and Director	3/1/2002
(G. Melvin Hovey)		
/s/ Paul R. Cariani	President and Director	3/1/2002
(Paul R. Cariani)		
/s/ Robert E. Anderson	Director	3/1/2002
(Robert E. Anderson)		
/s/ D. James Daigle	Director	3/1/2002
(D. James Daigle)		
/s/ Richard G. Daigle	Director	3/1/2002
(Richard G. Daigle)		
/s/ J. Gregory Freeman	Director	3/1/2002
(J. Gregory Freeman)		
/s/ Deborah L. Gallant	Director	3/1/2002
(Deborah L. Gallant)		
/s/ Nathan L. Grass	Director	3/1/2002
(Nathan L. Grass)		
/s/ J. Paul Levesque	Director	3/1/2002
(J. Paul Levesque)		
/s/ Lance A. Smith	Director	3/1/2002
(Lance A. Smith)		

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Directors and Shareholders of

Maine Public Service Company

Our audits of the consolidated financial statements referred to in our report dated February 7, 2002 appearing on page 15 of the 2001 Annual Report to Shareholders of Maine Public Service Company (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

Portland, Maine

February 7, 2002

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Maine Public Service Company & Subsidiary

Valuation of Qualifying Accounts & Reserves

For the Years Ended December 31, 2001, 2000 and 1999

		Additions		Deductions	
	Balance at Beginning of Period	Costs & Expenses	Recoveries of Accounts Previously Written Off	Accounts Written Off As Uncollectible	Balance at End of Period
Reserve Deducted From Asset To Which It Applies:					
	Allowance for Uncollectible Accounts				
2001	334,690	78,820	108,598	305,608	216,500
2000	215,000	352,739	102,444	335,493	334,690
1999	215,000	171,323	119,690	291,013	215,000

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Form 10-K

INDEX TO EXHIBITS

Certain of the following exhibits are filed herewith. Certain other of the following exhibits have heretofore been filed with the Commission and are incorporated herein by reference. (* indicates filed herewith)

3(a)	Restated Articles of Incorporation with all amendments through May 8, 1990. (Exhibit 3(a) to 1990 Form 10-K)
3(b)	By-laws of the Company, as amended through May 12, 1987. (Exhibit 3(b) to 1987 Form 10-K)
4(a)	Indenture of Mortgage and Deed of Trust defining the rights of the holders of the Company's First Mortgage Bonds. (Exhibit 4(a) to 1980 Form 10-K)
4(b)	First Supplemental Indenture. (Exhibit 4(b) to 1980 Form 10-K)
4(c)	Second Supplemental Indenture. (Exhibit 4(c) to 1980 Form 10-K)
4(d)	Third Supplemental Indenture. (Exhibit 4(d) to 1980 Form 10-K)
4(e)	Fourth Supplemental Indenture. (Exhibit 4(e) to 1980 Form 10-K)
4(f)	Fifth Supplemental Indenture. (Exhibit A to Form 8-K dated May 10, 1968)
4(g)	Sixth Supplemental Indenture. (Exhibit A to Form 8-K dated April 10, 1973)
4(h)	Seventh Supplemental Indenture. (Exhibit A to Form 8-K dated November 7, 1975)

4(i)	Eighth Supplemental Indenture. (Exhibit 4(i) to 1980 Form 10-K)
4(j)	Ninth Supplemental Indenture. (Exhibit B to Form 10-Q for the second quarter of 1978)
4(k)	Tenth Supplemental Indenture. (Exhibit 4(k) to 1980 Form 10-K)
4(l)	Eleventh Supplemental Indenture. (Exhibit 4(l) to 1982 Form 10-K)
4(m)	Indenture defining the rights of the holders of the Company's 9 7/8% debentures. (Exhibit A to Form 8-K, dated June 10, 1970)
4(n)	Indenture defining the rights of the holders of the Company's 14% debentures. (Exhibit 4(n) to 1982 Form 10-K)
4(o)	Twelfth Supplemental Indenture. (Exhibit 4(o) to Form 10-Q for the quarter ended September 30, 1984)
4(p)	Thirteenth Supplemental Indenture. (Exhibit 4(p) to Form 10-Q for the quarter ended September 30, 1984)
4(q)	Fourteenth Supplemental Indenture, Dated July 1, 1985. (Exhibit 4(q) to 1985 Form 10-K)
4(r)	Fifteenth Supplemental Indenture, Dated March 1, 1986. (Exhibit 4(r) to 1985 Form 10-K)
4(s)	Sixteenth Supplemental Indenture, Dated September 1, 1991. (Exhibit 4(s) to the Company's 1991 Form 10-K)

4(t)	Seventeenth Supplemental Indenture, Dated April 1, 1997. (Exhibit 4(t) to the Company's 1998 Form 10-K)
4(u)	Eighteenth Supplemental Indenture, Dated April 1, 1998. (Exhibit 4(u) to the Company's 1998 Form 10-K)
4(v)	Nineteenth Supplemental Indenture, Dated May 1, 1998. (Exhibit 4(v) to the Company's 1998 Form 10-K)
4(w)	Twentieth Supplemental Indenture, Dated October 1, 2000. (Exhibit 4(w) to the Company's 2000 Form 10-K)
9	Not applicable.

10(a)(1)	Joint Ownership Agreement with Public Service of New Hampshire in respect to construction of two nuclear generating units designated as Seabrook Units 1 and 2, together with related amendments to date. (Exhibit 10 to the Company's 1980 Form 10-K)
10(a)(2)	Twentieth Amendment to Joint Ownership Agreement. (Exhibit 10(a)(6) to the Company's 1986 Form 10-K)
10(a)(3)	Twenty-Second Amendment to Joint Ownership Agreement. (Exhibit 10(a)(3) to the 1988 Form 10-K)
10(b)(1)	Capital Funds Agreement, dated as of May 20, 1968 between Maine Yankee Atomic Power Company and the Company. (Exhibit 10(b)(1) to Form 10-Q for the quarter ended March 31, 1983)
10(b)(2)	Power Contract, dated as of May 20, 1968 between Maine Yankee Atomic Power Company and the Company. (Exhibit 10(b)(2) to Form 10-Q for the quarter ended March 31, 1983)
10(c)(1)	Participation Agreement, as of June 20, 1969, with Maine Electric Power Company, Inc. (Exhibit 10(c)(1) to Form 10-Q for the quarter ended March 31, 1983)
10(c)(2)	Agreement, as of June 20, 1969, among the Company and the other Maine Participants. (Exhibit 10(c)(2) to Form 10-Q for quarter ended March 31, 1983)
10(c)(3)	Power Purchase and Transmission Agreement Supplement to Participation Agreement, dated as of August 1, 1969, with Maine Electric Power Company, Inc. (Exhibit 10(c)(3) to Form 10-Q for quarter ended March 31, 1983)
10(c)(4)	Supplement Amending Participation Agreement, as of June 24, 1970, with Maine Electric Power Company, Inc. (Exhibit 10(c)(4) to Form 10-Q for quarter ended March 31, 1983)
10(c)(5)	Second Supplement to Participation Agreement, dated as of December 1, 1971, including as Exhibit A the Unit Participation Agreement dated November 15, 1971, as amended, between Maine Electric Power Company, Inc. and the New Brunswick Electric Power Commission. (Exhibit 10(c)(5) to Form 10-Q for quarter ended March 31, 1983)
10(c)(6)	Agreement and Assignment, as of August 1, 1977, by Connecticut Light & Power Company, Hartford Electric Company, Holyoke Water Power Company, Holyoke Power Company, Western Massachusetts Electric Company and the Company. (Exhibit 10(c)(6) to Form 10-Q for the quarter ended March 31, 1983)

10(c)(7)	Amendment dated November 30, 1980 to Agreement and Assignment as of August 1, 1977, between Connecticut Light & Power Company, Hartford Electric Company, Holyoke Water Power Company, Holyoke Power Company, Western Massachusetts Electric Company and the Company. (Exhibit 10(c)(7) to Form 10-Q for the quarter ended March 31, 1983)
10(c)(8)	Assignment Agreement as of January 1, 1981, between Central Maine Power Company and the Company. (Exhibit 10(c)(8) to Form 10-Q for the quarter ended March 31, 1983)

10(d)	Wyman Unit #4 Agreement for Joint Ownership as of November 1, 1974, with Amendments 1, 2, and 3, dated as of June 30, 1975, August 16, 1976, December 31, 1978, respectively. (Exhibit 10(d) to Form 10-Q for the quarter ended March 31, 1983)
10(e)	Agreement between Sherman Power Company and Maine Public Service Company, dated June 4, 1984, with amendments dated July 12, 1984 and February 14, 1985. (Exhibit 10(f) to 1984 Form 10-K)
10(f)	Credit Agreement, dated as of October 8, 1987 among the Registrant and The Bank of New York, Bank of New England, N.A., The Merrill Trust Company and The Bank of New York, as agent for the Participating Banks. (Exhibit 10(g) to Form 8-K dated October 13, 1987)
10(g)	Amendment No. 1, dated as of October 8, 1989, to the Revolving Credit Agreement, dated as of October 8, 1987, among the Registrant and The Bank of New York, Bank of New England, N.A., Fleet Bank (formerly the Merrill Trust Company) and The Bank of New York as agent for the participating banks. (Exhibit 10(l) to Form 8-K dated September 22, 1989)
10(h)	Amendment No. 2, dated as of June 5, 1992, to the Revolving Credit Agreement, among the Registrant and The Bank of New York, Bank of New England, N.A., Shawmut Bank and the Bank of New York, as agent for the participating banks. (Exhibit 10(h) to the Company's 1992 Form 10-K)
10(i)	Indenture of Second Mortgage and Deed of Trust, dated as of October 1, 1985, made by the Registrant to J. Henry Schroder Bank and Trust Company, as Trustee. (Exhibit 10(i) to Form 8-K dated November 1, 1985)
10(j)	First Supplemental Indenture Dated March 1, 1991. (Exhibit 10(i) to the Company's 1991 Form 10-K)
10(k)	Second Supplemental Indenture Dated September 1, 1991. Exhibit 10(j) to the Company's 1991 Form 10-K)
10(l)	Agency Agreement dated as of October 1, 1985, between J. Henry Schroder Bank and Trust Company, as Trustee under the Indenture of Second Mortgage and Deed of Trust dated as of October 1, 1985, made by the Registrant to J. Henry Schroder Bank and Trust Company, as Trustee, and Continental Illinois National Bank and Trust Company, as Trustee, under an Indenture of Mortgage and Deed of Trust, dated as of October 1, 1945, as amended and supplemented, made by the Registrant to Continental Illinois National Bank and Trust Company, as Trustee. (Exhibit 10(j) to Form 8-K dated November 1, 1985)
Executive Compensation Plans and Arrangements	
10(m)	Employment Contract between Frederick C. Bustard and Maine Public Service Company dated August 22, 1989. (Exhibit 10(h) to 1989 Form 10-K)

10(n)	Employment Contract between Paul R. Cariani and Maine Public Service Company dated November 5, 1999. (Exhibit 10(n) to 1999 Form 10-K)
10(o)	Employment Contract between Stephen A. Johnson and Maine Public Service Company dated November 5, 1999. (Exhibit 10(o) to 1999 Form 10-K)
10(p)	Employment Contract between Larry E. LaPlante and Maine Public Service Company, dated November 5,

	1999. (Exhibit 10(p) to 1999 Form 10-K)
10(q)	Employment Contract between William L. Cyr and Maine Public Service Company, dated November 5, 1999. (Exhibit 10(q) to 1999 Form 10-K)
10(r)	Employment Contract between Michael A. Thibodeau and Maine Public Service Company, dated December 11, 2000. (Exhibit 10(r) to the Company's 2000 Form 10-K)
10(s)	Maine Public Service Company, Prior Service Executive Retirement Plan, dated May 12, 1992. (Exhibit 10(s) to 1992 Form 10-K)
10(t)	Maine Public Service Company Pension Plan. (Exhibit 10(t) to 1992 Form 10-K)
10(u)	Maine Public Service Company Retirement Savings Plan. (Exhibit 10(u) to 1992 Form 10-K)
10(v)	Third Supplemental Indenture Dated as of June 1, 1996. (Exhibit 10(t) to 1996 Form 10-K)
10(w)	Amendment No. 3, dated as of October 8, 1995, to the Revolving Credit Agreement, dated as of October 7, 1987, among the Registrant and The Bank of New York, Shawmut Bank of Boston, Fleet Bank of Maine, and The Bank of New York, an agent for the participating Banks. (Exhibit 10(u) to 1996 Form 10-K)
10(x)	Fourth Supplemental Indenture dated May 1, 1998. (Exhibit 10(v) to the Company's 1998 Form 10-K)
10(y)	Fifth Supplemental Indenture dated October 1, 2000. (Exhibit 10(y) to the Company's 2000 Form 10-K)
10(z)	Agreement between WPS Power Development, Inc. and Maine Public Service Company, dated July 7, 1998. (Exhibit 10(w) to the Company's 1998 Form 10-K)
10(aa)	Agreement between Wheelabrator-Sherman Energy Company and Maine Public Service Company, dated October 15, 1997, with amendments dated January 30, 1998 and April 28, 1998. (Exhibit 10(x) to the Company's 1998 Form 10-K)
10(ab)	Agreement between Loring Development Authority of Maine and Maine Public Service Company, dated July 9, 1998. (Exhibit 10(y) to the Company's 1998 Form 10-K)
10(ac)	Wholesale Power Sales Agreement between Energy Atlantic, LLC and Engage Energy US, L.P., dated December 9, 1999, with amendments dated March 10, 2000 and August 1, 2000 and addendums dated December 14, 1999 and December 1, 2000. (Exhibit 10(ac) to the Company's 2000 Form 10-K)
10(ad)	Fourth Amendment to Wholesale Power Agreement between Energy Atlantic, LLC and Engage Energy US, L.P., dated June 26, 2001. (Exhibit 99.2 to the Company's May 24, 2001 Form 8-K)

*10(ae)	General Release Agreements between Engage Energy America, LLC, Energy Atlantic, LLC (EA), Maine Public Service Co., Central Maine Power Company (CMP) and Frontier Insurance Company (Frontier) for any and all claims under or in connection with any Bonds issued by Frontier in connection with EA's provision of the standard offer service in the service territory of CMP in Maine, both dated May 24, 2001.
*10(af)	Master Power Purchase & Sale Agreement between Energy Atlantic, LLC and Duke Energy Trading and Marketing, LLC dated September 19, 2001.
11	Not applicable.
12	Not applicable.
*13	2001 Annual Report to Stockholders
16	March 8, 1996 Letter regarding change in certifying accountant from Deloitte & Touche LLP. (Exhibit 16 to the Company's 1996 Form 10-K)
18	Not applicable.
19	Not applicable.
21	Maine and New Brunswick Electrical Power Company, Limited, a Canadian corporation.
22	Not applicable.
23	Not applicable.
99(a)	Agreement of Purchase and Sale between Maine Public Service and Eastern Utilities Associates, dated April 7, 1986. (Exhibit 28(a) to Form 10-Q for the quarter ended June 30, 1986)
99(b)	Addendum to Agreement of Purchase and Sale, dated June 26, 1986. (Exhibit 28(b) to Form 10-Q for the Quarter ended June 30, 1986)
99(c)	Stipulation between Maine Public Service Company, the Staff of the Commission and the Maine Public Utilities Commission and the Maine Public Advocate, dated July 14, 1986. (Exhibit 28(c) to Form 10-Q for the quarter ended June 30, 1986)
99(d)	Amendment to July 14, 1986 Stipulation, dated July 18, 1986. (Exhibit 28(d) to Form 10-Q for the quarter ended June 30, 1986)
99(e)	Order of the Maine Public Utilities Commission dated July 21, 1986, Docket Nos 84-80, 84-113 and 86-3. (Exhibit 28(g) to 1986 Form 10-K)
99(f)	Order of the Maine Public Utilities Commission, dated May 9, 1986, Docket Nos. 84-113 and 86-3 (with attached Stipulations). (Exhibit 28(r) to 1986 Form 10-K)
99(g)	Order of the Maine Public Utilities Commission, dated July 31, 1987, Docket Nos. 84-80, 84-113, 87-96 and 87-167 (with attached Stipulation). (Exhibit 28(i) to 1988 Form 10-K)
99(h)	Agreement between Maine Public Service Company and various current Seabrook Nuclear Project Joint Owners, dated January 13, 1989. (Exhibit 28(o) to 1988 Form 10-K)

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99(i)	Order of the Maine Public Utilities Commission dated November 30, 1995 (with attached Stipulation) in Docket No. 95-052. (Exhibit 28(p) to 1995 Form 10-K)
99(j)	Order of the Federal Energy Regulatory Commission dated May 31, 1995 in Docket No. ER 95-836-000. (Exhibit 28(r) to 1995 Form 10-K)
99(k)	Order of Maine Public Utilities Commission dated June 26, 1996 in Docket 95-052 (Rate Design). (Exhibit 99(n) to 1996 Form 10-K)
99(l)	Independent Auditors Report of Deloitte & Touche L.L.P. dated February 14, 1996 regarding year ended December 31, 1995. (Exhibit 99(l) to 1997 Form 10-K)
99(m)	Amendment No. 1, dated as of March 28, 1997, to the Letter of Credit and Reimbursement Agreement, dated as of June 1, 1996, among the Registrant, The Bank of New York, Fleet Bank of Maine, and The Bank of New York, as Agent and Issuing Bank. (Exhibit 99(m) to 1997 Form 10-K)
99(n)	Amendment No. 4, dated as of March 28, 1997, to the Revolving Credit Agreement, dated as of October 8, 1987, by and among the Registrant, the signatory Banks thereto and The Bank of New York, as Agent. (Exhibit 99(n) to 1997 Form 10-K)
99(o)	Order of Maine Public Utilities Commission dated January 30, 1998 in Docket No. 97-830 (Annual Increase under Rate Stabilization Plan). (Exhibit 99(o) to 1997 Form 10-K)
99(p)	Order by the Maine Public Utilities Commission dated January 15, 1998 in Docket No. 97-727. (Exhibit 99(q) to 1997 Form 10-K)
99(q)	Order of Maine Public Utilities Commission dated February 20, 1998 in Docket 97-670 (Divestiture of Generation Assets). (Exhibit 99(q) to the Company's 1998 Form 10-K)
99(r)	Order of Maine Public Utilities Commission dated September 21, 1998 in Docket 98-138 (Formation of marketing affiliate). (Exhibit 99(r) to the Company's 1998 Form 10-K)
99(s)	Order of Maine Public Utilities Commission dated December 15, 1998 in Docket 98-865 (Annual Increase Under Rate Stabilization Plan). (Exhibit 99(s) to the Company's 1998 Form 10-K)
99(t)	Report of Synapse Energy Economics regarding competition and market power in the northern Maine market for the Maine Public Utilities Commission for Docket 97-586. (Exhibit 99(t) to the Company's 1998 Form 10-K)
99(u)	Final Report of the MPUC and the Maine Attorney General regarding market power issues raised by the prospect of retail competition in the electric indus- try in Docket 97-877. (Exhibit 99(u) to the Company's 1998 Form 10-K)
99(v)	Order of the Federal Energy Regulatory Commission dated December 22, 1998 in Docket No. ER95-836-000. (Exhibit 99(v) to the Company's 1998 Form 10-K)
99(w)	Order of Maine Public Utilities Commission dated April 5, 1999 in Docket 98-584(Generating Asset Sale Approval). (Exhibit 99(w) to 1999 Form 10-K)
99(x)	Order of the Federal Energy Regulatory Commission dated April 14, 1999 in Docket EC 99-29-000 (Generating Asset Sale Approval). (Exhibit 99(x) to 1999 Form 10-K)
99(y)	Order of the Federal Energy Regulatory Commission dated November 15, 1999 in Docket ER 99-4225-000 (Independent System Administrator). (Exhibit 99(y) to 1999 Form 10-K)

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99(z)	Order of Maine Public Utilities Commission dated December 1, 1999 in Docket 98-577 (Stipulation Approval). (Exhibit 99(z) to 1999 Form 10-K)
99(aa)	Order of Maine Public Utilities Commission dated December 3, 1999 in Docket 99-111 (Energy Atlantic as Central Maine Power Standard Offer Provider). (Exhibit 99(aa) to 1999 Form 10-K)
99(ab)	Order of Maine Public Utilities Commission dated February 17, 2000 in Docket 98-577 (Order Approving Phase II Stipulation). (Exhibit 99(ab) to 1999 Form 10-K)
99(ac)	Order of the Federal Energy Regulatory Commission dated August 14, 2000 in Dockets ER00-1053-000 and ER00-1053-002. (Exhibit 99(ac) to the Company's 2000 Form 10-K)
99(ad)	Order of the Maine Public Utilities Commission dated November 17, 1999 in Docket 99-610 (Reduction in Capital). (Exhibit 99(ad) to the Company's 2000 Form 10-K)
99(ae)	Order of the Maine Public Utilities Commission dated August 11, 2000 in Docket 99-185 (Stipulation Approval). (Exhibit 99(ae) to the Company's 2000 Form 10-K)
99(af)	Agreement between the Maine Public Utilities Commission, the Company, Central Maine Power Company and Bangor Hydro-Electric Company dated January 10, 2001 regarding Maine Yankee Power Costs. (Exhibit 99(af) to the Company's 2000 Form 10-K)
*99(ag)	Notice of Investigation of the Maine Public Utilities Commission dated May 8, 2001 in Docket 01-245 (Rate Design)
99(ah)	Order of the Maine Public Utilities Commission dated May 24, 2001 in Docket No. 99-764 (Amendments to Entitlement Agreements and Granting Waiver). (Exhibit 99.1 to the Company's May 24, 2001 Form 8-K)
*99(ai)	Procedural Order of the Maine Public Utilities Commission dated July 13, 2001 in Docket No. 00-894 (WPS Energy Service Complaint and related Proposed Findings and Decision of Investigator William B. Devoe, Esq.)
*99(aj)	Order of the Maine Public Utilities Commission dated November 20, 2001 in Docket No. 01-384 (Entitlement Agreements).
*99(ak)	Further Settlement Agreement between the Maine Public Utilities Commission, the Public Advocate and the Company dated January 24, 2002 regarding Maine Yankee Power costs.
*99(al)	Order of the Maine Public Utilities Commission dated February 27, 2002 in Docket No. 01-240 (Stranded Costs Stipulation approved effective March 1, 2002).

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Exhibit 10(ae)

GENERAL RELEASE AGREEMENT

This General Release Agreement ("Agreement") is entered into by and among Engage Energy America LLC ("Engage"), Energy Atlantic, LLC ("Atlantic"), Maine Public Service Co. ("MPS"), Central Maine Power Company ("CMP"), and Frontier Insurance Company ("Frontier"). It is the intent of all parties to this Agreement to settle and release any and all claims under or in connection with any Bonds issued by Frontier in connection with Atlantic's provision of the standard offer service in the service territory of CMP in Maine.

For good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. Upon delivery by CMP of the original December 16, 1999, Frontier performance bonds numbered 122618, 122617, 122616, and 122615 (the "Frontier Bonds") to Frontier and Frontier's receipt of this Agreement fully executed by all parties, Frontier shall pay Engage and Engage agrees to accept One Million Dollars ($1,000,000) in complete settlement of any and all claims of any and all parties under or arising out of the Frontier Bonds.

2. In consideration of the payment set forth in Paragraph 1, Engage, Atlantic, MPS and CMP and any of their successors, assigns, shareholders, directors, insurers, partners, affiliates, employees and agents (all hereafter

"Releasors") hereby releases and forever discharges Frontier and its agents, servants, employees, attorneys, insurers and reinsurers (including but not limited to National Indemnity Company) (hereafter "Releasees") of and from any and all actions, causes of action, claims, or demands of whatever kind or nature, whether known or unknown, that Releasors now have or that may hereafter accrue to any of them on account of, or in any way arising out of Atlantic's provision of standard offer service in CMP's service territory in Maine (Me. PUC Docket No. 99-111, December 3, 1999) , and/or referring or relating in any way to and/or in connection with the Frontier Bonds and its December 14, 1999 General Indemnity Agreement with Atlantic.

3. It is understood and agreed that this settlement is the compromise of doubtful and disputed claims, and that any payments made are not to be construed as admissions on the part of the parties, by whom liability is expressly denied.

4. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together constitutes one and the same instrument, and photographic copies of such signed counterparts may be used in place of the original.

5. Since freedom from costs of future litigation represents an important item of consideration bargained for by the parties to this Agreement, it is agreed that damages recoverable for breach of this Agreement by any party shall include reasonable attorney's fees and other costs as a consequence of such breach.

6. No promise or inducement that is not herein expressed has been made to any party, and in executing this Agreement each party does not rely upon any statement or representation made by any adverse parties or any agent or person representing any adverse party concerning the nature, extent or duration of said damages or losses or the legal liability therefore.

7. This General Release Agreement contains the entire Agreement between all parties for the settlement described herein, and may not be modified or amended in any way except in a writing signed by all parties hereto.

8. The parties further represent that, with the assistance of legal counsel, they have carefully read the foregoing General Release Agreement, and know the contents thereof and sign the same as their own free act and deed.

CAUTION: READ BEFORE SIGNING

Dated: May 24, 2001	/s/ Mark Stiers
	Engage Energy America LLC
	By its: President
Dated: May 24, 2001	/s/ Stephen A. Johnson
	Energy Atlantic, LLC
	By its: Managing Member, Maine Public Service Company, Vice President
Dated: May 24, 2001	/s/ Larry E. LaPlante
	Maine Public Service Company
	By its: Vice President, Treasurer &
	Chief Financial Officer
Dated: May 24, 2001	/s/ Sara Burns
	Central Maine Power Company
	By its: President
Dated: May 24, 2001	/s/ Bruce L. Maas
	Frontier Insurance Company
	By its: Vice President

GENERAL RELEASE AGREEMENT

This General Release Agreement ("Agreement") is entered into by and among Engage Energy America LLC ("Engage"), Energy Atlantic, LLC ("Atlantic"), Maine Public Service Co. ("MPS"), and Frontier Insurance Company ("Frontier"). It is the intent of all parties to this Agreement to settle and release any and all claims under or in connection with any Bonds issued by Frontier in connection with Atlantic's provision of the standard offer service in the service territory of Central Maine Power Company ("CMP") in Maine.

For good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. In consideration of the execution of a separate General Release Agreement provided by Engage, Atlantic, MPS and Central Maine Power Co. to Frontier, and upon return by CMP to Frontier of the original December 16, 1999, performance bonds numbered 122618, 122617, 122616, and 122615 (the "Frontier Bonds") provided by Frontier to Atlantic in connection with Atlantic's provision of the standard offer service in the service territory of Central Maine Power

Co. (Me. PUC Docket No. 99-111, December 3, 1999), Frontier shall execute this Agreement releasing and forever discharging Engage, Atlantic, and MPS and their agents, servants, employees, affiliates, attorneys, and insurers from any and all actions, causes of action, claims or demands of whatever kind or nature, whether known or unknown, in any way arising out of the December 14, 1999 General Agreement of

Indemnity between Frontier and Atlantic or the Frontier Bonds described above. Frontier provides this Release on its behalf and on behalf of any of its agents, servants, successors, insurers, reinsurers, employees and assigns.

2. It is understood and agreed that this settlement is the compromise of doubtful and disputed claims, and that any payments made are not to be construed as admissions on the part of the parties, by whom liability is expressly denied.

3. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together constitutes one and the same instrument, and photographic copies of such signed counterparts may be used in place of the original.

4. Since freedom from costs of future litigation represents an important item of consideration bargained for by the parties to this Agreement, it is agreed that damages recoverable for breach of this Agreement by any party shall include reasonable attorney's fees and other costs as a consequence of such breach.

5. No promise or inducement that is not herein expressed has been made to any party, and in executing this Agreement each party does not rely upon any statement or representation made by any adverse parties or any agent or person representing any adverse party concerning the nature, extent or duration of said damages or losses or the legal liability therefore.

6. This General Release Agreement contains the entire Agreement between all parties for the settlement described herein, and may not be modified or amended in any way except in a writing signed by all parties hereto.

7. The parties further represent that, with the assistance of legal counsel, they have carefully read the foregoing General Release Agreement, and know the contents thereof and sign the same as their own free act and deed.

CAUTION: READ BEFORE SIGNING

Dated: May 24, 2001	/s/ Bruce L. Maas
	Frontier Insurance Company
	By its: Vice President
Dated: May 24, 2001	/s/ Mark Stiers

	Engage Energy America LLC
	By its: President
Dated: May 24, 2001	/s/ Stephen A. Johnson
	Energy Atlantic, LLC
	By its: Managing Member, Maine Public Service Company, Vice President
Dated: May 24, 2001	/s/ Larry E. LaPlante
	By its: Vice President, Treasurer & Chief Financial Officer

Exhibit 10(af)

Master Power

Purchase & Sale

Agreement

Version 2.1 (modified 4/25/00)

MASTER POWER PURCHASE AND SALES AGREEMENT

TABLE OF CONTENTS

MASTER POWER PURCHASE AND SALE AGREEMENT

COVER SHEET

This Mater Power Purchase and Sale Agreement ("Master Agreement") is made as of the following date:

9-19-2001 ("Effective Date"). The Master Agreement, together with the exhibits, schedules and any written supplements hereto, the Party A Tariff, if any, the Party B Tariff, if any, any designated collateral, credit support or margin agreement or similar arrangement between the Parties and all Transactions (including any confirmations accepted in accordance with Section 2.3 hereto) shall be referred to as the "Agreement." The Parties to this Master Agreement are the following:

Name: ENERGY ATLANTIC LLC ("EA" or "Party A")	Name: DUKE ENERGY TRADING AND MARKETING, LLC ("DETM" or "Party B")
All Notices:	All Notices: See Addendum
Street: 830 Main Street, Suite 20, P.O. Box 1148	Street:
City: Presque Isle, ME Zip: 04769	City: Zip:
Attn: Contract Administration Phone: 207-764-7600 Facsimile: 207-764-4657 Duns: 01-167-3840 Federal Tax ID Number: 52-2093905	Attn: Contract Administration Phone: Facsimile: Duns: Federal Tax ID Number:

Invoices:
Attn: Jan Currier
Phone: 207-764-7600
Facsimile: 207-764-4657

Scheduling:
Attn: Don Theriault
Phone: 207-764-7600
Facsimile: 207-764-4657

Payments:
Attn: Jan Currier
Phone: 207- 764-7600
Facsimile: 207-764-4657

Wire Transfer:
BNK: Fleet Bank
ABA: 011200365
ACCT: 94-2776-1635

Credit and Collections:
Attn: Vicki Keaton
Phone: 207-764-7600
Facsimile: 207-764-4657

With additional Notices of an Event of Default or Potential Event of Default to:

Attn: Cal Deschene
Phone: 207-764-7600
Facsimile: 207-764-4657

Invoices:
Attn: Phone:
Facsimile:

Scheduling:
Attn:
Phone: Facsimile:

Payments:
Attn:
Phone: Facsimile:

Wire Transfer:
BNK:
ABA: ACCT:

Credit and Collections:
Attn:
Phone: Facsimile:

With additional Notices of an Event of Default or Potential Event of Default to:

Attn: Phone:
Facsimile:

1

The Parties hereby agree that the General Terms and Conditions are incorporated herein, and to the following provisions as provided for in the General Terms and Conditions:

Party A Tariff Dated Docket Number

Party B Tariff Dated Docket Number

Article Two		
Transaction Terms and Conditions	[x] Optional provision in Section 2.4. If not checked, inapplicable.	
Article Four		
Remedies for Failure to Deliver or Receive	[x] Accelerated Payment of Damages. If not checked, inapplicable.	
Article Five	[ ] Cross Default for Party A:	
Events of Default; Remedies	[ ] Party A:	Cross Default Amount $
	[x] Other Entity: Maine Public Service Company	Cross Default Amount $5,000,000
	[x] Cross Default for Party B:	
	[x] Party B: DETM	Cross Default Amount$60,000,000
	[ ] Other Entity:	Cross Default Amount $
	5.6 Closeout Setoff	
	[x] Option A (Applicable if no other selection is made.)	
	[ ] Option B - Affiliates shall have the meaning set forth in the Agreement unless otherwise specified as follows:	
	[ ] Option C (No Setoff)	
Article 8	8.1 Party A Credit Protection:	
Credit and Collateral Requirements	(a) Financial Information:	
	[x] Option A [ ] Option B Specify: [ ] Option C Specify:	
	(b) Credit Assurances:	
	[ ] Not Applicable [x] Applicable	
	(c) Collateral Threshold:	
	[ ] Not Applicable [x] Applicable	
If applicable, complete the following:		
Party B Collateral Threshold: $30,000,000; provided, however, that Party B's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party B has occurred and is continuing.		
Party B Independent Amount: $ N/A		
Party B Rounding Amount: $100,000		
(d) Downgrade Event:		
[ ] Not Applicable		

[x] Applicable
If applicable, complete the following:
[x] It shall be a Downgrade Event for Party B if Party B's Corporate Credit Rating falls below BBB- from S&P or Baa3 from Moody's or if Party B is not rated by S&P.
[ ] Other: Specify:
(e) Guarantor for Party B: N/A
Guarantee Amount: N/A
8.2 Party B Credit Protection:
(a) Financial Information:
[ ] Option A [x] Option B Specify: Maine Public Service Company [ ] Option C Specify:
(b) Credit Assurances:
[ ] Not Applicable [x] Applicable
(c) Collateral Threshold:
[ ] Not Applicable [x] Applicable
If applicable, complete the following:
Party A Collateral Threshold: $1,000,000; provided, however, that Party A's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party A has occurred and is continuing. (SEE OTHER CHANGES)
Party A Independent Amount: $ N/A
Party A Rounding Amount: $100,000

(d) Downgrade Event:

[ ] Not Applicable
[x] Applicable

If applicable, complete the following:

[ ] It shall be a Downgrade Event for Party A if Party A's Credit Rating falls below____ from S&P or____ from Moody's or if Party A is not rated by either S&P or Moody's

[x] Other:
Specify: It shall be a Downgrade Event if the total shareholder equity of Maine Public Service Company falls below $35,000,000.

(e) Guarantor for Party A: Maine Public Service Company

Guarantee Amount: $1,000,000

Article 10

Confidentiality

[x] Confidentiality Applicable If not checked, inapplicable.

Schedule M

[ ] Party A is a Governmental Entity or Public Power System

[ ] Party B is a Governmental Entity or Public Power System

[ ] Add Section 3.6. If not checked, inapplicable

[ ] Add Section 8.6. If not checked, inapplicable

Other Changes: 8.2 (C)

Specify, if any: COLLATERAL THRESHOLD

Maine Public Service Company to provide a guaranty on behalf of Energy Atlantic LLC in the amount of $1,000,000. If not provided, the threshold will be zero.

SEE ADDENDUM

4

IN WITNESS WHEREOF, the Parties have caused this Master Agreement to be duly executed as of the date first above written.

ENERGY ATLANTIC LLC DUKE ENERGY TRADING AND MARKET NG, LLC

By: /s/ Calvin D. Deschene	By: /s/ Joy Thakur
Name: Calvin D. Deschene	Name: Joy Thakur
Title: General Manager	Title: Senior Director

DISCLAIMER: This Master Power Purchase and Sale Agreement was prepared by a committee of representatives of Edison Electric Institute ("EEI") and National Energy Marketers Association ("NEM") member companies to facilitate orderly trading in and development of wholesale power markets. Neither EEI nor NEM nor any member company nor any of their agents, representatives or attorneys shall be responsible for its use, or any damages resulting therefrom. By providing this Agreement EEI and NEM do not offer legal advice and all users are urged to consult their own legal counsel to ensure that their commercial objectives will be achieved and their legal interests are adequately protected.

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GENERAL TERMS AND CONDITIONS

ARTICLE ONE: GENERAL DEFINITIONS

1.1 "Affiliate" means, with respect to any person, any other person (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such person. For this purpose, "control" means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other equity interests having ordinary voting power.

1.2 "Agreement" has the meaning set forth in the Cover Sheet.

1.3 "Bankrupt" means with respect to any entity, such entity (i) files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause of action under any bankruptcy, insolvency, reorganization or similar law, or has any such petition filed or commenced against it, (ii) makes an assignment or any general arrangement for the benefit of creditors, (iii) otherwise becomes bankrupt or insolvent (however evidenced), (iv) has a liquidator, administrator, receiver, trustee, conservator or similar official appointed with respect to it or any substantial portion of its property or assets, or (v) is generally unable to pay its debts as they fall due.

1.4 "Business Day" means any day except a Saturday, Sunday, or a Federal Reserve Bank holiday. A Business Day shall open at 8:00a.m. and close at 5:00p.m. local time for the relevant Party's principal place of business. The relevant Party, in each instance unless otherwise specified, shall be the Party from whom the notice, payment or delivery is

being sent and by whom the notice or payment or delivery is to be received.

1.5 "Buyer" means the Party to a Transaction that is obligated to purchase and receive, or cause to be received, the Product, as specified in the Transaction.

1.6 "Call Option" means an Option entitling, but not obligating, the Option Buyer to purchase and receive the Product from the Option Seller at a price equal to the Strike Price for the Delivery Period for which the Option may be exercised, all as specified in the Transaction. Upon proper exercise of the Option by the Option Buyer, the Option Seller will be obligated to sell and deliver the Product for the Delivery Period for which the Option has been exercised.

1.7 "Claiming Party" has the meaning set forth in Section 3.3.

1.8 "Claims" means all third party claims or actions, threatened or filed and, whether groundless, false, fraudulent or otherwise, that directly or indirectly relate to the subject matter of an indemnity, and the resulting losses, damages, expenses, attorneys' fees and court costs, whether incurred by settlement or otherwise, and whether such claims or actions are threatened or filed prior to or after the termination of this Agreement.

1.9 "Confirmation" has the meaning set forth in Section 2.3.

1.10 "Contract Price" means the price in $U.S. (unless otherwise provided for) to be paid by Buyer to Seller for the purchase of the Product, as specified in the Transaction.

1.11 "Costs" means, with respect to the Non-Defaulting Party, brokerage fees, commissions and other similar third party transaction costs and expenses reasonably incurred by such Party either in terminating any arrangement pursuant to which it has hedged its obligations or entering into new arrangements which replace a Terminated Transaction; and all reasonable attorneys' fees and expenses incurred by the Non-Defaulting Party in connection with the termination of a Transaction.

1.12 "Credit Rating" means, with respect to any entity, the rating then assigned to such entity's unsecured, senior long-term debt obligations (not supported by third party credit enhancements) or if such entity does not have a rating for its senior unsecured long-term debt, then the rating then assigned to such entity as an issues rating by S&P, Moody's or any other rating agency agreed by the Parties as set forth in the Cover Sheet.

1.13 "Cross Default Amount" means the cross default amount, if any, set forth in the Cover Sheet for a Party.

1.14 "Defaulting Party" has the meaning set forth in Section 5.1.

1.15 "Delivery Period" means the period of delivery for a Transaction, as specified in the Transaction.

1.16 "Delivery Point" means the point at which the Product will be delivered and received, as specified in the Transaction.

1.17 "Downgrade Event" has the meaning set forth on the Cover Sheet.

1.18 "Early Termination Date" has the meaning set forth in Section 5.2.

1.19 "Effective Date" has the meaning set forth on the Cover Sheet.

1.20 "Equitable Defenses" means any bankruptcy, insolvency, reorganization and other laws affecting creditors' rights generally, and with regard to equitable remedies, the discretion of the court before which proceedings to obtain same may be pending.

1.21 "Event of Default" has the meaning set forth in Section 5.1.

1.22 "FERC" means the Federal Energy Regulatory Commission or any successor government agency.

1.23 "Force Majeure" means an event or circumstance which prevents one Party from performing its obligations under one or more Transactions, which event or circumstance was not anticipated as of the date the Transaction was agreed to, which is not within the reasonable control of, or the result of the negligence of, the Claiming Party, and which, by the exercise of due diligence, the Claiming Party is unable to overcome or avoid or cause to be avoided. Force Majeure shall not be based on (i) the loss of Buyer's markets; (ii) Buyer's inability economically

to use or resell the Product purchased hereunder; (iii) the loss or failure of Seller's supply; or (iv) Seller's ability to sell the Product at a price greater than the Contract Price. Neither Party may raise a claim of Force Majeure based in whole or in part on curtailment by a Transmission Provider unless (i) such Party has contracted for firm transmission with a Transmission Provider for the Product to be delivered to or received at the Delivery Point and (ii) such curtailment is due to "force majeure" or "uncontrollable force" or a similar term as defined under the Transmission Provider's tariff; provided, however, that existence of the foregoing factors shall not be sufficient to conclusively or presumptively prove the existence of a Force Majeure absent a showing of other facts and circumstances which in the aggregate with such factors establish that a Force Majeure as defined in the first sentence hereof has occurred. The applicability of Force Majeure to the Transaction is governed by the terms of the Products and Related Definitions contained in

Schedule P.

1.24 "Gains" means, with respect to any Party, an amount equal to the present value of the economic benefit to it, if any (exclusive of Costs), resulting from the termination of a Terminated Transaction, determined in a commercially reasonable manner.

1.25 "Guarantor" means, with respect to a Party, the guarantor, if any, specified for such Party on the Cover Sheet.

1.26 "Interest Rate" means, for any date, the lesser of (a) the per annum rate of interest equal to the prime lending rate as may from time to time be published in The Wall Street Journal under "Money Rates" on such day (or if not published on such day on the most recent preceding day on which published), plus two percent (2%) and (b) the maximum rate permitted by applicable law.

1.27 "Letter(s) of Credit" means one or more irrevocable, transferable standby letters of credit issued by a U.S. commercial bank or a foreign bank with a U.S. branch with such bank having a credit rating of at least A- from S&P or A3 from Moody's, in a form acceptable to the Party in whose favor the letter of credit is issued. Costs of a Letter of Credit shall be borne by the applicant for such Letter of Credit.

1.28 "Losses" means, with respect to any Party, an amount equal to the present value of the economic loss to it, if any (exclusive of Costs), resulting from termination of a Terminated Transaction, determined in a commercially reasonable manner.

1.29 "Master Agreement" has the meaning set forth on the Cover Sheet.

1.30 "Moody's" means Moody's Investor Services, Inc. or its successor.

1.31 "NERC Business Day" means any day except a Saturday, Sunday or a holiday as defined by the North American Electric Reliability Council or any successor organization thereto. A NERC Business Day shall open at 8:00 a.m. and close at 5:00 p.m. local time for the relevant Party's principal place of business. The relevant Party, in each instance unless otherwise specified, shall be the Party from whom the notice, payment or delivery is being sent and by whom the notice or payment or delivery is to be received.

1.32 "Non-Defaulting Party" has the meaning set forth in Section 5.2.

1.33 "Offsetting Transactions" mean any two or more outstanding Transactions, having the same or overlapping Delivery Period(s), Delivery Point and payment date, where under one or more of such Transactions, one Party is the Seller, and under the other such Transaction(s), the same Party is the Buyer.

1.34 "Option" means the right but not the obligation to purchase or sell a Product as specified in a Transaction.

1.35 "Option Buyer" means the Party specified in a Transaction as the purchaser of an option, as defined in Schedule P.

1.36 "Option Seller" means the Party specified in a Transaction as the seller of an option , as defined in Schedule P.

1.37 "Party A Collateral Threshold" means the collateral threshold, if any, set forth in the Cover Sheet for Party A.

1.38 "Party B Collateral Threshold" means the collateral threshold, if any, set forth in the Cover Sheet for Party B.

1.39 "Party A Independent Amount" means the amount , if any, set forth in the Cover Sheet for Party A.

1.40 "Party B Independent Amount" means the amount , if any, set forth in the Cover Sheet for Party B.

1.41 "Party A Rounding Amount" means the amount, if any, set forth in the Cover Sheet for Party A.

1.42 "Party B Rounding Amount" means the amount, if any, set forth in the Cover Sheet for Party B.

1.43 "Party A Tariff" means the tariff, if any, specified in the Cover Sheet for Party A.

1.44 "Party B Tariff" means the tariff, if any, specified in the Cover Sheet for Party B.

1.45 "Performance Assurance" means collateral in the form of either cash, Letter(s) of Credit, or other security acceptable to the Requesting Party.

1.46 "Potential Event of Default" means an event which, with notice or passage of time or both, would constitute an Event of Default.

1.47 "Product" means electric capacity, energy or other product(s) related thereto as specified in a Transaction by reference to a Product listed in Schedule P hereto or as otherwise specified by the Parties in the Transaction.

1.48 "Put Option" means an Option entitling, but not obligating, the Option Buyer to sell and deliver the Product to the Option Seller at a price equal to the Strike Price for the Delivery Period for which the option may be exercised, all

as specified in a Transaction. Upon proper exercise of the Option by the Option Buyer, the Option Seller will be obligated to purchase and receive the Product.

1.49 "Quantity" means that quantity of the Product that Seller agrees to make available or sell and deliver, or cause to be delivered, to Buyer, and that Buyer agrees to purchase and receive, or cause to be received, from Seller as specified in the Transaction.

1.50 "Recording" has the meaning set forth in Section 2.4.

1.51 "Replacement Price" means the price at which Buyer, acting in a commercially reasonable manner, purchases at the Delivery Point a replacement for any Product specified in a Transaction but not delivered by Seller, plus (i) costs reasonably incurred by Buyer in purchasing such substitute Product and (ii) additional transmission charges, if any, reasonably incurred by Buyer to the Delivery Point, or at Buyer's option, the market price at the Delivery Point for such Product not delivered as determined by Buyer in a commercially reasonable manner; provided, however, in no event shall such price include any penalties, ratcheted demand or similar charges, nor shall Buyer be required to utilize or change its utilization of its owned or controlled assets or market positions to minimize Seller's liability. For the purposes of this definition, Buyer shall be considered to have purchased replacement Product to the extent Buyer shall have entered into one or more arrangements in a commercially reasonable manner whereby Buyer repurchases its obligation to sell and deliver the Product to another party at the Delivery Point.

1.52 "S&P" means the Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.) or its successor.

1.53 "Sales Price" means the price at which Seller, acting in a commercially reasonable manner, resells at the Delivery Point any Product not received by Buyer, deducting from such proceeds any (i) costs reasonably incurred by Seller in reselling such Product and (ii) additional transmission charges, if any, reasonably incurred by Seller in delivering such Product to the third party purchasers, or at Seller's option, the market price at the Delivery Point for such Product not received as determined by Seller in a commercially reasonable manner; provided, however, in no event shall such price include any penalties, ratcheted demand or similar charges, nor shall Seller be required to utilize or change its utilization of its owned or controlled assets, including contractual assets, or market positions to minimize Buyer's liability. For purposes of this definition, Seller shall be considered to have resold such Product to the extent Seller shall have entered into one or more arrangements in a commercially reasonable manner whereby Seller repurchases its obligation to purchase and receive the Product from another party at the Delivery Point.

1.54 "Schedule" or "Scheduling" means the actions of Seller, Buyer and/or their designated representatives, including each Party's Transmission Providers, if applicable, of notifying, requesting and confirming to each other the quantity and type of Product to be delivered on any given day or days during the Delivery Period at a specified Delivery Point.

1.55 "Seller" means the Party to a Transaction that is obligated to sell and deliver, or cause to be delivered, the Product, as specified in the Transaction.

1.56 "Settlement Amount" means, with respect to a Transaction and the Non-Defaulting Party, the Losses or Gains, and Costs, expressed in U.S. Dollars, which such party incurs as a result of the liquidation of a Terminated

Transaction pursuant to Section 5.2.

1.57 "Strike Price" means the price to be paid for the purchase of the Product pursuant to an Option.

1.58 "Terminated Transaction" has the meaning set forth in Section 5.2.

1.59 "Termination Payment" has the meaning set forth in Section 5.3.

1.60 "Transaction" means a particular transaction agreed to by the Parties relating to the sale and purchase of a Product pursuant to this Master Agreement.

1.61 "Transmission Provider" means any entity or entities transmitting or transporting the Product on behalf of Seller or Buyer to or from the Delivery Point in a particular Transaction.

ARTICLE TWO: TRANSACTION TERMS AND CONDITIONS

2.1 Transactions . A Transaction shall be entered into upon agreement of the Parties orally or, if expressly required by either Party with respect to a particular Transaction, in writing, including an electronic means of communication. Each Party agrees not to contest, or assert any defense to, the validity or enforceability of the Transaction entered into in accordance with this Master Agreement (i) based on any law requiring agreements to be in writing or to be signed by the parties, or (ii) based on any lack of authority of the Party or any lack of authority of any employee of the Party to enter into a Transaction.

2.2 Governing Terms . Unless otherwise specifically agreed, each Transaction between the Parties shall be governed by this Master Agreement. This Master Agreement (including all exhibits, schedules and any written supplements hereto), , the Party A Tariff, if any, and the Party B Tariff, if any, any designated collateral, credit support or margin agreement or similar arrangement between the Parties and all Transactions (including any Confirmations accepted in accordance with Section 2.3) shall form a single integrated agreement between the Parties. Any inconsistency between any terms of this Master Agreement and any terms of the Transaction shall be resolved in favor of the terms of such Transaction.

2.3 Confirmation . Seller may confirm a Transaction by forwarding to Buyer by facsimile within three (3) Business Days after the Transaction is entered into a confirmation ("Confirmation") substantially in the form of Exhibit A. If Buyer objects to any term(s) of such Confirmation, Buyer shall notify Seller in writing of such objections within two (2) Business Days of Buyer's receipt thereof, failing which Buyer shall be deemed to have accepted the terms as sent. If Seller fails to send a Confirmation within three (3) Business Days after the Transaction is entered into, a Confirmation substantially in the form of Exhibit A, may be forwarded by Buyer to Seller. If Seller objects to any term(s) of such Confirmation, Seller shall notify Buyer of such objections within two (2) Business Days of Seller's receipt thereof, failing

which Seller shall be deemed to have accepted the terms as sent. If Seller and Buyer each send a Confirmation and neither Party objects to the other Party's Confirmation within two (2) Business Days of receipt, Seller's Confirmation

shall be deemed to be accepted and shall be the controlling Confirmation, unless (i) Seller's Confirmation was sent more than three (3) Business Days after the Transaction was entered into and (ii) Buyer's Confirmation was sent prior to Seller's Confirmation, in which case Buyer's Confirmation shall be deemed to be accepted and shall be the controlling Confirmation. Failure by either Party to send or either Party to return an executed Confirmation or any objection by either Party shall not invalidate the Transaction agreed to by the Parties.

2.4 Additional Confirmation Terms. If the Parties have elected on the Cover Sheet to make this Section 2.4 applicable to this Master Agreement, when a Confirmation contains provisions, other than those provisions relating to the commercial terms of the Transaction (e.g., price or special transmission conditions), which modify or supplement the general terms and conditions of this Master Agreement (e.g., arbitration provisions or additional representations and warranties), such provisions shall not be deemed to be accepted pursuant to Section 2.3 unless agreed to either orally or in writing by the Parties; provided that the foregoing shall not invalidate any Transaction agreed to by the Parties.

2.5 Recording 2.5Recording . Unless a Party expressly objects to a Recording (defined below) at the beginning of a telephone conversation, each Party consents to the creation of a tape or electronic recording ("Recording") of all telephone conversations between the Parties to this Master Agreement, and that any such Recordings will be retained in confidence, secured from improper access, and may be submitted in evidence in any proceeding or action relating to this Agreement. Each Party waives any further notice of such monitoring or recording, and agrees to notify its officers and employees of such monitoring or recording and to obtain any necessary consent of such officers and employees. The Recording, and the terms and conditions described therein, if admissible, shall be the controlling evidence for the Parties' agreement with respect to a particular Transaction in the event a Confirmation is not fully executed (or deemed accepted) by both Parties. Upon full execution (or deemed acceptance) of a Confirmation, such Confirmation shall control in the event of any conflict with the terms of a Recording, or in the event of any conflict with the terms of this Master Agreement.

ARTICLE THREE: OBLIGATIONS AND DELIVERIES

3.1 Seller's and Buyer's Obligations. With respect to each Transaction, Seller shall sell and deliver, or cause to be delivered, and Buyer shall purchase and receive, or cause to be received, the Quantity of the Product at the Delivery Point, and Buyer shall pay Seller the Contract Price; provided, however, with respect to Options, the obligations set forth in the preceding sentence shall only arise if the Option Buyer exercises its Option in accordance with its terms. Seller shall be responsible for any costs or charges imposed on or associated with the Product or its delivery of the Product up to the Delivery Point. Buyer shall be responsible for any costs or charges imposed on or associated with the Product or its receipt at and from the Delivery Point.

3.2 Transmission and Scheduling. Seller shall arrange and be responsible for transmission service to the Delivery Point and shall Schedule or arrange for Scheduling services

with its Transmission Providers, as specified by the Parties in the Transaction, or in the absence thereof, in accordance with the practice of the Transmission Providers, to deliver the Product to the Delivery Point. Buyer shall arrange and be responsible for transmission service at and from the Delivery Point and shall Schedule or arrange for Scheduling services with its Transmission Providers to receive the Product at the Delivery Point.

3.3 Force Majeure. To the extent either Party is prevented by Force Majeure from carrying out, in whole or part, its obligations under the Transaction and such Party (the "Claiming Party") gives notice and details of the Force Majeure to the other Party as soon as practicable, then, unless the terms of the Product specify otherwise, the Claiming Party shall be excused from the performance of its obligations with respect to such Transaction (other than the obligation to make payments then due or becoming due with respect to performance prior to the Force Majeure). The Claiming Party shall remedy the Force Majeure with all reasonable dispatch. The non-Claiming Party shall not be required to perform or resume performance of its obligations to the Claiming Party corresponding to the obligations of the Claiming Party excused by Force Majeure.

ARTICLE FOUR: REMEDIES FOR FAILURE TO DELIVER/RECEIVE

4.1 Seller Failure . If Seller fails to schedule and/or deliver all or part of the Product pursuant to a Transaction, and such failure is not excused under the terms of the Product or by Buyer's failure to perform, then Seller shall pay Buyer, on the date payment would otherwise be due in respect of the month in which the failure occurred or, if "Accelerated Payment of Damages" is specified on the Cover Sheet, within five (5) Business Days of invoice receipt, an amount for such deficiency equal to the positive difference, if any, obtained by subtracting the Contract Price from the Replacement Price. The invoice for such amount shall include a written statement explaining in reasonable detail the calculation of such amount.

4.2 Buyer Failure. If Buyer fails to schedule and/or receive all or part of the Product pursuant to a Transaction and such failure is not excused under the terms of the Product or by Seller's failure to perform, then Buyer shall pay Seller, on the date payment would otherwise be due in respect of the month in which the failure occurred or, if "Accelerated Payment of Damages" is specified on the Cover Sheet, within five (5) Business Days of invoice receipt, an amount for such deficiency equal to the positive difference, if any, obtained by subtracting the Sales Price from the Contract Price. The invoice for such amount shall include a written statement explaining in reasonable detail the calculation of such amount.

ARTICLE FIVE: EVENTS OF DEFAULT; REMEDIES

5.1 Events of Default. An "Event of Default" shall mean, with respect to a Party (a "Defaulting Party"), the occurrence of any of the following:

(a) the failure to make, when due, any payment required pursuant to this Agreement if such failure is not remedied within three (3) Business Days after written notice;

(b) any representation or warranty made by such Party herein is false or misleading in any material respect when made or when deemed made or repeated;

(c) the failure to perform any material covenant or obligation set forth in this Agreement (except to the extent constituting a separate Event of Default, and except for such Party's obligations to deliver or receive the Product, the exclusive remedy for which is provided in Article Four) if such failure is not remedied within three (3) Business Days after written notice;

(d) such Party becomes Bankrupt;

(e) the failure of such Party to satisfy the creditworthiness/collateral

requirements agreed to pursuant to Article Eight hereof;

(f) such Party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all of its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer, the resulting, surviving or transferee entity fails to assume all the obligations of such Party under this Agreement to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other Party;

(g) if the applicable cross default section in the Cover Sheet is indicated for such Party, the occurrence and continuation of (i) a default, event of default or other similar condition or event in respect of such Party or any other party specified in the Cover Sheet for such Party under one or more agreements or instruments, individually or collectively, relating to indebtedness for borrowed money in an aggregate amount of not less than the applicable Cross Default Amount (as specified in the Cover Sheet), which results in such indebtedness becoming, or becoming capable at such time of being declared, immediately due and payable or (ii) a default by such Party or any other party specified in the Cover Sheet for such Party in making on the due date therefor one or more payments, individually or collectively, in an aggregate amount of not less than the applicable Cross Default Amount (as specified in the Cover Sheet);

(h) with respect to such Party's Guarantor, if any:

(i) if any representation or warranty made by a Guarantor in connection with this Agreement is false or misleading in any material respect when made or when deemed made or repeated;

(ii) the failure of a Guarantor to make any payment required or to perform any other material covenant or obligation in any guaranty made in connection with this Agreement and such failure shall not be remedied within three (3) Business Days after written notice;

(iii) a Guarantor becomes Bankrupt;

(iv) the failure of a Guarantor's guaranty to be in full force and effect for purposes of this Agreement (other than in accordance with its terms) prior to the satisfaction of all obligations of such Party under each Transaction to which such guaranty shall relate without the written consent of the other Party; or

(v) a Guarantor shall repudiate, disaffirm, disclaim, or reject, in whole or in part, or challenge the validity of any guaranty.

5.2 Declaration of an Early Termination Date and Calculation of Settlement Amounts. If an Event of Default with respect to a Defaulting Party shall have occurred and be continuing, the other Party (the "Non-Defaulting Party") shall have the right (i) to designate a day, no earlier than the day such notice is effective and no later than 20 days after such notice is effective, as an early termination date ("Early Termination Date") to accelerate all amounts owing between the Parties and to liquidate and terminate all, but not less than all, Transactions (each referred to as a "Terminated Transaction") between the Parties, (ii) withhold any payments due to the Defaulting Party under this Agreement and (iii) suspend performance. The Non-Defaulting Party shall calculate, in a commercially reasonable manner, a Settlement Amount for each such Terminated Transaction as of the Early Termination Date (or, to the extent that in the reasonable opinion of the Non-Defaulting Party certain of such Terminated Transactions are commercially impracticable to liquidate and terminate or may not be liquidated and terminated under applicable law on the Early Termination Date, as soon thereafter as is reasonably practicable).

5.3 Net Out of Settlement Amounts. The Non-Defaulting Party shall aggregate all Settlement Amounts into a single amount by: netting out (a) all Settlement Amounts that are due to the Defaulting Party, plus, at the option of the Non-Defaulting Party, any cash or other form of security then available to the Non-Defaulting Party pursuant to Article Eight, plus any or all other amounts due to the Defaulting Party under this Agreement against (b) all Settlement Amounts that are due to the Non-Defaulting Party, plus any or all other amounts due to the Non-Defaulting Party under this Agreement, so that all such amounts shall be netted out to a single liquidated amount (the "Termination Payment") payable by one Party to the other. The Termination Payment shall be due to or due from the Non-Defaulting Party as appropriate.

5.4 Notice of Payment of Termination Payment. As soon as practicable after a liquidation, notice shall be given by the Non-Defaulting Party to the Defaulting Party of the amount of the Termination Payment and whether the Termination Payment is due to or due from the Non-Defaulting Party. The notice shall include a written statement explaining in reasonable detail the calculation of such amount. The Termination Payment shall be made by the Party that owes it within two (2) Business Days after such notice is effective.

5.5 Disputes With Respect to Termination Payment. If the Defaulting Party disputes the Non-Defaulting Party's calculation of the Termination Payment, in whole or in part, the Defaulting Party shall, within two (2) Business Days of receipt of Non-Defaulting Party's calculation of the Termination Payment, provide to the Non-Defaulting Party a detailed written

explanation of the basis for such dispute; provided, however, that if the Termination Payment is due from the Defaulting Party, the Defaulting Party shall first transfer Performance Assurance to the Non-Defaulting Party in an amount equal to the Termination Payment.

5.6 Closeout Setoffs.

Option A: After calculation of a Termination Payment in accordance with Section 5.3, if the Defaulting Party would be owed the Termination Payment, the Non-Defaulting Party shall be entitled, at its option and in its discretion, to (i) set off against such Termination Payment any amounts due and owing by the Defaulting Party to the Non-Defaulting Party under any other agreements, instruments or undertakings between the Defaulting Party and the Non-Defaulting Party and/or (ii) to the extent the Transactions are not yet liquidated in accordance with Section 5.2, withhold payment of the Termination Payment to the Defaulting Party. The remedy provided for in this Section shall be without prejudice and in addition to any right of setoff, combination of accounts, lien or other right to which any Party is at any time otherwise entitled (whether by operation of law, contract or otherwise).

Option B: After calculation of a Termination Payment in accordance with Section 5.3, if the Defaulting Party would be owed the Termination Payment, the Non-Defaulting Party shall be entitled, at its option and in its discretion, to (i) set off against such Termination Payment any amounts due and owing by the Defaulting Party or any of its Affiliates to the Non-Defaulting Party or any of its Affiliates under any other agreements, instruments or undertakings between the Defaulting Party or any of its Affiliates and the Non-Defaulting Party or any of its Affiliates and/or (ii) to the extent the Transactions are not yet liquidated in accordance with Section 5.2, withhold payment of the Termination Payment to the Defaulting Party. The remedy provided for in this Section shall be without prejudice and in addition to any right of setoff, combination of accounts, lien or other right to which any Party is at any time otherwise entitled (whether by operation of law, contract or otherwise).

Option C: Neither Option A nor B shall apply.

5.7 Suspension of Performance. Notwithstanding any other provision of this Master Agreement, if (a) an Event of Default or (b) a Potential Event of Default shall have occurred and be continuing, the Non-Defaulting Party, upon written notice to the Defaulting Party, shall have the right (i) to suspend performance under any or all Transactions; provided, however, in no event shall any such suspension continue for longer than ten (10) NERC Business Days with respect to any single Transaction unless an early Termination Date shall have been declared and notice thereof pursuant to Section 5.2 given, and (ii) to the extent an Event of Default shall have occurred and be continuing to exercise any remedy available at law or in equity.

ARTICLE SIX: PAYMENT AND NETTING

6.1 Billing Period. Unless otherwise specifically agreed upon by the Parties in a Transaction, the calendar month shall be the standard period for all payments under this Agreement (other than Termination Payments and, if "Accelerated Payment of Damages" is specified by the Parties in the Cover Sheet, payments pursuant to Section 4.1 or 4.2 and Option premium payments pursuant to Section 6.7). As soon as practicable after the end of each month,

each Party will render to the other Party an invoice for the payment obligations, if any, incurred hereunder during the preceding month.

6.2 Timeliness of Payment . Unless otherwise agreed by the Parties in a Transaction, all invoices under this Master Agreement shall be due and payable in accordance with each Party's invoice instructions on or before the later of the twentieth (20th) day of each month, or tenth (10th) day after receipt of the invoice or, if such day is not a Business Day, then on the next Business Day. Each Party will make payments by electronic funds transfer, or by other mutually agreeable method(s), to the account designated by the other Party. Any amounts not paid by the due date will be deemed delinquent and will accrue interest at the Interest Rate, such interest to be calculated from and including the due date to but excluding the date the delinquent amount is paid in full.

6.3 Disputes and Adjustments of Invoices . A Party may, in good faith, dispute the correctness of any invoice or any adjustment to an invoice, rendered under this Agreement or adjust any invoice for any arithmetic or computational error within twelve (12) months of the date the invoice, or adjustment to an invoice, was rendered. In the event an invoice or portion thereof, or any other claim or adjustment arising hereunder, is disputed, payment of the undisputed portion of the invoice shall be required to be made when due, with notice of the objection given to the other Party. Any invoice dispute or invoice adjustment shall be in writing and shall state the basis for the dispute or adjustment. Payment of the disputed amount shall not be required until the dispute is resolved. Upon resolution of the dispute, any required payment shall be made within two (2) Business Days of such resolution along with interest accrued at the Interest Rate from and including the due date to but excluding the date paid. Inadvertent overpayments shall be returned upon request or deducted by the Party receiving such overpayment from subsequent payments, with interest accrued at the Interest Rate from and including the date of such overpayment to but excluding the date repaid or deducted by the Party receiving such overpayment. Any dispute with respect to an invoice is waived unless the other Party is notified in accordance with this Section 6.3 within twelve (12) months after the invoice is rendered or any specific adjustment to the invoice is made. If an invoice is not rendered within twelve (12) months after the close of the month during which performance of a Transaction occurred, the right to payment for such performance is waived.

6.4 Netting of Payments. The Parties hereby agree that they shall discharge mutual debts and payment obligations due and owing to each other on the same date pursuant to all Transactions through netting, in which case all amounts owed by each Party to the other Party for the purchase and sale of Products during the monthly billing period under this Master Agreement, including any related damages calculated pursuant to Article Four (unless one of the Parties elects to accelerate payment of such amounts as permitted by Article Four), interest, and payments or credits, shall be netted so that only the excess amount remaining due shall be paid by the Party who owes it.

6.5 Payment Obligation Absent Netting. If no mutual debts or payment obligations exist and only one Party owes a debt or obligation to the other during the monthly billing period, including, but not limited to, any related damage amounts calculated pursuant to Article Four, interest, and payments or credits, that Party shall pay such sum in full when due.

6.6 Security. Unless the Party benefitting from Performance Assurance or a guaranty notifies the other Party in writing, and except in connection with a liquidation and termination in accordance with Article Five, all amounts netted pursuant to this Article Six shall not take into account or include any Performance Assurance or guaranty which may be in effect to secure a Party's performance under this Agreement.

6.7 Payment for Options. The premium amount for the purchase of an Option shall be paid within two (2) Business Days of receipt of an invoice from the Option Seller. Upon exercise of an Option, payment for the Product underlying such Option shall be due in accordance with Section 6.1.

6.8 Transaction Netting. If the Parties enter into one or more Transactions, which in conjunction with one or more other outstanding Transactions, constitute Offsetting Transactions, then all such Offsetting Transactions may by agreement of the Parties, be netted into a single Transaction under which:

(a) the Party obligated to deliver the greater amount of Energy will deliver the difference between the total amount it is obligated to deliver and the total amount to be delivered to it under the Offsetting Transactions, and

(b) the Party owing the greater aggregate payment will pay the net difference owed between the Parties.

Each single Transaction resulting under this Section shall be deemed part of the single, indivisible contractual arrangement between the parties, and once such resulting Transaction occurs, outstanding obligations under the Offsetting Transactions which are satisfied by such offset shall terminate.

ARTICLE SEVEN: LIMITATIONS

7.1 Limitation of Remedies, Liability and Damages. EXCEPT AS SET FORTH HEREIN, THERE IS NO WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND ANY AND ALL IMPLIED WARRANTIES ARE DISCLAIMED. THE PARTIES CONFIRM THAT THE EXPRESS REMEDIES AND MEASURES OF DAMAGES PROVIDED IN THIS AGREEMENT SATISFY THE ESSENTIAL PURPOSES HEREOF. FOR BREACH OF ANY PROVISION FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY, THE OBLIGOR'S LIABILITY SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN OR IN A TRANSACTION, THE OBLIGOR'S LIABILITY SHALL BE LIMITED TO DIRECT ACTUAL DAMAGES ONLY, SUCH DIRECT ACTUAL DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. UNLESS EXPRESSLY HEREIN PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR

OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISION OR OTHERWISE. IT IS THE INTENT OF THE PARTIES THAT THE LIMITATIONS HEREIN IMPOSED ON REMEDIES AND THE MEASURE OF DAMAGES BE WITHOUT REGARD TO THE CAUSE OR CAUSES RELATED THERETO, INCLUDING THE NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE. TO THE EXTENT ANY DAMAGES REQUIRED TO BE PAID HEREUNDER ARE LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT THE DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, OR OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT AND THE DAMAGES CALCULATED HEREUNDER CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

ARTICLE EIGHT: CREDIT AND COLLATERAL REQUIREMENTS

8.1 Party A Credit Protection. The applicable credit and collateral requirements shall be as specified on the Cover Sheet. If no option in Section 8.1(a) is specified on the Cover Sheet, Section 8.l(a) Option C shall apply exclusively. If none of Sections 8.1(b), 8.1(c) or 8.1(d) are specified on the Cover Sheet, Section 8.1(b) shall apply exclusively.

(a) Financial Information. Option A: If requested by Party A, Party B shall deliver (i) within 120 days following the end of each fiscal year, a copy of Party B's annual report containing audited consolidated financial statements for such fiscal year and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of Party B's quarterly report containing unaudited consolidated financial statements for such fiscal quarter. In all cases the statements shall be for the most recent accounting period and prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as Party B diligently pursues the preparation, certification and delivery of the statements.

Option B: If requested by Party A, Party B shall deliver (i) within 120 days following the end of each fiscal year, a copy of the annual report containing audited consolidated financial statements for such fiscal year for the party(s) specified on the Cover Sheet and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of quarterly report containing unaudited consolidated financial statements for such fiscal quarter for the party(s) specified on the Cover Sheet. In all cases the statements shall be for the most recent accounting period and shall be prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as the relevant entity diligently pursues the preparation, certification and delivery of the statements.

Option C: Party A may request from Party B the information specified in the Cover Sheet.

(b) Credit Assurances. If Party A has reasonable grounds to believe that Party B's creditworthiness or performance under this Agreement has become unsatisfactory, Party A will provide Party B with written notice requesting Performance Assurance in an amount determined by Party A in a commercially reasonable manner. Upon receipt of such notice Party B shall have three (3) Business Days to remedy the situation by providing such Performance Assurance to Party A. In the event that Party B fails to provide such Performance Assurance, or a guaranty or other credit assurance acceptable to Party A within three (3) Business Days of receipt of notice, then an Event of Default under Article Five will be deemed to have occurred and Party A will be entitled to the remedies set forth in Article Five of this Master Agreement.

(c) Collateral Threshold. If at any time and from time to time during the term of this Agreement (and notwithstanding whether an Event of Default has occurred), the Termination Payment that would be owed to Party A plus Party B's Independent Amount, if any, exceeds the Party B Collateral Threshold, then Party A, on any Business Day, may request that Party B provide Performance Assurance in an amount equal to the amount by which the Termination Payment plus Party B's Independent Amount, if any, exceeds the Party B Collateral Threshold (rounding upwards for any fractional amount to the next Party B Rounding Amount) ("Party B Performance Assurance"), less any Party B Performance Assurance already posted with Party A. Such Party B Performance Assurance shall be delivered to Party A within three (3) Business Days of the date of such request. On any Business Day (but no more frequently than weekly with respect to Letters of Credit and daily with respect to cash), Party B, at its sole cost, may request that such Party B Performance Assurance be reduced correspondingly to the amount of such excess Termination Payment plus Party B's Independent Amount, if any, (rounding upwards for any fractional amount to the next Party B Rounding Amount). In the event that Party B fails to provide Party B Performance Assurance pursuant to the terms of this Article Eight within three (3) Business Days, then an Event of Default under Article Five shall be deemed to have occurred and Party A will be entitled to the remedies set forth in Article Five of this Master Agreement.

For purposes of this Section 8.1(c), the calculation of the Termination Payment shall be calculated pursuant to Section 5.3 by Party A as if all outstanding Transactions had been liquidated, and in addition thereto, shall include all amounts owed but not yet paid by Party B to Party A, whether or not such amounts are due, for performance already provided pursuant to any and all Transactions.

(d) Downgrade Event. If at any time there shall occur a Downgrade Event in respect of Party B, then Party A may require Party B to provide Performance Assurance in an amount determined by Party A in a commercially reasonable manner. In the event Party B shall fail to provide such Performance Assurance or a guaranty or other credit assurance acceptable to Party A within three (3) Business Days of receipt of notice, then an Event of Default shall be deemed to have occurred and Party A will be entitled to the remedies set forth in Article Five of this Master Agreement.

(e) If specified on the Cover Sheet, Party B shall deliver to Party A, prior to or concurrently with the execution and delivery of this Master Agreement a guarantee in an amount not less than the Guarantee Amount specified on the Cover Sheet and in a form reasonably acceptable to Party A.

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8.2 Party B Credit Protection. The applicable credit and collateral requirements shall be as specified on the Cover Sheet. If no option in Section 8.2(a) is specified on the Cover Sheet, Section 8.2(a) Option C shall apply exclusively. If none of Sections 8.2(b), 8.2(c) or 8.2(d) are specified on the Cover Sheet, Section 8.2(b) shall apply exclusively.

(a) Financial Information. Option A: If requested by Party B, Party A shall deliver (i) within 120 days following the end of each fiscal year, a copy of Party A's annual report containing audited consolidated financial statements for such fiscal year and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of such Party's quarterly report containing unaudited consolidated financial statements for such fiscal quarter. In all cases the statements shall be for the most recent accounting period and prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as such Party diligently pursues the preparation, certification and delivery of the statements.

Option B: If requested by Party B, Party A shall deliver (i) within 120 days following the end of each fiscal year, a copy of the annual report containing audited consolidated financial statements for such fiscal year for the party(s) specified on the Cover Sheet and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of quarterly report containing unaudited consolidated financial statements for such fiscal quarter for the party(s) specified on the Cover Sheet. In all cases the statements shall be for the most recent accounting period and shall be prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as the relevant entity diligently pursues the preparation, certification and delivery of the statements.

Option C: Party B may request from Party A the information specified in the Cover Sheet.

(b) Credit Assurances. If Party B has reasonable grounds to believe that Party A's creditworthiness or performance under this Agreement has become unsatisfactory, Party B will provide Party A with written notice requesting Performance Assurance in an amount determined by Party B in a commercially reasonable manner. Upon receipt of such notice Party A shall have three (3) Business Days to remedy the situation by providing such Performance Assurance to Party B. In the event that Party A fails to provide such Performance Assurance, or a guaranty or other credit assurance acceptable to Party B within three (3) Business Days of receipt of notice, then an Event of Default under Article Five will be deemed to have occurred and Party B will be entitled to the remedies set forth in Article Five of this Master Agreement.

(c) Collateral Threshold. If at any time and from time to time during the term of this Agreement (and notwithstanding whether an Event of Default has occurred), the Termination Payment that would be owed to Party B plus Party A's Independent Amount, if any, exceeds the Party A Collateral Threshold, then Party B, on any Business Day, may request that Party A provide Performance Assurance in an amount equal to the amount by which the Termination Payment plus Party A's Independent Amount, if any, exceeds the Party A Collateral

Threshold (rounding upwards for any fractional amount to the next Party A Rounding Amount) ("Party A Performance Assurance"), less any Party A Performance Assurance already posted with Party B. Such Party A Performance Assurance shall be delivered to Party B within three (3) Business Days of the date of such request. On any Business Day (but no more frequently than weekly with respect to Letters of Credit and daily with respect to cash), Party A, at its sole cost, may request that such Party A Performance Assurance be reduced correspondingly to the amount of such excess Termination Payment plus Party A's Independent Amount, if any, (rounding upwards for any fractional amount to the next Party A Rounding Amount). In the event that Party A fails to provide Party A Performance Assurance pursuant to the terms of this Article Eight within three (3) Business Days, then an Event of Default under Article Five shall be deemed to have occurred and Party B will be entitled to the remedies set forth in Article Five of this Master Agreement.

For purposes of this Section 8.2(c), the calculation of the Termination Payment shall be calculated pursuant to Section 5.3 by Party B as if all outstanding Transactions had been liquidated, and in addition thereto, shall include all amounts owed but not yet paid by Party A to Party B, whether or not such amounts are due, for performance already provided pursuant to any and all Transactions.

(d) Downgrade Event. If at any time there shall occur a Downgrade Event in respect of Party A, then Party B may require Party A to provide Performance Assurance in an amount determined by Party B in a commercially reasonable manner. In the event Party A shall fail to provide such Performance Assurance or a guaranty or other credit assurance

acceptable to Party B within three (3) Business Days of receipt of notice, then an Event of Default shall be deemed to have occurred and Party B will be entitled to the remedies set forth in Article Five of this Master Agreement.

(e) If specified on the Cover Sheet, Party A shall deliver to Party B, prior to or concurrently with the execution and delivery of this Master Agreement a guarantee in an amount not less than the Guarantee Amount specified on the Cover Sheet and in a form reasonably acceptable to Party B.

8.3Grant of Security Interest/Remedies . To secure its obligations under this Agreement and to the extent either or both Parties deliver Performance Assurance hereunder, each Party (a "Pledgor") hereby grants to the other Party (the "Secured Party") a present and continuing security interest in, and lien on (and right of setoff against), and assignment of, all cash collateral and cash equivalent collateral and any and all proceeds resulting therefrom or the liquidation thereof, whether now or hereafter held by, on behalf of, or for the benefit of, such Secured Party, and each Party agrees to take such action as the other Party reasonably requires in order to perfect the Secured Party's first-priority security interest in, and lien on (and right of setoff against), such collateral and any and all proceeds resulting therefrom or from the liquidation thereof. Upon or any time after the occurrence or deemed occurrence and during the continuation of an Event of Default or an Early Termination Date, the Non-Defaulting Party may do any one or more of the following: (i) exercise any of the rights and remedies of a Secured Party with respect to all Performance Assurance, including any such rights and remedies under law then in effect; (ii) exercise its rights of setoff against any and all property of the Defaulting Party in the possession of the Non-Defaulting Party or its agent; (iii) draw on any outstanding

Letter of Credit issued for its benefit; and (iv) liquidate all Performance Assurance then held by or for the benefit of the Secured Party free from any claim or right of any nature whatsoever of the Defaulting Party, including any equity or right of purchase or redemption by the Defaulting Party. The Secured Party shall apply the proceeds of the collateral realized upon the exercise of any such rights or remedies to reduce the Pledgor's obligations under the Agreement (the Pledgor remaining liable for any amounts owing to the Secured Party after such application), subject to the Secured Party's obligation to return any surplus proceeds remaining after such obligations are satisfied in full.

ARTICLE NINE: GOVERNMENTAL CHARGES

9.1 Cooperation. Each Party shall use reasonable efforts to implement the provisions of and to administer this Master Agreement in accordance with the intent of the parties to minimize all taxes , so long as neither Party is materially adversely affected by such efforts.

9.2 Governmental Charges. Seller shall pay or cause to be paid all taxes imposed by any government authority("Governmental Charges") on or with respect to the Product or a Transaction arising prior to the Delivery Point. Buyer shall pay or cause to be paid all Governmental Charges on or with respect to the Product or a Transaction at and from the Delivery Point (other than ad valorem, franchise or income taxes which are related to the sale of the Product and are, therefore, the responsibility of the Seller). In the event Seller is required by law or regulation to remit or pay Governmental Charges which are Buyer's responsibility hereunder, Buyer shall promptly reimburse Seller for such Governmental Charges. If Buyer is required by law or regulation to remit or pay Governmental Charges which are Seller's responsibility hereunder, Buyer may deduct the amount of any such Governmental Charges from the sums due to Seller under Article 6 of this Agreement. Nothing shall obligate or cause a Party to pay or be liable to pay any Governmental Charges for which it is exempt under the law.

ARTICLE TEN: MISCELLANEOUS

10.1 Term of Master Agreement. The term of this Master Agreement shall commence on the Effective Date and shall remain in effect until terminated by either Party upon (thirty) 30 days' prior written notice; provided, however, that such termination shall not affect or excuse the performance of either Party under any provision of this Master Agreement that by its terms survives any such termination and, provided further, that this Master Agreement and any other documents executed and delivered hereunder shall remain in effect with respect to the Transaction(s) entered into prior to the effective date of such termination until both Parties have fulfilled all of their obligations with respect to such Transaction(s), or such Transaction(s) that have been terminated under Section 5.2 of this Agreement.

10.2 Representations and Warranties. On the Effective Date and the date of entering into each Transaction, each Party represents and warrants to the other Party that:

(i) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation;

(ii) it has all regulatory authorizations necessary for it to legally perform its obligations under this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3);

(iii) the execution, delivery and performance of this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3) are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party or any law, rule, regulation, order or the like applicable to it;

(iv) this Master Agreement, each Transaction (including any Confirmation accepted in accordance with Section 2.3), and each other document executed and delivered in accordance with this Master Agreement constitutes its legally valid and binding obligation enforceable against it in accordance with its terms; subject to any Equitable Defenses.

(v) it is not Bankrupt and there are no proceedings pending or being contemplated by it or, to its knowledge, threatened against it which would result in it being or becoming Bankrupt;

(vi) there is not pending or, to its knowledge, threatened against it or any of its Affiliates any legal proceedings that could materially adversely affect its ability to perform its obligations under this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3);

(vii) no Event of Default or Potential Event of Default with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3);

(viii) it is acting for its own account, has made its own independent decision to enter into this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3) and as to whether this Master Agreement and each such Transaction (including any Confirmation accepted in accordance with Section 2.3) is appropriate or proper for it based upon its own judgment, is not relying upon the advice or recommendations of the other Party in so doing, and is capable of assessing the merits of and understanding, and understands and accepts, the terms, conditions and risks of this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3);

(ix) it is a "forward contract merchant" within the meaning of the United States Bankruptcy Code;

(x) it has entered into this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3) in connection with the conduct of its business and it has the capacity or ability to make or take delivery of all Products referred to in the Transaction to which it is a Party;

(xi) with respect to each Transaction (including any Confirmation accepted in accordance with Section 2.3) involving the purchase or sale of a Product or an Option, it is a producer, processor, commercial user or merchant handling the Product, and it is entering into such Transaction for purposes related to its business as such; and

(xii) the material economic terms of each Transaction are subject to individual negotiation by the Parties.

10.3 Title and Risk of Loss. Title to and risk of loss related to the Product shall transfer from Seller to Buyer at the Delivery Point. Seller warrants that it will deliver to Buyer the Quantity of the Product free and clear of all liens, security interests, claims and encumbrances or any interest therein or thereto by any person arising prior to the Delivery Point.

10.4 Indemnity. Each Party shall indemnify, defend and hold harmless the other Party from and against any Claims arising from or out of any event, circumstance, act or incident first occurring or existing during the period when control and title to Product is vested in such Party as provided in Section 10.3. Each Party shall indemnify, defend and hold harmless the other Party against any Governmental Charges for which such Party is responsible under Article Nine.

10.5 Assignment. Neither Party shall assign this Agreement or its rights hereunder without the prior written consent of the other Party, which consent may be withheld in the exercise of its sole discretion; provided, however, either Party may, without the consent of the other Party (and without relieving itself from liability hereunder), (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements, (ii) transfer or assign this Agreement to an affiliate of such Party which

affiliate's creditworthiness is equal to or higher than that of such Party, or (iii) transfer or assign this Agreement to any person or entity succeeding to all or substantially all of the assets whose creditworthiness is equal to or higher than that of such Party; provided, however, that in each such case, any such assignee shall agree in writing to be bound by the terms and conditions hereof and so long as the transferring Party delivers such tax and enforceability assurance as the non-transferring Party may reasonably request.

10.6 Governing Law. THIS AGREEMENT AND THE RIGHTS AND DUTIES OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED, ENFORCED AND PERFORMED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. EACH PARTY WAIVES ITS RESPECTIVE RIGHT TO ANY JURY TRIAL WITH RESPECT TO ANY LITIGATION ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

10.7 Notices. All notices, requests, statements or payments shall be made as specified in the Cover Sheet. Notices (other than scheduling requests) shall, unless otherwise specified herein, be in writing and may be delivered by hand delivery, United States mail, overnight courier service or facsimile. Notice by facsimile or hand delivery shall be effective at the close of business on the day actually received, if received during business hours on a Business Day, and otherwise shall be effective at the close of business on the next Business Day. Notice by overnight United States mail or courier shall be effective on the next Business Day after it was sent. A Party may change its addresses by providing notice of same in accordance herewith.

10.8 General. This Master Agreement (including the exhibits, schedules and any written supplements hereto), the Party A Tariff, if any, the Party B Tariff, if any, any designated collateral, credit support or margin agreement or similar arrangement between the Parties and all Transactions (including any Confirmation accepted in accordance with Section 2.3) constitute the entire agreement between the Parties relating to the subject matter. Notwithstanding the foregoing, any collateral, credit support or margin agreement or similar arrangement between the Parties shall, upon designation by the Parties, be deemed part of this Agreement and shall be incorporated herein by reference. This Agreement shall be considered for all purposes as prepared through the joint efforts of the parties and shall not be construed against one party or the other as a result of the preparation, substitution, submission or other event of negotiation, drafting or execution hereof. Except to the extent herein provided for, no amendment or modification to this Master Agreement shall be enforceable unless reduced to writing and executed by both Parties. Each Party agrees if it seeks to amend any applicable wholesale power sales tariff during the term of this Agreement, such amendment will not in any way affect outstanding Transactions under this Agreement without the prior written consent of the other Party. Each Party further agrees that it will not assert, or defend itself, on the basis that any applicable tariff is inconsistent with this Agreement. This Agreement shall not impart any rights enforceable by any third party (other than a permitted successor or assignee bound to this Agreement). Waiver by a Party of any default by the other Party shall not be construed as a waiver of any other default. Any provision declared or rendered unlawful by any applicable court of law or regulatory agency or deemed unlawful because of a statutory change (individually or collectively, such events referred to as "Regulatory Event") will not otherwise affect the remaining lawful obligations that arise under this Agreement; and provided, further, that if a Regulatory Event occurs, the Parties shall use their best efforts to reform this Agreement in order to give effect to the original intention of the Parties. The term "including" when used in this Agreement shall be by way of example only and shall not be considered in any way to be in limitation. The headings used herein are for convenience and reference purposes only. All indemnity and audit rights shall survive the termination of this Agreement for twelve (12) months. This Agreement shall be binding on each Party's successors and permitted assigns.

10.9 Audit. Each Party has the right, at its sole expense and during normal working hours, to examine the records of the other Party to the extent reasonably necessary to verify the accuracy of any statement, charge or computation made pursuant to this Master Agreement. If requested, a Party shall provide to the other Party statements evidencing the Quantity delivered at the Delivery Point. If any such examination reveals any inaccuracy in any statement, the necessary adjustments in such statement and the payments thereof will be made promptly and shall bear interest calculated at the Interest Rate from the date the overpayment or underpayment was made until paid; provided, however, that no adjustment for any statement or

payment will be made unless objection to the accuracy thereof was made prior to the lapse of twelve (12) months from the rendition thereof, and thereafter any objection shall be deemed waived.

10.10 Forward Contract. The Parties acknowledge and agree that all Transactions constitute "forward contracts" within the meaning of the United States Bankruptcy Code.

10.11 Confidentiality. If the Parties have elected on the Cover Sheet to make this Section 10.11 applicable to this Master Agreement, neither Party shall disclose the terms or conditions of a Transaction under this Master Agreement to a third party (other than the Party's employees, lenders, counsel, accountants or advisors who have a need to know such information and have agreed to keep such terms confidential) except in order to comply with any applicable law, regulation, or any exchange, control area or independent system operator rule or in connection with any court or regulatory proceeding; provided, however, each Party shall, to the extent practicable, use reasonable efforts to prevent or limit the disclosure. The Parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with, this confidentiality obligation.

SCHEDULE M

(THIS SCHEDULE IS INCLUDED IF THE APPROPRIATE BOX ON THE COVER SHEET IS MARKED INDICATING A PARTY IS A GOVERNMENTAL ENTITY OR PUBLIC POWER SYSTEM)

A. The Parties agree to add the following definitions in Article One.

"Act" means _____. (1)

"Governmental Entity or Public Power System" means a municipality, county, governmental board, public power authority, public utility district, joint action agency, or other similar political subdivision or public entity of the United States, one or more States or territories or any combination thereof.

"Special Fund" means a fund or account of the Governmental Entity or Public Power System set aside and or pledged to satisfy the Public Power System's obligations hereunder out of which amounts shall be paid to satisfy all of the Public Power System's obligations under this Master Agreement for the entire Delivery Period.

B. The following sentence shall be added to the end of the definition of "Force Majeure" in Article One.

If the Claiming Party is a Governmental Entity or Public Power System, Force Majeure does not include any action taken by the Governmental Entity or Public Power System in its governmental capacity.

C. The Parties agree to add the following representations and warranties to Section10.2:

Further and with respect to a Party that is a Governmental Entity or Public Power System, such Governmental Entity or Public Power System represents and warrants to the other Party continuing throughout the term of this Master Agreement, with respect to this Master Agreement and each Transaction, as follows: (i) all acts necessary to the valid execution, delivery and performance of this Master Agreement, including without limitation, competitive bidding, public notice, election, referendum, prior appropriation or other required procedures has or will be taken and performed as required under the Act and the Public Power System's ordinances, bylaws or other regulations, (ii) all persons making up the governing body of Governmental Entity or Public Power System are the duly elected or appointed incumbents in their positions and hold such

_____

1 Cite the state enabling and other relevant statutes applicable to Governmental Entity or Public Power System.

positions in good standing in accordance with the Act and other applicable law, (iii) entry into and performance of this Master Agreement by Governmental Entity or Public Power System are for a proper public purpose within the meaning of the Act and all other relevant constitutional, organic or other governing documents and applicable law, (iv) the term of this Master Agreement does not extend beyond any applicable limitation imposed by the Act or other relevant constitutional, organic or other governing documents and applicable law, (v) the Public Power System's obligations to make payments hereunder are unsubordinated obligations and such payments are (a) operating and maintenance costs (or similar designation) which enjoy first priority of payment at all times under any and all bond

ordinances or indentures to which it is a party, the Act and all other relevant constitutional, organic or other governing documents and applicable law or (b) otherwise not subject to any prior claim under any and all bond ordinances or indentures to which it is a party, the Act and all other relevant constitutional, organic or other governing documents and applicable law and are available without limitation or deduction to satisfy all Governmental Entity or Public Power System' obligations hereunder and under each Transaction or (c) are to be made solely from a Special Fund, (vi) entry into and performance of this Master Agreement and each Transaction by the Governmental Entity or Public Power System will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any obligation of Governmental Entity or Public Power System otherwise entitled to such exclusion, and (vii) obligations to make payments hereunder do not constitute any kind of indebtedness of Governmental Entity or Public Power System or create any kind of lien on, or security interest in, any property or revenues of Governmental Entity or Public Power System which, in either case, is proscribed by any provision of the Act or any other relevant constitutional, organic or other governing documents and applicable law, any order or judgment of any court or other agency of government applicable to it or its assets, or any contractual restriction binding on or affecting it or any of its assets.

D. The Parties agree to add the following sections to Article Three:

Section 3.4 Public Power System's Deliveries. On the Effective Date and as a condition to the obligations of the other Party under this Agreement, Governmental Entity or Public Power System shall provide the other Party hereto (i) certified copies of all ordinances, resolutions, public notices and other documents evidencing the necessary authorizations with respect to the execution, delivery and performance by Governmental Entity or Public Power System of this Master Agreement and (ii) an opinion of counsel for Governmental Entity or Public Power System, in form and substance reasonably satisfactory to the Other Party, regarding the validity, binding effect and enforceability of this Master Agreement against Governmental Entity or Public Power System in

respect of the Act and all other relevant constitutional organic or other governing documents and applicable law.

Section 3.5 No Immunity Claim. Governmental Entity or Public Power System warrants and covenants that with respect to its contractual obligations hereunder and performance thereof, it will not claim immunity on the grounds of sovereignty or similar grounds with respect to itself or its revenues or assets from (a) suit, (b) jurisdiction of court (including a court located outside the jurisdiction of its organization), (c) relief by way of injunction, order for specific performance or recovery of property, (d) attachment of assets, or (e) execution or enforcement of any judgment.

E. If the appropriate box is checked on the Cover Sheet, as an alternative to selecting one of the options under Section 8.3, the Parties agree to add the following section to Article Three:

Section 3.6 Governmental Entity or Public Power System Security. With respect to each Transaction, Governmental Entity or Public Power System shall either (i) have created and set aside a Special Fund or (ii) upon execution of this Master Agreement and prior to the commencement of each subsequent fiscal year of Governmental Entity or Public Power System during any Delivery Period, have obtained all necessary budgetary approvals and certifications for payment of all of its obligations under this Master Agreement for such fiscal year; any breach of this provision shall be deemed to have arisen during a fiscal period of Governmental Entity or Public Power System for which budgetary approval or certification of its obligations under this Master Agreement is in effect and, notwithstanding anything to the contrary in Article Four, an Early Termination Date shall automatically and without further notice occur hereunder as of such date wherein Governmental Entity or Public Power System shall be treated as the Defaulting Party.

Governmental Entity or Public Power System shall have allocated to the Special Fund or its general funds a revenue base that is adequate to cover Public Power System's payment obligations hereunder throughout the entire Delivery Period.

F. If the appropriate box is checked on the Cover Sheet, the Parties agree to add the following section to Article Eight:

Section 8.4 Governmental Security. As security for payment and performance of Public Power System's obligations hereunder, Public Power System hereby pledges, sets over, assigns and grants to the other Party a security interest in all of Public Power System's right, title and interest in and to [specify collateral].

G. The Parties agree to add the following sentence at the end of Section 10.6 - Governing Law:

NOTWITHSTANDING THE FOREGOING, IN RESPECT OF THE APPLICABILITY OF THE ACT AS HEREIN PROVIDED, THE LAWS OF THE STATE OF _____ (2) SHALL APPLY.

---

2 Insert relevant state for Governmental Entity or Public Power System.

SCHEDULE P: PRODUCTS AND RELATED DEFINITIONS

"Ancillary Services" means any of the services identified by a Transmission Provider in its transmission tariff as "ancillary services" including, but not limited to, regulation and frequency response, energy imbalance, operating reserve-spinning and operating reserve-supplemental, as may be specified in the Transaction.

"Capacity" has the meaning specified in the Transaction.

"Energy" means three-phase, 60-cycle alternating current electric energy, expressed in megawatt hours.

"Firm (LD)" means, with respect to a Transaction, that either Party shall be relieved of its obligations to sell and deliver or purchase and receive without liability only to the extent that, and for the period during which, such performance is prevented by Force Majeure. In the absence of Force Majeure, the Party to which performance is owed shall be entitled to receive from the Party which failed to deliver/receive an amount determined pursuant to Article Four.

"Firm Transmission Contingent - Contract Path" means, with respect to a Transaction, that the performance of either Seller or Buyer (as specified in the Transaction) shall be excused, and no damages shall be payable including any amounts determined pursuant to Article Four, if the transmission for such Transaction is interrupted or curtailed and (i) such Party has provided for firm transmission with the transmission provider(s) for the Product in the case of the Seller from the generation source to the Delivery Point or in the case of the Buyer from the Delivery Point to the ultimate sink, and (ii) such interruption or curtailment is due to "force majeure" or "uncontrollable force" or a similar term as defined under the applicable transmission provider's tariff. This contingency shall excuse performance for the duration of the interruption or curtailment notwithstanding the provisions of the definition of "Force Majeure" in Section 1.23 to the contrary.

"Firm Transmission Contingent - Delivery Point" means, with respect to a Transaction, that the performance of either Seller or Buyer (as specified in the Transaction) shall be excused, and no damages shall be payable including any amounts determined pursuant to Article Four, if the transmission to the Delivery Point (in the case of Seller) or from the Delivery Point (in the case of Buyer) for such Transaction is interrupted or curtailed and (i) such Party has provided for firm transmission with the transmission provider(s) for the Product, in the case of the Seller, to be delivered to the Delivery Point or, in the case of Buyer, to be received at the Delivery Point and (ii) such interruption or curtailment is due to "force majeure" or "uncontrollable force" or a similar term as defined under the applicable transmission provider's tariff. This transmission contingency excuses performance for the duration of the interruption or curtailment, notwithstanding the provisions of the definition of "Force Majeure" in Section 1.23 to the contrary. Interruptions or curtailments of transmission other than the transmission either immediately to or from the Delivery Point shall not excuse performance

"Firm (No Force Majeure)" means, with respect to a Transaction, that if either Party fails to perform its obligation to sell and deliver or purchase and receive the Product, the Party to which performance is owed shall be entitled to receive from the Party which failed to perform an

amount determined pursuant to Article Four. Force Majeure shall not excuse performance of a Firm (No Force Majeure) Transaction.

"Into _____ (the "Receiving Transmission Provider"), Seller's Daily Choice" means that, in accordance with the provisions set forth below, (1) the Product shall be scheduled and delivered to an interconnection or interface ("Interface") either (a) on the Receiving Transmission Provider's transmission system border or (b) within the control area of the Receiving Transmission Provider if the Product is from a source of generation in that control area, which Interface, in either case, the Receiving Transmission Provider identifies as available for delivery of the Product in or into its control area; and (2) Seller has the right on a daily prescheduled basis to designate the Interface where the Product shall be delivered. An "Into" Product shall be subject to the following provisions:

1. Prescheduling and Notification. Subject to the provisions of Section 6, not later than the prescheduling deadline of 11:00 a.m. CPT on the Business Day before the next delivery day or as otherwise agreed to by Buyer and Seller, Seller shall notify Buyer ("Seller's Notification") of Seller's immediate upstream counterparty and the Interface (the "Designated Interface") where Seller shall deliver the Product for the next delivery day, and Buyer shall notify Seller of Buyer's immediate downstream counterparty.

2. Availability of "Firm Transmission" to Buyer at Designated Interface; "Timely Request for Transmission," "ADI" and "Available Transmission." In determining availability to Buyer of next-day firm transmission ("Firm Transmission") from the Designated Interface, a "Timely Request for Transmission" shall mean a properly completed request for Firm Transmission made by Buyer in accordance with the controlling tariff procedures, which request shall be submitted to the Receiving Transmission Provider no later than 30 minutes after delivery of Seller's Notification, provided, however, if the Receiving Transmission Provider is not accepting requests for Firm Transmission at the time of Seller's Notification, then such request by Buyer shall be made within 30 minutes of the time when the Receiving Transmission Provider first opens thereafter for purposes of accepting requests for Firm Transmission.

Pursuant to the terms hereof, delivery of the Product may under certain circumstances be redesignated to occur at an Interface other than the Designated Interface (any such alternate designated interface, an "ADI") either (a) on the Receiving Transmission Provider's transmission system border or (b) within the control area of the Receiving Transmission Provider if the Product is from a source of generation in that control area, which ADI, in either case, the Receiving Transmission Provider identifies as available for delivery of the Product in or into its control area using either firm or non-firm transmission, as available on a day-ahead or hourly basis (individually or collectively referred to as "Available Transmission") within the Receiving Transmission Provider's transmission system.

3. Rights of Buyer and Seller Depending Upon Availability of/Timely Request for Firm Transmission.

A. Timely Request for Firm Transmission made by Buyer, Accepted by the Receiving Transmission Provider and Purchased by Buyer. If a Timely Request for Firm Transmission is made by Buyer and is accepted by the Receiving Transmission Provider

and Buyer purchases such Firm Transmission, then Seller shall deliver and Buyer shall receive the Product at the Designated Interface.

i. If the Firm Transmission purchased by Buyer within the Receiving Transmission Provider's transmission system from the Designated Interface ceases to be available to Buyer for any reason, or if Seller is unable to deliver the Product at the Designated Interface for any reason except Buyer's non-performance, then at Seller's choice from among the following, Seller shall: (a) to the extent Firm Transmission is available to Buyer from an ADI on a day-ahead basis, require Buyer to purchase such Firm Transmission from such ADI, and schedule and deliver the affected portion of the Product to such ADI on the basis of Buyer's purchase of Firm Transmission, or (b) require Buyer to purchase non-firm transmission, and schedule and deliver the affected portion of the Product on the basis of Buyer's purchase of non-firm transmission from the Designated Interface or an ADI designated by Seller, or (c) to the extent firm transmission is available on an hourly basis, require Buyer to purchase firm transmission, and schedule and deliver the affected portion of the Product on the basis of Buyer's purchase of such hourly firm transmission from the Designated Interface or an ADI designated by Seller.

ii. If the Available Transmission utilized by Buyer as required by Seller pursuant to Section 3A(i) ceases to be available to Buyer for any reason, then Seller shall again have those alternatives stated in Section 3A(i) in order to satisfy its obligations.

iii. Seller's obligation to schedule and deliver the Product at an ADI is subject to Buyer's obligation referenced in Section 4B to cooperate reasonably therewith. If Buyer and Seller cannot complete the scheduling and/or delivery at an ADI, then Buyer shall be deemed to have satisfied its receipt obligations to Seller and Seller shall be deemed to have failed its delivery obligations to Buyer, and Seller shall be liable to Buyer for amounts determined pursuant to Article Four.

iv. In each instance in which Buyer and Seller must make alternative scheduling arrangements for delivery at the Designated Interface or an ADI pursuant to Sections 3A(i) or (ii), and Firm Transmission had been purchased by both Seller and Buyer into and within the Receiving Transmission Provider's transmission system as to the scheduled delivery which could not be completed as a result of the interruption or curtailment of such Firm Transmission, Buyer and Seller shall bear their respective transmission expenses and/or associated congestion charges incurred in connection with efforts to complete delivery by such alternative scheduling and delivery arrangements. In any instance except as set forth in the immediately preceding sentence, Buyer and Seller must make alternative scheduling arrangements for delivery at the Designated Interface or an ADI under Sections 3A(i) or (ii), Seller shall be responsible for any additional transmission purchases and/or associated congestion charges incurred by Buyer in connection with such alternative scheduling arrangements.

B. Timely Request for Firm Transmission Made by Buyer but Rejected by the Receiving Transmission Provider. If Buyer's Timely Request for Firm Transmission is rejected by the Receiving Transmission Provider because of unavailability of Firm Transmission from the Designated Interface, then Buyer shall notify Seller within 15 minutes after receipt of the Receiving Transmission Provider's notice of rejection ("Buyer's Rejection Notice"). If Buyer timely notifies Seller of such unavailability of Firm Transmission from the Designated Interface, then Seller shall be obligated either (1) to the extent Firm Transmission is available to Buyer from an ADI on a day-ahead basis, to require Buyer to purchase (at Buyer's own expense) such Firm Transmission from such ADI and schedule and deliver the

Product to such ADI on the basis of Buyer's purchase of Firm Transmission, and thereafter the provisions in Section 3A shall apply, or (2) to require Buyer to purchase (at Buyer's own expense) non-firm transmission, and schedule and deliver the Product on the basis of Buyer's purchase of non-firm transmission from the Designated Interface or an ADI designated by the Seller, in which case Seller shall bear the risk of interruption or curtailment of the non-firm transmission; provided, however, that if the non-firm transmission is interrupted or curtailed or if Seller is unable to deliver the Product for any reason, Seller shall have the right to schedule and deliver the Product to another ADI in order to satisfy its delivery obligations, in which case Seller shall be responsible for any additional transmission purchases and/or associated congestion charges incurred by Buyer in connection with Seller's inability to deliver the Product as originally prescheduled. If Buyer fails to timely notify Seller of the unavailability of Firm Transmission, then Buyer shall bear the risk of interruption or curtailment of transmission from the Designated Interface, and the provisions of Section 3D shall apply.

C. Timely Request for Firm Transmission Made by Buyer, Accepted by the Receiving Transmission Provider and not Purchased by Buyer. If Buyer's Timely Request for Firm Transmission is accepted by the Receiving Transmission Provider but Buyer elects to purchase non-firm transmission rather than Firm Transmission to take delivery of the Product, then Buyer shall bear the risk of interruption or curtailment of transmission from the Designated Interface. In such circumstances, if Seller's delivery is interrupted as a result of transmission relied upon by Buyer from the Designated Interface, then Seller shall be deemed to have satisfied its delivery obligations to Buyer, Buyer shall be deemed to have failed to receive the Product and Buyer shall be liable to Seller for amounts determined pursuant to Article Four.

D. No Timely Request for Firm Transmission Made by Buyer, or Buyer Fails to Timely Send Buyer's Rejection Notice. If Buyer fails to make a Timely Request for Firm Transmission or Buyer fails to timely deliver Buyer's Rejection Notice, then Buyer shall bear the risk of interruption or curtailment of transmission from the Designated Interface. In such circumstances, if Seller's delivery is interrupted as a result of transmission relied upon by Buyer from the Designated Interface, then Seller shall be deemed to have satisfied its delivery obligations to Buyer, Buyer shall be deemed to have failed to receive the Product and Buyer shall be liable to Seller for amounts determined pursuant to Article Four.

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4. Transmission.

A. Seller's Responsibilities. Seller shall be responsible for transmission required to deliver the Product to the Designated Interface or ADI, as the case may be. It is expressly agreed that Seller is not required to utilize Firm Transmission for its delivery obligations hereunder, and Seller shall bear the risk of utilizing non-firm transmission. If Seller's scheduled delivery to Buyer is interrupted as a result of Buyer's attempted transmission of the Product beyond the Receiving Transmission Provider's system border, then Seller will be deemed to have satisfied its delivery obligations to Buyer, Buyer shall be deemed to have failed to receive the Product and Buyer shall be liable to Seller for damages pursuant to Article Four.

B. Buyer's Responsibilities. Buyer shall be responsible for transmission required to receive and transmit the Product at and from the Designated Interface or ADI, as the case may be, and except as specifically provided in Section 3A and

3B, shall be responsible for any costs associated with transmission therefrom. If Seller is attempting to complete the designation of an ADI as a result of Seller's rights and obligations hereunder, Buyer shall co-operate reasonably with Seller in order to effect such alternate designation.

5. Force Majeure. An "Into" Product shall be subject to the "Force Majeure"

provisions in Section 1.23.

6. Multiple Parties in Delivery Chain Involving a Designated Interface. Seller and Buyer recognize that there may be multiple parties involved in the delivery and receipt of the Product at the Designated Interface or ADI to the extent that (1) Seller may be purchasing the Product from a succession of other sellers ("Other Sellers"), the first of which Other Sellers shall be causing the Product to be generated from a source ("Source Seller") and/or (2) Buyer may be selling the Product to a succession of other buyers ("Other Buyers"), the last of which Other Buyers shall be using the Product to serve its energy needs ("Sink Buyer"). Seller and Buyer further recognize that in certain Transactions neither Seller nor Buyer may originate the decision as to either (a) the original identification of the Designated Interface or ADI (which designation may be made by the Source Seller) or (b) the Timely Request for Firm Transmission or the purchase of other Available Transmission (which request may be made by the Sink Buyer). Accordingly, Seller and Buyer agree as follows:

A. If Seller is not the Source Seller, then Seller shall notify Buyer of the Designated Interface promptly after Seller is notified thereof by the Other Seller with whom Seller has a contractual relationship, but in no event may such designation of the Designated Interface be later than the prescheduling deadline pertaining to the Transaction between Buyer and Seller pursuant to Section 1.

B. If Buyer is not the Sink Buyer, then Buyer shall notify the Other Buyer with whom Buyer has a contractual relationship of the Designated Interface promptly after Seller notifies Buyer thereof, with the intent being that the party bearing actual responsibility to secure transmission shall have up to 30 minutes after receipt of the Designated Interface to submit its Timely Request for Firm Transmission.

C. Seller and Buyer each agree that any other communications or actions required to be given or made in connection with this "Into Product" (including without limitation, information relating to an ADI) shall be made or taken promptly after receipt of the relevant information from the Other Sellers and Other Buyers, as the case may be.

D. Seller and Buyer each agree that in certain Transactions time is of the essence and it may be desirable to provide necessary information to Other Sellers and Other Buyers in order to complete the scheduling and delivery of the Product. Accordingly, Seller and Buyer agree that each has the right, but not the obligation, to provide information at its own risk to Other Sellers and Other Buyers, as the case may be, in order to effect the prescheduling, scheduling and delivery of the Product

"Native Load" means the demand imposed on an electric utility or an entity by the requirements of retail customers located within a franchised service territory that the electric utility or entity has statutory obligation to serve.

"Non-Firm" means, with respect to a Transaction, that delivery or receipt of the Product may be interrupted for any reason or for no reason, without liability on the part of either Party.

"System Firm" means that the Product will be supplied from the owned or controlled generation or pre-existing purchased power assets of the system specified in the Transaction (the "System") with non-firm transmission to and from the Delivery Point, unless a different Transmission Contingency is specified in a Transaction. Seller's failure to deliver shall be excused: (i) by an event or circumstance which prevents Seller from performing its obligations, which event or circumstance was not anticipated as of the date the Transaction was agreed to, which is not within the reasonable control of, or the result of the negligence of, the Seller; (ii) by Buyer's failure to perform; (iii) to the extent necessary to preserve the integrity of, or prevent or limit any instability on, the System; (iv) to the extent the System or the control area or reliability council within which the System operates declares an emergency condition, as determined in the system's, or the control area's, or reliability council's reasonable judgment; or (v) by the interruption or curtailment of transmission to the Delivery Point or by the occurrence of any Transmission Contingency specified in a Transaction as excusing Seller's performance. Buyer's failure to receive shall be excused (i) by Force Majeure; (ii) by Seller's failure to perform, or (iii) by the interruption or curtailment of transmission from the Delivery Point or by the occurrence of any Transmission Contingency specified in a Transaction as excusing Buyer's performance. In any of such events, neither party shall be liable to the other for any damages, including any amounts determined pursuant to Article Four.

"Transmission Contingent" means, with respect to a Transaction, that the performance of either Seller or Buyer (as specified in the Transaction) shall be excused, and no damages shall be payable including any amounts determined pursuant to Article Four, if the transmission for such Transaction is unavailable or interrupted or curtailed for any reason, at any time, anywhere from the Seller's proposed generating source to the Buyer's proposed ultimate sink, regardless of whether transmission, if any, that such Party is attempting to secure and/or has purchased for the Product is firm or non-firm. If the transmission (whether firm or non-firm) that Seller or Buyer is attempting to secure is from source to sink is unavailable, this contingency excuses performance for the entire Transaction. If the transmission (whether firm or non-firm) that

Seller or Buyer has secured from source to sink is interrupted or curtailed for any reason, this contingency excuses performance for the duration of the interruption or curtailment notwithstanding the provisions of the definition of "Force Majeure" in Article 1.23 to the contrary.

"Unit Firm" means, with respect to a Transaction, that the Product subject to the Transaction is intended to be supplied from a generation asset or assets specified in the Transaction. Seller's failure to deliver under a "Unit Firm" Transaction shall be excused: (i) if the specified generation asset(s) are unavailable as a result of a Forced Outage (as defined in the NERC Generating Unit Availability Data System (GADS) Forced Outage reporting guidelines) or (ii) by an event or circumstance that affects the specified generation asset(s) so as to prevent Seller from performing its obligations, which event or circumstance was not anticipated as of the date the Transaction was agreed to, and which is not within the reasonable control of, or the result of the negligence of, the Seller or (iii) by Buyer's failure to perform. In any of such events, Seller shall not be liable to Buyer for any damages, including any amounts determined pursuant to Article Four.

EXHIBIT A: CONFIRMATION LETTER

MASTER POWER PURCHASE AND SALE AGREEMENT

CONFIRMATION LETTER

This confirmation letter shall confirm the Transaction agreed to on_____, ___ between _____ ("Party A") and _____ ("Party B") regarding the sale/purchase of the Product under the terms and conditions as follows:

Seller:

Buyer:

Product:

[] Into _____, Seller's Daily Choice

[] Firm (LD)

[] Firm (No Force Majeure)

[] System Firm

(Specify System:)

[] Unit Firm

(Specify Unit(s):)

[] Other

[] Transmission Contingency (If not marked, no transmission contingency)

[] FT-Contract Path Contingency [] Seller [] Buyer

[] FT-Delivery Point Contingency [] Seller [] Buyer

[] Transmission Contingent [] Seller [] Buyer

[] Other transmission contingency

(Specify:)

Contract Quantity:

Delivery Point:

Contract Price:

Energy Price:

Other Charges:

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Confirmation Letter

Page 2

Delivery Period:

Special Conditions:

Scheduling:

Option Buyer:

Option Seller:

Type of Option:

Strike Price:

Premium:

Exercise Period:

This confirmation letter is being provided pursuant to and in accordance with the Master Power Purchase and Sale Agreement dated _____ (the "Master Agreement") between Party A and Party B, and constitutes part of and is subject to the terms and provisions of such Master Agreement. Terms used but not defined herein shall have the meanings ascribed to them in the Master Agreement.

[Party A] [Party B]

Name: Name:

Title: Title:

Phone No: Phone No:

Fax: Fax:

Addendum to the

Master Power Purchase and Sales Agreement (EEI)

Between Duke Energy Trading and Marketing, L.L.C.

and

Energy Atlantic LLC

dated

September 19, 2001

The above-referenced Master Power Purchase and Sales Agreement (the "Agreement") between Duke Energy Trading and Marketing, L.L.C. ("DETM") and Energy Atlantic LLC ("Energy Atlantic") shall be revised as follows:

Cover Sheet: The address information and related terms and conditions attached to this Addendum shall be incorporated into the Cover Sheet and the Agreement.

Section 1.23: Delete the words "provided, however, that existence of the foregoing factors shall not be sufficient to conclusively or presumptively prove the existence of a Force Majeure absent a showing of other facts and circumstances which in the aggregate with such factors establish that a Force Majeure as defined in the first sentence hereof has occurred."

Section 1.50: Delete the words "Section 2.4" and replace with "Section 2.5."

1.62: Add new section:

"Collateral Interest Rate" will be a per annum rate of interest equal to the Federal Funds Rate. "Federal Funds Rate" means, for any day, an interest rate per annum equal to either (A) the rate published as the Overnight Federal Funds Effective Rate that appears on the Telerate Page 118 for such day (or, if such day is not a Business Day, for the preceding Business Day) or (B) if such rate is not so published for any day which is a Business Day, the Federal Funds Rate as published by the Federal Reserve Bank in H.15 (519).

Section 2.1: Add the following as a second paragraph:

The Parties may have entered into power purchases and sales prior to the execution of this Agreement ("Existing Transactions"), which are currently subject to an existing contract ("Existing Agreement") including, but not limited to, the WSPP Agreement, the MAPP Restated Service Agreement, or a bilateral agreement between the Parties. Effective as of the date of this Agreement, these Existing Transactions shall for all purposes be Transactions hereunder and shall be subject to all the terms of this Agreement, except that (1) all service level/product definitions; (2) the regional reliability requirements and guidelines; and (3) Force Majeure/Uncontrollable Force definitions shall have the meaning ascribed to them in the Existing Agreement in effect on the date the Transaction was entered into.

Section 2.3: The word "may" in the first line shall be changed to "shall."

Section 3.3: The following shall be inserted at the end of the first sentence: "for so long as the event or condition of Force Majeure is in effect."

Section 4: Add the following as Section 4.3 to the Agreement:

Suspension of Performance for Failure to Deliver/Receive. Notwithstanding, and in addition to the remedies provided pursuant to Sections 4.1 and 4.2, if Seller or Buyer fails to schedule and/or deliver/receive all or part of the Product pursuant to a transaction, and such failure is not excused under the terms of the Product or by the other Party's failure to perform, then upon one (1) Business Day prior notice, and for so long as the non-performing Party fails to perform, the performing Party shall have the right to suspend its performance under any or all Transactions.

Section 5.1 (g), Subsection (i): Delete the words "event of default" and replace with the words "Event of Default." in the second and third lines.

Section 5.1 (g): Delete the words "or becoming capable at such time of being declared," after the word "becoming" and before the word "immediately" in the eighth and ninth lines.

Section 5.1(h): The following shall be inserted as subparagraph (vi):

(vi) if the applicable cross default section in the Cover Sheet is indicated for such Guarantor, the occurrence and continuation of (i) a default, event of default or other similar condition or event in respect of such Guarantor or any other party specified in the Cover Sheet for such Guarantor under one or more agreements or instruments, individually or collectively, relating to indebtedness for borrowed money in an aggregate amount of not less than the applicable Cross Default Amount (as specified in the Cover Sheet), which results in such indebtedness becoming immediately due and payable or (ii) a default by such Guarantor in making on the due date therefor one or more payments, individually or collectively, in an aggregate amount of not less than the applicable Cross Default Amount (as specified in the Cover Sheet).

Section 5.1: Add a new Section 5.1(i) that reads the "default by a Party under any other agreement between the Parties including but not limited to any commodity or financial derivative agreement or transaction."

Section 5.2: Add the phase, "or with respect to its Guarantor" after the first use of the phrase, "Defaulting Party" in the second line.

Section 5.3: Add the phrase "plus, at the option of the Non-Defaulting Party, any cash or other form of liquid security then in the possession of the Defaulting Party or its agent pursuant to Article Eight," after the first use of the phrase "due to the Non-Defaulting Party" in the sixth line.

Section 5.4:

The following shall be inserted after "liquidation" in the second line: "and termination of a Transaction pursuant to Section 5.2."

Add the following to the end of the paragraph:

"Notwithstanding any provision to the contrary contained in this Agreement, the Non-Defaulting Party shall not be required to pay the Defaulting Party any amount under Article 5 until the Non-Defaulting Party receives confirmation satisfactory to it in its reasonable discretion that all other obligations of any kind whatsoever of the Defaulting Party to make any payments to the Non-Defaulting Party under this Agreement or otherwise which are due and payable as of the Early Termination Date have been fully and finally performed. Each Party hereby grants to the other Party a continuing security interest in all of its right, title and interest in, to and under any Commodity Contract, Forward Contract, and Swap Agreement, (each as defined in the United States Bankruptcy Code) between the Parties (collectively the "Financial Contracts"), together with all proceeds thereof (the "Collateral") in order to margin, guaranty, secure or settle the performance and payment of its obligations owing under each and every Financial Contract (the "Secured Obligations")."

Section 5.6 (Option A): The following shall be added to the end of the first sentence: "until the Transaction is liquidated pursuant to Section 5.2."

Section 5.7:

The letter "(a)" and the phrase "or (b) a Potential Event of Default" shall be removed.

Add "and Return of Performance Assurance" after the word "Performance" in the title of this section.

At the end of the paragraph, add "Upon the occurrence of an event described above the Defaulting Party shall immediately return all Performance Assurances provided by the Non-Defaulting Party pursuant to this Agreement."

Section 8.1(c) and 8.2(c) Add at the end of the second paragraph: "Notwithstanding anything herein to the contrary, for purposes of this provision, the calculation of Termination Payment shall exclude Costs."

Section 8.1(c) Amend to add the following in line 14 after the "." and before "In":

"In the event some or all of the Party B Performance Assurance is in the form of cash, upon the return by Party A of such cash, Party A shall include a payment to Party B of interest calculated at the Collateral Interest Rate for the period the cash was held by Party A excluding the date in which such cash is returned."

Section 8.1(d): After the comma in line five, add "or fails to maintain such Performance Assurance or guaranty or other credit assurance for so long as the Downgrade Event is continuing."

Section 8.2: In (ii) under "Option B," replace "unaudited" with "audited" and insert "if possible" after "Cover Sheet" at the end of that sentence.

Section 8.2(c): Amend to add the following in line 14 after the "." and before "In":

"In the event some or all of the Party A Performance Assurance is in the form of cash, upon the return by Party B of such cash, Party B shall include a payment to Party A of interest calculated at the Collateral Interest Rate for the period the cash was held by Party B excluding the date in which such cash is returned."

Section 8.2(d): After the comma in line five, add "or fails to maintain such Performance Assurance or guaranty or other credit assurance for so long as the Downgrade Event is continuing."

Section 8.3: Add the following as a second paragraph: "For purposes of this Master Agreement, "collateral" shall not include Energy Atlantic receivables or the proceeds thereof that do not result from the sale of Product under this Master Agreement. "Cash collateral" shall specifically exclude such receivables but shall include cash posted as collateral hereunder by either Party.

Section 9.2: Insert the following after "government authority:" in the second line: "or other changes imposed by rule, regulation or order."

Section 10.4: Delete the word "arising" and replace it with "to the extent such Claims arise" in the second line. Add the following as a second paragraph:

"If any legal proceedings shall be instituted or any claim or demand shall be asserted by any third party in respect of which indemnification may be sought by either Party hereto, the Party seeking indemnification (the "Indemnitee") shall give prompt written notice of the legal proceedings or the assertion of any claim or demand of which it has knowledge that is covered by the indemnity under this Agreement to be forwarded to the Party from which indemnification is sought (the "Indemnitor"). Within 30 days after delivery of such notification, the Indemnitor may, upon written notice thereof to the Indemnitee, assume control of the defense of such action, suit, proceeding or claim with counsel reasonably satisfactory to the Indemnitee. If the Indemnitor does not assume control of such defense, the Indemnitee shall control such defense. The Party not controlling such defense may participate therein at its own expense; provided that if the Indemnitor assumes control of such defense and the Indemnitee reasonably concludes, based on advice from counsel, that the Indemnitor and the Indemnitee have conflicting interests with respect to such action, suit, proceeding or claim, the reasonable fees and expenses of counsel to the Indemnitee solely in connection therewith shall be considered indemnifiable costs for purposes of this Agreement; provided, however, that in no event

shall the Indemnitor be responsible for the fees and expenses of more than one counsel for the Indemnitee. The Party controlling such defense shall keep the other Party advised of the status of such action, suit, proceeding or claim and the defense thereof and shall consider recommendations made by the other Party with respect thereto. The Indemnitee shall not agree to any settlement of such action, suit, proceeding or claim without the prior written consent of the Indemnitor. The Indemnitor shall not agree to any settlement of such action, suit, proceeding or claim that does not include a complete release of the Indemnitee from all liability with respect thereto or that imposes any liability or obligation on the Indemnitee without the prior written consent of the Indemnitee, which shall not be unreasonably withheld, conditioned or delayed."

Section 10.5: Delete the words "which consent may be withheld in the exercise of its sole discretion" and replace with the words "which consent shall not be unreasonably withheld."

Section 10.11: Add "Affiliates" after "accountants" in the fourth line.

Section 10.12: Add new section:

Calculation of Termination Payment. For the purposes of calculating a Termination Payment pursuant to Article 5 and 8, the Parties may include Settlement Amounts for any and all other transactions between them for the physical purchase and sale of power, including options, whether or not such other transactions are governed by this Master Agreement.

Section 10.13 Add new section:

Arbitration and Legal Recourse.

10.13.1. Any unresolved controversy or claim arising out of or relating to this Agreement involving amounts less than $5,000,000 shall be settled by arbitration in accordance with the Rules of the American Arbitration Association to the extent not inconsistent with the rules specified herein. As to disputes that involve amounts of $5,000,000 or more, the Parties may choose to litigate or may resolve such disputes by the provisions of this Article.

10.13.2. Each Party shall choose one arbitrator within twenty (20) Business Days of either Party's written election to the other to arbitrate, and within ten (10) Business Days after both such arbitrators are chosen, such arbitrators shall choose a third arbitrator who shall act as Chair. Any arbitrator chosen shall be a disinterested party with knowledge of the industry.

10.13.3. The first arbitration hereunder shall be conducted in Houston, Texas. The following proceeding shall take place in New York City, New York. Successive arbitration proceedings shall alternate between Houston and New York, in said order.

10.13.4. The arbitrators, once chosen, shall consider any Transaction tapes or any other evidence which the arbitrators deem necessary and shall then accept sealed written

resolutions of the subject dispute from each Party on a confidential basis to be submitted within twenty (20) Business Days of establishment of the arbitration panel. The written submissions shall be in a form and subject to any limitations as may be prescribed by the arbitrators. The arbitrators shall then choose only one of the proposed solutions, (without modification) as the fairest solution to the dispute within ten (10) Business Days of receipt of the written submissions of both Parties. A majority vote shall govern and the decision of the arbitrators shall be final and binding.

10.13.5. Any expenses incurred in connection with hiring the arbitrators and performing the arbitration shall be shared and paid equally between the Parties. Each Party shall bear and pay its own expenses incurred by each in connection with the arbitration, unless otherwise included in a solution chosen by the arbitration panel. In the event either Party must file a court action to enforce an arbitration award under this Article, the prevailing Party shall be entitled to recover its court costs and reasonable attorney fees.

10.13.6. The existence, contents or results of any arbitration hereunder may not be disclosed without the prior written consent of both Parties, subject to Section 10.11 herein.

Add new Section 10.14.

Electronic Imaged Documents. Any document generated by the Parties with respect to this Agreement, including this Agreement, may be imaged and stored electronically ("Imaged Documents"). Imaged Documents may be introduced as evidence in any proceeding as if such were original business records and neither Party shall contest the admissibility of Imaged Documents as evidence in any proceeding.

Add the following wording to Schedule P:

Other Products and Service Levels: The Parties may agree to use a product/service level defined by a different agreement (i.e., the WSPP Agreement, the ERCOT agreement, etc.) for a particular Transaction. Unless the Parties expressly state and agree that all the terms and conditions of such other agreement will apply to any such Transaction, the Transaction shall be subject to all the terms of this Agreement, except that (1) all service level/product definitions; (2) the regional reliability requirements and guidelines; and (3) Force Majeure/Uncontrollable Force definitions shall have the meaning ascribed to them in the different agreement in effect on the date the Transaction was entered into.

All notices, invoices, payments, statements, Confirmations and communications made to DETM pursuant to this Agreement shall be made as follows:

Correspondence:		
If the deal is done with the	Duke Energy Trading and Marketing, L.L.C.	
Houston office:	5400 Westheimer	
	Houston, Texas 77056	
	Attention: Contract Administration	
	Phone: (713) 627-6177	FAX: (713) 627-6188
If the deal is done with the	Duke Energy Trading and Marketing, L.L.C.	
Salt Lake City office:	4 Triad Center, Suite 1000	
	Salt Lake City, UT 84180	
	Attention: Contract Administration	
	Phone: (801) 531-4400	FAX: (801) 531-5490
Invoices:		
If the deal is done with the	Duke Energy Trading and Marketing, L.L.C.	
Houston office:	5400 Westheimer	
	Houston, Texas 77056	
	Attention: Power Accounting	
	Phone: (713) 627-5400	Fax: (713) 989-0267
If the deal is done with the	Duke Energy Trading and Marketing, L.L.C.	
Salt Lake City office:	4 Triad Center, Suite 1000	
	Salt Lake City, UT 84180	
	Attention: Power Accounting	
	Phone: (801) 531-4400	FAX: (801) 531-5473
Power Scheduling:		
Salt Lake City:	Phone: (801) 531-5123	Fax: (801) 531-5111
Houston:	Phone: (713) 989-0847	Fax: (713) 989-0491
Payment By Check:	Duke Energy Trading and Marketing, L.L.C.	
	P. O. Box 201204	
	Houston, TX 77216-1204	
Payment By Wire Transfer:	Chase Manhattan Bank	
	New York, NY	
	For the Account of:	
	Duke Energy Trading and Marketing, L.L.C.	
	Account No. 910-2-771293 ABA No. 021000021	

Confirmations sent to a DETM office contrary to these instructions shall not be deemed "received" for the purposes of Section 2.3 of the Agreement.

ACCEPTED AND AGREED:

DUKE ENERGY TRADING AND MARKETING, L.L.C.

/s/ Joy Thakur

By: Joy Thakur, Senior Director

Date: September 26, 2001

ENERGY ATLANTIC LLC

/s/ Calvin D. Deschene

By: Calvin D. Deschene, General Manager

Date: September 19, 2001

Exhibit 13

(Front Cover)

Maine Public Service Company

We put a lot of energy into Northern Maine

Economic Growth at Loring Commerce Centre

2001 Annual Report

(Inside Front Cover)

Growth and Expansion

Since the closure of Loring Air Force Base on September 30, 1994, Loring Commerce Centre has actively promoted development at the former military facility which consists of approximately 8,700 acres of land, 2.8 million square feet of building space, and a 12,100 foot runway capable of handling the world's largest aircraft. Several tenants now utilize the buildings and collectively, these organizations occupy 1.6 million square feet of space, will employ 1,400 people, and thus contribute significantly to the local economy.

A military vehicle refurbishment center is operated by the Maine Army National Guard at Loring. Their mission is to fix and repair military vehicles, utilizing cost effective and labor efficient methods to maximize savings for the Department of Defense. Since its start in 1997, the Maine Readiness Sustainment Maintenance Center has saved close to $7million in structure and tooling, has grown to over 150 employees, and is expected to see more growth and expansion over the next year. The Center is presently using eight buildings at the Loring Commerce Centre and is actively involved in a student partnership with area schools.

In June, 2001, The Telford Group, a Bangor, Maine based aviation services firm, expanded its aircraft maintenance operations at the Loring International Airport through a joint venture with Volvo Aero Services. Telford's activities at Loring call for storage, disassembly, and associated maintenance of aircraft, which could be as large as the Boeing 747 series, requiring large hangar facilities such as those currently available at Loring.

Area Designated as a Rural Empowerment Zone

In 2002, Aroostook County was designated as a rural Empowerment Zone. Communities are eligible for a variety of federal tax benefits along with technical assistance to help create and sustain long-term private investment in job creation over a ten-year period. Among the benefits of qualifying as an Empowerment Zone are availability of tax-exempt bonds, wage credit provisions, brownfields deductible expenses, and quality zone academy bonds.

Maine Public Service Company

209 State Street

P. O. Box 1209

Presque Isle, Maine 04769-1209

Tel. No. (207) 768-5811 - FAX No. (207) 764-6586

Home Page: http://www.mainepublicservice.com - E-Mail: info@mainepublicservice.com

Maine Public Service Company

The primary goal of Maine Public Service Company is to deliver reliable, economical electrical power to Northern Maine. The Company is an investor-owned electric utility with two wholly-owned subsidiaries, Energy Atlantic, LLC, (EA) and Maine and New Brunswick Electrical Power Company, Ltd. (Maine and New Brunswick).

The year 2001 was Maine Public Service Company's first full year of retail competition and we remain committed to providing highly reliable delivery services to more than 35,000 retail electric customer accounts in a 3,600 square mile service territory, at the lowest possible cost. The electrical system is strengthened by interconnections with New Brunswick, Canada, allowing support from the New Brunswick system and indirectly from the Hydro-Quebec system. Major business activities in the area center around the production of agricultural and forest products. EA's activity is comprised of the competitive retail sale of power throughout Maine, while Maine and New Brunswick has been inactive since the Company's generating assets were sold in June 1999.

Table of Contents

(Photo)

The Maine Readiness Sustainment Maintenance Center at Loring turns out approximately 50 refurbished units a month including the multipurpose HMMWV, 5-ton trucks, emergency vehicles, dozers, and mobile kitchen trailers. A storage program for Howitzers and other military vehicle and equipment parts is also part of their responsibility.

Cover Photos:

(Top) A newly refurbished multipurpose vehicle was manufactured by the Maine Readiness Sustainment Maintenance Center for recruiters to use at parades and career fairs; (Left) Balancing new tires; (Right) Medic symbols are painted on emergency vehicle; and (Bottom) One of the first aircraft received at the Telford facility for maintenance and storage.

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President's Letter

to our Shareholders

and Employees

(Picture)

Paul R. Cariani

President and CEO

The year 2001 was again excellent for your Company with earnings of $3.33 per share compared to $3.34 in 2000. The total return on equity (ROE) was 12.7% with the delivery company earning 10.5%, compared to its allowed ROE of 10.7%. Net income was $5.2 million in 2001 compared to $5.3 million in 2000.

As a result of our strong financial performance, the Company increased the annual dividend from $1.28 to $1.40 on October 1, 2001. In addition, our stock price increased by approximately 12% for the year and was one of the better performers in our industry.

Energy Atlantic (EA), our unregulated power marketing subsidiary, contributed $.57 per share in spite of an after tax write-off of approximately one million dollars related to the settlement of a dispute between Engage Energy America, LLC (Engage) and EA. (Please refer to Note 3 of Notes to Consolidated Statements for more information). Because of this settlement, EA's contribution to 2001 earnings is substantially lower than its contribution of $1.06 per share in 2000. A substantial part of EA's success in the past two years was attributable to supplying residential Standard Offer Service (SOS) in Central Maine Power's (CMP) territory. Although it presented a competitive bid, EA was not the successful bidder for residential SOS beginning March 1, 2002 in CMP's service territory, and EA's earnings in 2002 will reflect these lost revenues. In addition, SOS for medium and large class customers in the CMP and Bangor Hydro-Electric Company (BHE) territories has recently been awarded at a price that is likely to inhibit competition in these classes for the year beginning March 1, 2002. This will make it more difficult for all competitive providers, including EA, to compete for medium and large class customers in these territories.

EA has been working with Duke Energy Trading to develop a power supply relationship and also was the successful bidder for 40% of the output from the

(Page 3)

Wheelabrator-Sherman generating facility beginning March 1, 2002, which it has already resold to retail customers in Maine Public Service Company's territory. Although EA has enjoyed excellent success over the last two years, the energy marketing business is very volatile and, for reasons discussed previously, 2002 is likely to produce results that do not compare favorably with those of 2001.

The regulated transmission and distribution (T&D) company had a very good year despite reduced sales resulting from the downturn in the economy. Earnings for the T&D Company were $2.76 per share compared to $2.28 last year, with lower interest costs the major contributing factor to the increased earnings.

Last year, I reported that MPS would not incur any liability for 2001 regarding replacement power costs for Maine Yankee (MY), although calendar years 2002 through 2004 could still be subject to liability if the auction price of independent power production contracts exceeded replacement power costs set forth in the MY Decommissioning Study. I am pleased to report that, based upon the results of the auction prices for independent power producer contracts, the Company will not be subject to any liability in 2002 and subsequent years.

In other regulatory issues, the MPUC approved the Company's stranded cost revenue requirements, effective for the two-year period beginning March 1, 2002, and the investigation into rate design will be ongoing in 2002.

In other matters, I regretfully report the resignation of Stephen A. Johnson, Vice President and General Counsel, effective February 15, 2002. Steve accepted a position with the Company's outside law firm and has been an outstanding contributor to the success of MPS and EA.

I am pleased to report the addition of Lance A. Smith to our Board of Directors. Lance has been very active and successful in the agricultural community and is a welcome addition to our Board.

This is the final report you will receive from me, since I will be retiring effective September 1, 2002. As I look back over the years, your Company has faced many challenges and successfully moved forward from the closing of Loring Air Force Base to the closure of the Maine Yankee Nuclear Plant. Deregulation has provided an opportunity for EA while the delivery company has maintained stable rates, which are the lowest among Maine's investor-owned utilities. It has been an honor and a privilege to serve as your President and to be part of MPS.

My successor, J. Nick Bayne of Charlotte, North Carolina, was elected to the position of President and CEO-Elect by the Board of Directors on March 1, 2002. He assumed transitional responsibilities at MPS on March18, 2002. His previous experience includes leadership positions with both regulated and unregulated energy firms.

The Directors and I sincerely believe Nick will be an excellent leader for your Company and the communities we serve. He inherits an excellent management team and a company that is financially strong. I believe your Company has a bright future.

Finally, I wish to thank our dedicated employees who contribute so much to the success of this Company. I also thank you, our shareholders, for the confidence and support you afforded me over the years.

Sincerely,

Paul R. Cariani

President and CEO

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Analysis of Financial Condition and Review of Operations - 2001

Electric Industry Restructuring

The Company's business environment in 2001 reflects Maine's electric utility restructuring effective March 1, 2000, when the Company began providing customers with transmission and distribution services only. As required by law, the Company divested its generating assets in 1999 with the gain from the sale of these assets deferred on our balance sheet to be used to offset stranded costs beginning March 1, 2000. The associated changes affected many aspects of the Company's financial and operational results in 2001 and 2000, the year of transition, causing significant differences for the transmission and distribution business for 2001 and 2000, as compared to 1999, when the Company operated as an integrated electric utility. An understanding of the following points will enhance comprehension of information presented in this Annual Report and the restructuring's impact on the Company's shareholders and customers:

1. Electric restructuring began on March 1, 2000 and, therefore, only two months of the results for 2000 were reported in a manner consistent with prior years. Comparisons of both prior and future periods to 2001 and 2000 are complicated by this mixture.

2. Since March 1, 2000, the Company has provided only transmission and distribution (T & D) services. These delivery services charged to our customers are determined by the Federal Energy Regulatory Commission (FERC) for transmission services and by the Maine Public Utilities Commission (MPUC) for distribution services, using traditional rate base, rate of return ratemaking principals used by the regulatory agencies.

3. The Company's revenue dollars decreased significantly after the beginning of retail competition, because the customers now buy their power from energy providers. Although the energy supply is reflected on its customers' bills, the Company merely collects and remits to the supplier. Until the Company sold its generating assets on June 8, 1999, related generating costs were expensed. Following the generating asset sale and until March 1, 2000, purchased electricity was expensed. Revenues included the recovery of these costs in rates approved by the MPUC and by FERC. On the other hand, Energy Atlantic, LLC, (EA or Energy Atlantic) the Company's wholly-owned unregulated marketing subsidiary, sells energy supply in the competitive retail market and their business activity increased dramatically after March 1, 2000.

4. The Company's sales in MWH's are comparable to pre-March 1, 2000 results because the new T & D rates are still applied to MWH's delivered. The prior year data has been reclassified consistent with the new classifications,

effective March 1, 2000.

5. On March 1, 2000, the MPUC allowed the recovery of stranded costs from our customers. The contractual amounts paid to Wheelabrator-Sherman (W-S) above the market price received from an unrelated power marketer for the output is recorded as stranded cost by the Company. The entire contractual amount was reported as purchased power expense prior to March1, 2000. The Seabrook amortization is also classified as stranded cost effective March 1, 2000. These MPUC approved charges to stranded costs are partially offset by the amortization of the deferred gain from the generating asset sale.

Please refer to Note 12 of the Notes to Consolidated Financial Statements, "Commitments, Contingencies, and Regulatory Matters" for details of the industry restructuring and the related rate orders of the MPUC. Note 3 of the Notes to Consolidated Financial Statements, "Energy Atlantic" describes the Company's wholly-owned unregulated subsidiary's activities in detail.

RESULTS OF OPERATIONS

Earnings and Dividends

Net income and earnings (loss) per share for the Company's core transmission and distribution (T&D) services business as well as for its wholly-owned unregulated marketing subsidiary, Energy Atlantic, are as follows for the three-year period:

(Dollars in Thousands)

Net Income	2001	2000	1999
Core T&D	$4,340	$3,613	$4,360
EA	897	1,688	(354)
Total Company	$5,237	$5,301	$4,006
Earnings Per Share			
Core T&D	$ 2.76	$ 2.28	$ 2.70
EA	.57	1.06	(.22)
Total Company	$ 3.33	$ 3.34	$ 2.48

For 2001, the Company's return on equity was 12.7% compared to 13.8% and 11.1% for 2000 and 1999, respectively. In determining rates at the beginning of deregulation, March 1, 2000, the MPUC authorized a return on equity of 10.7% for the core T&D business. For 2001, the core T&D business earned 10.5% compared to 9.5% for 2000.

EA earnings in 2001 reflects a $1.08 million charge in accordance with a settlement agreement with EA's supplier for standard offer service in Central Maine Power Company's service territory, Engage Energy America, LLC. This one-time charge reduced earnings per share by $.69 and was the principal reason for the decrease in EA's 2001 earnings, as compared to 2000.

Although 2001 sales for the retail regulated T&D business were 1.8% less than 2000 sales, as more fully explained in the "Operating Revenues and Energy Deliveries" section below, 2001 net income increased by $727,000 to $4,340,000 compared to net income in 2000 of $3,613,000. T&D Operation and Maintenance expenses, as noted in

the "Operating Expenses" section below, were $425,000 less in 2001 than 2000. In addition, interest expenses in 2001 were approximately

$1.2 million less than 2000 reflecting the significant reductions in short-term interest rates and the variable interest rates on the tax-exempt bonds used by the Company to fund its construction program. These reductions follow the national trend of lower interest rates as a result of the Federal Reserve's interest rate cuts to spur the economy.

During 1999, the Company sold its generating assets and deferred a net gain of $19.9 million. In accordance with the previously mentioned mega-case order for T&D rates, (see "Electric Industry Restructuring", above) beginning March 1, 2000, the deferred gain is being amortized, which significantly reduces other stranded cost revenue requirements. However, in 1999, the Company did recognize $389,000 of net income associated with excess deferred income taxes and unamortized investment tax credits associated with the assets sold.

During the three-year period, dividends have been increased three times. Your Board of Directors increased the quarterly dividend from $.25 to $.30 per share effective with the October 1, 1999 payment. One year later, your Board increased the dividend to $.32 per share, an increase of $.02. On October 1, 2001, the dividend was increased to $.35 per share, an increase of $.03 per share. Dividends paid during 2001 were $1.31 per share compared to $1.22 and $1.05 for 2000 and 1999, respectively.

Operating Revenues and Energy Deliveries

Consolidated revenues and MWH delivered for the years 2001, 2000, and 1999 are as follows:

Consolidated Revenues and Megawatt Hours Delivered(Dollars in Thousands)

	2001		2000		1999	
	Dollars	MWH	Dollars	MWH	Dollars	MWH
Residential	$ 12,382	166,012	$ 14,605	166,049	$ 21,708	170,481
Large Commercial	4,684	160,575	6,111	171,023	10,596	149,979
Medium Commercial	5,242	107,207	5,908	103,914	9,578	99,121
Small Commercial	5,994	85,605	7,075	87,867	10,248	88,570
Other Retail	767	3,309	783	3,259	885	3,210
Total Regulated Retail	29,069	522,708	34,482	532,112	53,015	511,361
Energy Atlantic Competitive						
Energy Supply	15,771	375,768	37,054	824,845	--	---
Total Retail	44,840	898,476	71,536	1,356,957	53,015	511,361
Sales for Resale	--	--	1,798	38,010	12,536	390,587
Total Deliveries of Electricity	44,840	898,476	73,334	1,394,967	65,551	901,948
Other Operating Revenues	2,711		2,130		1,905	
Total Operating Revenues	47,551		75,464		67,456	
Energy Atlantic Standard						
Offer Service Margin	2,147		2,774		--	
Total Revenues	$49,698		$78,238		$67,456	

The year 2001 was the first full year after Maine's electric industry restructuring which, as discussed in "Electric Industry Restructuring" above, began on March 1, 2000. The Company provides transmission and distribution (T&D) services, regulated by the Maine Public Utilities Commission (MPUC), but no longer supplies energy. The Company's wholly-owned marketing subsidiary, Energy Atlantic, LLC, (EA), provides electricity at competitive rates throughout Maine. Comparisons of the regulated retail revenues for the years 1999 through 2001 as evidenced by the chart above are difficult, but MWH deliveries continue to be comparable. The following discussion on both the T&D and EA segments of the Company, therefore, will focus on MWH deliveries.

Total T&D regulated retail sales in 2001 were 522,708 MWH, a decrease of 9,404 MWH (1.8%) and an increase of 11,347 MWH (2.2%) compared to 2000 and 1999, respectively. The decrease from

2000 was due to the 10,448 MWH (6.1%) decrease in large commercial customers sales, primarily lumber and wood products (7,005 MWH) and food processing (4,105 MWH). Sales to Irving Forest Products, a wood products customer, decreased 6,472 MWH in 2001 compared to 2000 due to production curtailments. An expansion in 1999 by McCain Foods, our largest customer, contributed additional sales of approximately 17,000 MWH in 2000, accounting for most of the 21,044 MWH (14.0%) increase in large commercial sales compared to 1999. Residential sales for 2001 of 166,012 MWH approximated 2000, and were 4,469 MWH (2.6%) less than 1999. Medium commercial sales in 2001 were 107,207 MWH, reflecting increases of 3,293 MWH (3.2%) and 8,086 MWH (8.2%) compared to 2000 and 1999, respectively, due to continued increase in activity at the former Loring Air Force Base. Activity in the small commercial class decreased 2,262 MWH (2.6%) to 85,605 MWH in 2001 compared to 2000 and decreased 2,965 MWH (3.3%) compared to 1999. Sales to wholesale customers ceased with the industry restructuring on March 1, 2000.

During 1996 and 1997, the Company entered into long-term discount contracts, which principally expired at the end of 2000, with five of its largest customers. All five of these customers produced evidence of hardship to continue operations in the area or were investigating self-generation, criteria that the MPUC reviewed before approving these load-retention contracts. On August 4, 2000, the MPUC approved new contracts with two of these customers for up to eleven years, retaining these valuable customers. In addition, the MPUC authorized revenue recognition and establishment of a regulatory asset for the difference between the amounts billed under these contracts and the originally approved contracts which totaled $961,000 and $380,000 in 2001 and 2000, respectively, recorded as other revenues. These regulatory assets will be recovered in future rates.

The MPUC has jurisdiction over retail rates. As discussed in the "Regulatory Proceedings -- MPUC Approves Elements of Rates Effective March 1, 2000" section below, the MPUC approved rates for the Company's transmission and distribution (T&D) utility as of March 1, 2000, exclusive of the energy supply, now purchased by customers from competitive energy providers or standard offer service. Until February 29, 2000, the Company operated under a four-year rate plan which had granted rate increases of 4.4%, 2.9% and 3.9% effective January 1, 1996, February 1, 1997 and February 1, 1998, respectively. For the final year of the rate plan, the MPUC approved a stipulation allowing a 3.66% specified rate increase as of April 1, 1999. Rather than increase customer rates, the MPUC allowed the recognition of these revenues as an offset to the available value from the sale of the generating assets. The 3.66% increase totaled $1,316,000 in 1999 and $379,000 for the first two months of 2000, and has been recorded as other operating revenues. Other operating revenues were $2,711,000 in 2001, compared to $2,130,000 and $1,905,000 in 2000 and 1999, respectively. The $581,000 increase in 2001 compared to 2000 reflects the increase in regulatory

revenue adjustments, discussed above. The Federal Energy Regulatory Commission (FERC) has jurisdiction over transmission rates.

As more fully described in the "Energy Atlantic" section below, EA's business is comprised of Standard Offer Service (SOS) and Competitive Energy Supply (CES) activity. The reported SOS activity of $2,147,000 for 2001 represents the accrued net margin principally from SOS provided to approximately 525,000 residential and small commercial customer accounts in Central Maine Power's service territory. The $627,000 decrease (22.6%) from 2000 reflects a $1.8 million before-tax charge for a contract settlement with Engage Energy America, LLC (Engage), the wholesale provider, recorded in the second quarter of 2001. The impact of this settlement, which is also further discussed in the "Energy Atlantic" section below, was partially offset by the SOS activity for all of 2001. In 2000, there were only ten months of sales. EA's CES sales were 375,768 MWH in 2001, a 449,077 MWH (54.4%) decrease from 2000. This reflects the expiration of several large CES contracts during 2001, which had been in place for most of 2000.

Operating Expenses

For the three-year period 1999-2001, energy supply and transmission and distribution operation and maintenance expenses are as follows:(Dollars in Thousands)

	2001	2000	1999
Energy Supply			
Purchased Power			
Wheelabrator-Sherman	**$ --**	$ 2,567	$14,205
Maine Yankee	**--**	571	3,760
Northeast Empire	**--**	1,508	7,768
Other Purchases	--	2,398	7,619
Energy Atlantic	14,984	36,433	7,324
Total Purchased Power	14,984	43,477	40,676
Deferred Fuel	**--**	114	(1,603)
Net Purchased Power	14,984	43,591	39,073
Generation			
Fuel Expense	**--**	--	622
Other	**--**	2	569

Total Generation	--	2	1,191
Total Energy Supply	$14,984	$43,593	$40,264
T&D Operation and Maintenance			
Transmission and Distribution	$ 3,343	$ 3,219	$ 3,008
Customer Accounting and General Administrative	7,198	7,493	7,276
Energy Atlantic	1,097	1,351	1,037
Other Oper. & Maint.	$11,638	$12,063	$11,321
Stranded Costs			
Wheelabrator-Sherman	$ 9,003	$10,694	Not
Maine Yankee	3,170	2,727	Applicable
Seabrook	1,110	925	
Amortization of Gain from Asset Sale	(4,856)	(5,440)	
Deferred Fuel	833	--	
Total Stranded Costs	$ 9,260	$ 8,906	

Beginning March 1, 2000, the Company no longer supplies electricity to our retail customers under regulated rates and, therefore, ceased purchasing power on that date. As discussed in "Electric Industry Restructuring" above, the Company's wholly-owned unregulated marketing subsidiary, Energy Atlantic, LLC, (EA) entered the retail market as an energy provider throughout the State of Maine on March 1, 2000, after participating in the wholesale market prior to February 29, 2000. As discussed in the "Energy Atlantic" section below, EA's competitive energy provider sales and purchase power expenses are recognized on a gross basis throughout 2000 and 2001.

Energy supply expenses of $14,984,000 in 2001 consist only of purchases by EA. The decreases in energy supply of $28,609,000 and $25,280,000 from 2000 and 1999, respectively, reflect the termination of the Company's power purchases on March 1, 2000, as well as a decrease in purchases by EA from 2000 to 2001. The decrease in purchases by EA reflects the expiration of several large CES contracts during 2001 which had been in place for most of 2000. During 1999 and for the first two months of 2000, EA's sales were limited to bulk power sales.

As explained above, the Company supplied power to its customers until February 29, 2000. Purchases from Wheelabrator-Sherman (W-S), Northeast Empire and other suppliers, as well as decommissioning expenses for Maine Yankee, were classified as Energy Supply expenses during the first two months of 2000 and all of 1999, when the Company operated as an integrated electric utility. Payments continued after March 1, 2000 to W-S and Maine Yankee, but were classified as stranded costs, as discussed below. Deferred fuel expense, a component of purchased power, was a positive $114,000 in 2000, compared to a negative $1,603,000 in 1999. A positive deferred fuel expense indicates that amounts collected through rates exceed current costs, which occurred during the first two months of 2000. A negative deferred fuel expense indicates expenses deferred to a future period when these costs will be collected in rates. As more fully discussed in Note 12 of the Notes to Consolidated Financial Statements,

"Commitments, Contingencies and Regulatory Matters -- Four-year Rate Stabilization Plan", the Company was allowed to defer one-half of the Maine Yankee replacement power costs, offset by the savings from the amended purchase power agreement with W-S until the termination of the plan on February 29, 2000. Generating expenses of $1,191,000 in 1999 represent activity until the Company's generating assets were sold on June 8, 1999.

Transmission and distribution (T&D) expenses were $3,343,000 in 2001, an increase of $124,000 over 2000. Additional tree trimming expenses of $137,000 were the primary reason for the increase. The $211,000 increase in T&D expenses from 1999 to 2000 was principally due to fees paid to the Northern Maine Independent System Administrator beginning on March 1, 2000, and a severe windstorm in December, 2000 which increased expenses by $125,000. These increases were partially offset by a $274,000 decrease in tree trimming expenses. Customer accounting and general administrative expenses were $7,198,000 in 2001, a decrease of $295,000 from 2000, principally due to decreases in regulatory legal expenses, and other employee benefits, partially offset by increased medical premiums. EA's other operation expenses were $1,097,000 in 2001, a decrease of $254,000 from 2000, primarily due to decreased bad debt expense of $248,000.

The Company recognized $9,260,000 of stranded costs in 2001, compared to $8,906,000 in 2000. Beginning on March 1, 2000, as detailed in the table above and discussed below in "Regulatory Proceedings -- MPUC Approves Elements of Rates Effective March1, 2000", below, the Company is now classifying certain expenses as stranded costs. The Wheelabrator-Sherman and Maine Yankee costs of $9,003,000 and $3,170,000, respectively, in 2001, and $10,694,000 and $2,727,000, respectively, in 2000, as well as deferred fuel costs of $833,000 in 2001 are comparable to expenses recorded as purchased power prior to March 1, 2000. The Seabrook costs of $1,110,000 in 2001 and $925,000 in 2000 represent amortization of the unrecovered costs beginning March 1, 2000, and are comparable to expenses previously classified as amortization. As stipulated, the Company is allowed to offset these stranded costs with the amortization of the deferred gain from the generating asset sale of June 1999, described in detail in Note 12 of the Notes to Consolidated Financial Statements, "Commitments, Contingencies and Regulatory Matters -- Capacity Arrangements - Generating Asset Sale".

Interest expenses for 2001 were $1,291,000, compared to $2,459,000 and $4,236,000 for 2000 and 1999, respectively. The decrease from 2000 to 2001 of $1,168,000 is primarily due to the early redemption of the 9.775% bonds in June, 2000, accounting for $664,000 of the decrease, and lower interest rates in 2001. The decrease from 1999 to 2000 of $1,777,000 is primarily due to the redemption of long-term debt, principally the 9.775% bonds mentioned above, with proceeds from the generating asset sale, as discussed in Note 8 of the Notes to Consolidated Financial Statements, "Long-Term Debt", partially offset by increased short-term borrowing interest costs in 2000 to meet working capital needs, accounting for $1,023,000 of the decrease. The Company was allowed to recognize $963,000 and $768,000 in stranded cost carrying charges in 2001 and 2000, respectively, as a reduction to interest expense and an increase to deferred fuel to be collected in future periods.

The $686,000 decrease in Interest and Dividend Income in 2001 compared to 2000 was primarily due to a $414,000 decrease in interest earned on generating asset sale proceeds, in addition to lower interest rates earned on the tax-exempt bond proceeds held in trust. The $48,000 decrease in Interest and Dividend Income in 2000 compared to 1999 was primarily due to a $342,000 decrease in interest earned on generating asset sale proceeds, offset by a $243,000 increase in EA's interest income from their escrow arrangement with Engage and by interest earned on the proceeds of the tax-exempt bonds beginning in October 2000.

Energy Atlantic

In January, 1999, Energy Atlantic, the Company's wholly-owned unregulated marketing subsidiary, formally began operations. This marketing subsidiary was involved in wholesale energy transactions during 1999 and the first two months of 2000, and began selling to retail customers on March 1, 2000, the commencement of retail competition in the State of Maine. EA's net income was $897,000 for 2001 compared to $1,688,000 in 2000 and a loss of $354,000 for 1999. The decrease from 2000 primarily reflects the expiration of several large competitive retail contracts in

Central Maine Power's (CMP) service territory, as well as the expiration of most medium non-residential service in the Company's service territory. As discussed below, EA also recognized a settlement charge of $1.08 million.

Energy Atlantic provides standard offer service (SOS) and competitive energy supply (CES) to retail customers, both of which utilize power principally provided via a Wholesale Power Sales Agreement with Engage Energy America, LLC (Engage). Revenues are received and expenses are paid directly by an escrow agent pursuant to instruction from Engage. EA receives a percentage of the net profit from the sale of energy. EA was the SOS provider for approximately 525,000 residential and small non-residential customers in CMP's service territory through February 28, 2002. Under the original SOS terms, EA had furnished a performance bond of approximately $33,000,000 issued by Frontier Insurance Company. The utility (in this case CMP) bears the SOS account collection risk, as it is required to remit the amounts billed 26 days after the billing date to the escrow account mentioned above and maintain the billing and customer service relationship. EA records the accrued net margin of the SOS activity as revenue in the financial statements.

EA's CES activity currently consists of industrial and commercial customers in Maine in which EA maintains collection risk and negotiates contracts directly with customers. CES activity is recorded on a gross basis to include the related revenues and purchased power expenses.

On December 5, 2000, the Federal Energy Regulatory Commission (FERC) issued an order requiring an increase in the Installed Capacity (ICAP) Deficiency Charge in the New England market from $0.17 to $8.75 per kw/month, which was subsequently reduced to $4.87 on September 1, 2001. Engage sent EA a letter giving notice that it was invoking certain contract renegotiation rights and setting forth its position that an increase of this magnitude would give it grounds to cancel its contract with EA. EA responded by stating its view that the contract requires Engage to sustain the market risks of increases in the cost of supplying power and that the notice was in breach of the contract. Without agreeing with EA's position, Engage withdrew its notice letter. Subsequently, Engage alleged that EA previously breached the contract in certain respects. EA denied these allegations.

On May 24, 2001, the Maine Public Utilities Commission (MPUC) issued an Order authorizing a comprehensive settlement of the dispute between EA and Engage. In connection with the MPUC Order, EA, Engage, CMP, and other parties entered into a comprehensive settlement which includes the following:

(i) Engage will continue to supply EA with all energy required to perform outstanding retail contracts and the SOS commitments.

(ii) Engage and EA released one another from liabilities arising on or before May 24, 2001, with limited exceptions.

(iii) EA is no longer required to purchase power exclusively from Engage.

(iv) Before its expiration on February 28, 2002, the Wholesale Agreement cannot be terminated by EA or Engage except upon the willful and material misconduct of the other party.

(v) The order waives the requirement that EA provide a performance bond. Frontier Insurance Company (Frontier) was released from liability under its bond and Frontier released EA and the Company from any and all claims for indemnification, subrogation or contribution under the bond and associated indemnification agreement.

(vi) Westcoast Energy, Inc. (Engage's current parent company) has provided CMP a $33 million guarantee of Engage's performance, and Coastal Corporation (a former affiliate of Engage) was released from its prior guarantee of Engage's performance.

(vii) Engage will receive $8 million over the remaining term of the Wholesale Power Agreement consisting of the following: $1 million received from Frontier; a $4.5 million offset from amounts Engage was otherwise obligated to pay to CMP for entitlements; a total of $1.0 million of payments from EA in monthly increments through March, 2002; and a $1.5 million payment from EA in April, 2002. Under the Order, CMP will be allowed to recover the $4.5 million from ratepayers instead of from Engage.

In connection with this settlement, EA recognized a charge against second quarter 2001 earnings (after-tax) of approximately $1.08 million, or $.69 per share.

After the elimination of the requirement to purchase power exclusively from Engage in May, 2001, EA began securing other sources of supply to support further CES sales. In September, 2001, after examining several competitive bids, including EA's, the MPUC awarded the SOS contract for residential and small commercial customers in CMP's territory to a different marketer beginning March1, 2002. Although positive, EA's CES sales to retail customers will produce far less revenue in 2002 than EA received in 2001 from SOS in CMP's territory. EA continues to pursue additional supply to increase revenues.

Maine Yankee

The Company owns 5% of the Common Stock of Maine Yankee, which operated an 860 MW nuclear power plant (the "Plant") in Wiscasset, Maine. On August 6, 1997, the Board of Directors of Maine Yankee voted to permanently cease power operations and to begin decommissioning the Plant. The Plant experienced a number of operational and regulatory problems and did not operate after December 6, 1996. The decision to close the Plant permanently was based on an economic analysis of the costs, risks and uncertainties associated with operating the Plant compared to those associated with closing and decommissioning it. The Plant's operating license from the Nuclear Regulatory Commission (NRC) was due to expire on October 21, 2008.

The Maine Agreement for the decommissioning of Maine Yankee requires the Maine owners, (Central Maine Power, Bangor Hydro-Electric Company and the Company) for the period from March 1, 2000 through December 1, 2004, to hold their Maine retail ratepayers harmless from the amounts by which the replacement power costs for Maine Yankee exceed the replacement power costs assumed in the report to the Maine Yankee Board of Directors that served as a basis for the Plant shutdown decision, up to a maximum cumulative amount of $41 million. The Company's share of the maximum amount would be $4.1 million for the period. Based on agreements with the MPUC, there was no liability for the years ended December 31, 2000 and 2001. Pursuant to the Company's filing in early 2002, on January 24, 2002, the MPUC issued a notice of settlement for the remaining years 2002, 2003 and 2004. Since the replacement power benchmark prices for the three-year period were below the Maine Yankee-assumed prices for these three years, the Commission concurred with the Company's assertion that, in effect, the calculations would result in no additional liability.

On September 1, 1997, Maine Yankee estimated the sum of the future payments for the closing, decommissioning and recovery of the remaining investment in Maine Yankee to be approximately $930 million, of which the Company's 5% share would be approximately $46.5 million. In December 1998, June 1999, September 2000,

February 2001, and again in December 2001, Maine Yankee updated its estimate of decommissioning costs based on the Settlement. Legislation enacted in Maine in 1997 calls for restructuring the electric utility industry and provides for recovery of decommissioning costs, to the extent allowed by federal regulation, through the rates charged by the transmission and distribution companies. Based on the Maine legislation and regulation precedent established by the FERC in its opinion relating to the decommissioning of the Yankee Atomic nuclear plant, the Company believes that it is entitled to recover substantially all of its share of such costs from its customers and, as of December 31, 2001 is

carrying on its consolidated balance sheet a regulatory asset and a corresponding liability in the amount of $24.7 million, which reflects the Company's 5% share of Maine Yankee's December 31, 2001 estimate of decommissioning costs.

The MPUC, on January 27, 2002, approved a Stipulation providing for the recovery of stranded investment, for a two-year period from March 1, 2002 until February 29, 2004, which includes the Company's share of Maine Yankee decommissioning expenses, Maine Yankee replacement costs, and the remaining Maine Yankee investment.

In December 2000, Maine Yankee distributed approximately $20million to its owners from proceeds received as a result of the termination of Maine Yankee's membership in a nuclear industry mutual insurance company. The Company received its 5% ownership share, or $1.0 million, and reported it as a regulatory liability as of December 31, 2001 and 2000. In January 2002, the MPUC approved a stipulation on stranded costs which included an allocation of 15% of the refund to shareholders and the remainder to offset the recognition of stranded costs. On September 27, 2001, Maine Yankee's Board of Directors voted to redeem 75,200 shares, 15% of the shares outstanding, of Maine Yankee's Common Stock in accordance with a plan approved by the Securities and Exchange Commission on September 10, 2001. The plan calls for the redemption of Common Stock periodically through 2008. On October 4, 2001, the Company received approximately $500,000 for 15% of its Common Stock in Maine Yankee according to the first step of the plan.

For further information, see Note 12 of the Notes to Consolidated Financial Statements, "Commitments, Contingencies, and Regulatory Matters - Capacity Arrangements - Maine Yankee".

Liquidity

The accompanying "Statements of Consolidated Cash Flows" reflect the Company's liquidity and financial strength. The statements report the net cash flows generated from or used for operating, financing, and investing activities.

Net cash flows provided by operating activities for 1999 were $5.3 million. The June 8, 1999 sale of the generating assets provided proceeds of $37.5 million which were deposited with the first mortgage trustee in accordance with mortgage indentures. At the end of 1999, a total of $18.0 million of the proceeds remained with the first mortgage trustee, after a $4.0 million drawdown was used for the final redemption of $2.5 million of the 9.6% Series of second mortgage bonds and a redemption of $1.4 million of the 1996 Series of tax-exempt bonds. In addition to the redemptions mentioned above, $1.3 million of scheduled principal payments were made, for a total of $5.2 million in long-term debt retirements. During 1999, the Company paid $1.3 million in dividends and spent $4.8 million for electric plant. The Company also withdrew the final $.4 million from the proceeds held in trust from the 1996 tax-exempt bond issuance and decreased short-term borrowings by $4.5 million with a portion of the asset sale proceeds.

In 2000, net cash flows provided by operations were $4.7 million. During 2000, the Company withdrew asset sale proceeds from the trustee of $19 million, using $15 million for the redemption of the 9.775% Series of first mortgage bonds and $2.1 million for the associated redemption premium on that debt. In addition, the Company paid taxes on the generating asset sale of approximately $7.9 million. During 2000, as more fully explained in "Capital Resources", below, the Maine Public Utilities Financing Bank issued $9 million of its tax-exempt bonds, the 2000 Series, on behalf of the Company to be drawn for the reimbursement of issuance costs of $.3 million and for qualifying expenditures for distribution property. During 2000, $1.6 million was drawn from the trust account. As of December 31, 2000, the Company had approximately $7.5 million remaining in the tax-exempt bond trust fund for the 2000 Series to be used for the construction of qualifying property. As more fully explained in "Capital Resources", below, the Company reinstated a stock buy back program during 2000 and spent $.9 million for 45,000 shares of Common Stock. In 2000, the Company paid $1.9 in dividends and spent $4.7 million for electric plant. During 2000, an additional $1.3 million was borrowed under the Company's short-term credit facilities.

Net cash flow provided by operating activities were $10.1 million in 2001. In 2001, the Company paid $2.1 million in dividends while reducing short-term borrowings and long-term debt by $2 million. During 2001, the Company received $1.05 million from a settlement with Central Maine Power concerning the 1999 sale of Wyman Unit No. 4 as well as $.5 million for a partial stock redemption from Maine Yankee. As mentioned above, the Company has available proceeds from the issuance of tax exempt bonds in 2000. During 2001, $2 million was withdrawn from the trust amount for the construction of qualifying distribution property. As of December 31, 2001, approximately $5.7 million remains in the tax-exempt bond trust fund to be used for the construction of qualifying property. In 2001, $4.7 million was spent for electric plant.

For additional information regarding construction expenditures for 1999 to 2001 and anticipated construction expenditures for 2002, see Note 12 of Notes to Consolidated Financial Statements, "Commitments, Contingencies, and Regulatory Matters -- Construction Program".

To satisfy working capital requirements, the Company uses short-term borrowings from its revolving credit agreement. In October, 1999, the Company's credit agreement was reduced to $6 million. The agreement is secured by $6 million of first mortgage bonds and its due date has been extended to May, 2002. In September, 2000, the Company obtained an additional $2.5 million unsecured line of credit for a period of six months. This additional line of credit was required to cover the high costs of the W-S power contract during 2000. At the end of 2001, the Company had $3.95 million of short-term debt compared to $4.9 million and $3.6 million at the end of 2000, and 1999, respectively. During 1999 to 2001, the interest rates on these short-term borrowings were below the existing prime rate. For additional information on the short-term credit facility, see Note 6 of the Notes to Consolidated Financial Statements, "Short-Term Credit Arrangement". Based on current projections, the Company estimates that operating cash flows will be sufficient to cover its other sinking fund payments, construction activities, and other financial obligations.

(Page 10)**Capital Resources**

The sale of the Company's generating assets in June 1999, has significantly impacted the Company's capital structure. The after-tax proceeds from the sale of the generating assets and the liquidation of the Canadian subsidiary were used to reduce the Company's debt. In 1999, the Company reduced long-term debt by $3.9 million, redeeming the outstanding second mortgage bonds of the 9.6% Series of $2.5 million and $1.4 million of the 1996 Series of tax-exempt bonds for property sold which was previously financed with this tax-exempt issue. In 2000, the Company used $1.9 million to reduce short-term borrowings and redeemed its highest coupon debt, the 9.775% Series of first mortgage bonds of $15 million, and paid the associated early redemption premium.

As more fully explained in the "Regulatory Proceedings-MPUC Approves Elements of Rates Effective March 1, 2000", below, the recognition of the deferred gain on the generating asset sale of approximately $19.9 million at the end of 1999 began March 1, 2000, to reduce stranded cost revenue requirements, principally the power costs associated with the Wheelabrator-Sherman contract. In accordance with the rate decision, $5.4 million and $4.9 million of the gain were recognized during 2000 and 2001, respectively. In addition, $7 million was used to offset the remaining unrecovered costs on Seabrook. Based on the current ratemaking treatment, the deferred gain should be fully amortized in 2002.

After several years of negotiations, the Company restructured its Power Purchase Agreement (PPA) with the Wheelabrator-Sherman Energy Company (W-S). Under the terms of the original PPA, the Company was obligated to purchase the entire output up to 126,582 MWH of the 17.6 MW biomass plant owned by W-S through December 31, 2000. The PPA could be renewed by either party for an additional fifteen years at prices to be determined by mutual agreement or, absent mutual agreement, by the MPUC. In October 1997, the Company and W-S agreed to amend the PPA. Under the terms of this agreement, W-S agreed to accept an up-front payment of $8.7 million and reduce the price of purchased power by $10 million through December 31, 2000. The Company and W-S agreed to renew the PPA for an additional six years at set prices. In May 1998, the Company made the up-front payment of $8.7 million to

W-S using the proceeds from a financing provided by the Finance Authority of Maine (FAME). Based on the MPUC rate order effective March 1, 2000, the Company began amortizing this regulatory asset and recovering this stranded cost in 2001. The amended PPA helped relieve the financial pressure caused by the closure of Maine Yankee in 1997 as well as the need for substantial increase in retail rates.

As previously mentioned, with the sale of the generating assets, the Company's long-term debt has been dramatically decreased over the three-year period ending with 2001. On January 1, 1999, the Company had $47.2 million of long-term debt compared to $34.9 million at the end of 2001. The Company's long-term debt consists of a 7.95% Series of first mortgage bonds in the amount of $1.825 million due to be redeemed in 2003, two series of tax-exempt bonds issued on behalf of the Company by the Maine Public Utility Financing Bank (MPUFB), and a series of bonds issued by FAME to provide the Company with the funds necessary for the up-front payment to restructure the W-S PPA as mentioned above.

The MPUFB has issued its tax-exempt bonds on behalf of the Company for the construction of qualifying distribution property. Originally issued for $15 million and reduced with generating asset sale proceeds, the 1996 Refunding Series has $13.6 million outstanding at December 31, 2001 and is due in 2021. On October 19, 2000, the 2000 Series of bonds was issued in the amount of $9 million with these bonds due in 2025. The proceeds of the 2000 Series were placed in trust to be drawn down for the reimbursement of issuance costs and for the construction of qualifying distribution property and, as of December 31, 2001, approximately $5.7 million is available. For both tax-exempt bond series, a long-term note was issued under a loan agreement between the Company and the MPUFB with the Company agreeing to make payments to the MPUFB for the principal and interest on the bonds. Concurrently, pursuant to a letter of credit and reimbursement agreement, the Bank of New York has separately issued its direct pay letter of credit (LC's) for the benefit of the holders of each series of bonds. Both LC's are due to expire in June 2002, and the Company has asked for extensions. To secure the Company's obligations under the letter of credit and reimbursement agreement for the 1996 Refunding Series, the Company issued second mortgage bonds in the amount of $15.875 million in accordance with the original issue of $15 million in bonds. For the 2000 series, the Company issued first and second mortgage bonds, in the amounts of $5 million and $4.525 million, respectively, to secure the Company's obligation under the letter of credit and reimbursement agreement for this series. For both series, the Company has the option of selecting weekly, monthly, annual or term interest rate periods. For both series, the Company has continued to use the weekly interest rate period. Since issuance, the average of these weekly rates were 3.60% and 3.06% for the 1996 Refunding Series and the 2000 Series, respectively. On November 17, 2000, the Company purchased an interest rate cap of 6% to cover both series at a cost of $36,386. At the end of 2001, the cumulative effective interest rate, which includes the weekly interest rate, LC fees and cost of issuance, were 5.49% for the 1996 Refunding Series and 5.65% for the 2000 Series.

On May 29, 1998, FAME issued $11,540,000 of its Taxable Electric Rate Stabilization Revenue Notes, Series 1998A (Maine Public Service Company) (the "Notes") on behalf of the Company. The Notes were issued pursuant to, and are secured under, a Trust Indenture by and between FAME and Peoples Heritage Bank, Portland, Maine, as Trustee (the Trustee), for the purpose of: (i) financing the up-front payment to Wheelabrator-Sherman of approximately $8.7 million, as required under an amended purchase power agreement; (ii) for the Capital Reserve Fund, as required by FAME under their Electric Rate Stabilization Program; and (iii) for issuance costs. The Notes are limited obligations of FAME, payable solely out of the trust estate available under the Indenture, principally the Loan Note and Loan Agreement with the Company and the Capital Reserve Fund held by the Trustee. The Company has issued $4 million of its first mortgage bonds and $7.54 million of its second mortgage bonds as collateral for its performance under the Loan Note issue pursuant to the Loan Agreement. The Notes will bear interest at a Floating Interest Rate and will be adjusted weekly. Since issuance, the average of these weekly rates is 5.25%. On June 1, 1998, the Company purchased an interest rate cap of 7% at a cost of $172,000, to expire June, 2008, to limit its interest rate exposure to quarterly U.S. LIBOR rates. At the end of 2001, the cumulative effective interest rate, including issuance costs and credit enhancement fees, since issuance for this Series was 6.28%.

The Company has the ability to finance through the issuance of Common and Preferred Stock. The Company is authorized to issue up to 3,000,000 shares of Common Stock. In addition, the Company's articles of incorporation authorize the issuance of 200,000 shares of Preferred Stock with the par value of $100 per share and 200,000 shares of Preferred Stock with the par value of $25 per share. The

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Company can also issue second mortgage bonds of $14.3 million without bondable property additions.

Effective March 1, 2000, the Company is required to maintain a capital structure with 51% common equity for the determination of its delivery rates, in accordance with a stipulation approved by the MPUC on December 1, 1999, in the Company's rate design and stranded cost recovery cases. In anticipation of this requirement, the Company sought approval, which the MPUC granted on November 17, 1999, to repurchase up to 500,000 shares of its Common Stock over a five-year period through an open market program, which began in February 2000. During 2000, the Company purchased 45,000 shares under this program at a cost of $922,000. With the market price of the Company's stock exceeding its book value and in accordance with previous repurchase programs, the Company did not acquire any stock during 2001.

Employees

At the end of 2001 and 2000, the Parent Company had 145 and 142 full-time employees, respectively. The Parent's Canadian subsidiary, Maine and New Brunswick Electrical Power Company, Ltd. (Maine and New Brunswick), has had no employees since the generating asset sale on June 8, 1999. Energy Atlantic, the Parent's unregulated marketing subsidiary, had 11 full-time employees at the end of both 2001 and 2000. Consolidated payroll costs were $7.0 million for 2001 and $6.7 million for 2000.

Local 1837 of the International Brotherhood of Electrical Workers ratified a three-year contract with the Parent Company, effective on October 1, 1999. The agreement included a 3.34% wage increase in the first year and a 3.5% increase in each of the last two years of the new contract.

Regulatory Proceedings

Industry Restructuring

On May 29, 1997, legislation titled "An Act to Restructure the State's Electric Industry" was signed into law by the Governor of Maine. The principal provisions with accounting impact on the Company are provided in Note 12 of the Notes to Consolidated Financial Statements, "Commitments, Contingencies, and Regulatory Matters - Industry Restructuring".

MPUC Approves Stranded Cost

Revenue Requirements Effective March1,2002

On May 8, 2001, the MPUC issued a notice of investigation to determine whether the Company's annual recovery of $12.5 million in stranded investment must be changed, effective March 1, 2002, to reflect any changes in its stranded costs. On July 12, 2001, the Company filed its proposal in which it advocated continuing the $12.5 million annual recovery of stranded costs and also proposed to begin the recovery of deferred amounts associated with the discounted rates it had made available to certain industrial customers. Also at issue in the proceeding was an insurance refund associated with Maine Yankee, of which the Company's share is $1,005,000. As of December31, 2001, the Company reflected the refund as a miscellaneous deferred credit. A stipulation placed before the MPUC in January, 2002 includes annual stranded cost recovery of $11,540,000 and a 15% sharing of the Maine Yankee insurance refund with

the Company's shareholders, thereby leaving the rates charged to core retail customers the same. This stipulation was approved by the MPUC on January 7, 2002, and the appropriate order was issued on February 27, 2002.

MPUC Conducts Investigation of Rate Design

On May 8, 2001, the MPUC issued a Notice of Investigation into certain common fundamental issues regarding the rates for the State's three major electric utilities - the Company, Central Maine Power Company (CMP) and Bangor Hydro-Electric Company (BHE). These issues have been defined by the MPUC as follows:

(i) The extent to which stranded cost recovery should be shifted from variable kwh and kw charges to a fixed charge;

(ii) The redefinition of time of use periods for rate design; and

(iii) The elimination or reduction of seasonal rates.

The Company believes its stranded costs should be recovered through fixed charges that its customers cannot avoid by reducing or eliminating their usage. Such a fixed charge would reduce the risk of the Company's ability to recover its stranded costs from customers. The Company, together with CMP and BHE, will be filing testimony in support of its position in early April, 2002.

The Company cannot predict the nature or the outcome of any decision in this proceeding.

MPUC Approves Elements of Rates Effective March1,2000

On October 14, 1998, and subsequently amended on February 9, 1999, August 11, 1999, and December 15, 1999, the Company filed its determination of stranded costs, transmission and distribution costs, and rate design with the MPUC. The Company's amended testimony supported its $95.7 million estimate of stranded costs, net of available value from the sale of the generating assets, when deregulation occurred on March 1, 2000. The major components include the remaining investment in Seabrook, the above-market costs of the amended power purchase agreement and recovery of fuel expense deferrals related to Wheelabrator-Sherman, the obligation for remaining operating expenses and recovery of the Company's remaining investment in Maine Yankee, and the recovery of several other regulatory assets.

On October 15, 1999, the Company filed with the MPUC a Stipulation resolving the revenue requirement and rate design issues for the Company's Transmission and Distribution (T&D) utility. This Stipulation was signed by the Public Advocate and approval was recommended by the MPUC Staff. Under the Stipulation, the

Company's total annual T&D revenue requirement of $16,640,000, went into effect on March 1, 2000. This revenue requirement includes a 10.7% return on equity with a capital structure based on 51% common equity. The Stipulation further provided that the precise level of stranded cost recovery could not be determined until final determination of all costs associated with the sale of the Company's generating assets, but did set forth some general principles concerning the Company's ultimate stranded costs recovery, including agreement that the major components of the Company's stranded costs are legitimate, verifiable and unmitigable, and therefore subject to recovery in rates. Furthermore, the Stipulation allowed the 3.66% foregone revenue increase as a result of a rate plan Stipulation approved by the MPUC in its April 6, 1999 Order in Docket 98-865 to be recovered through a reduction in the deferred gain on the asset sale. The Stipulation also provided that the Company's recovery of unamortized investment tax credits and excess deferred income taxes associated with the Company's generating assets must await a final determination ruling from the IRS, which ruling was sought by Central Maine Power Company (CMP). On December 1, 1999, the MPUC approved the October 15, 1999 Stipulation, as described above. In early January, 2000, CMP

received its ruling from the IRS which concluded that the unamortized investment tax credits and excess deferred income taxes associated with the sale of the generating assets could not be used to reduce customer rates without violating the tax normalization rules for public utilities. Therefore, in 1999, the Company recognized these excess deferred taxes in income, which amounted to an increase in net income of approximately $389,000.

On January 27, 2000, the MPUC approved a Stipulation in Phase II of Docket No. 98-577 that provided for the recovery in rates of the Company's stranded investment. The major element of the Phase II Stipulation was the $12.5 million of stranded investment recoverable annually beginning March 1, 2000, with that level of recovery set for two years. This revenue requirement includes a return on unrecovered stranded investment based on the capital structure approved by the MPUC in its December 1, 1999 Order. The approved capital structure consists of 51% common equity with an authorized return on equity of 10.7%. The Phase II Stipulation also allowed the Company to offset its unrecovered stranded investment in Seabrook by approximately $7 million, (details provided in chart in Note 12 of the Notes to Consolidated Financial Statements, "Capacity Arrangements--Generating Asset Sale") representing an amount equal to 35% of the available value from the sale of the generation assets. The parties to the Phase II Stipulation also resolved several rate design issues, principally the elimination of the inclining block rate for residential customers. In addition, the Company was granted several accounting orders incorporating certain accounting methodologies used in determining the elements of stranded costs. On August 4, 2000, the MPUC authorized the Company to record the difference between the originally approved contracts for two large industrial customers and their current special discount rates, designed for customer retention, as revenue and a regulatory asset. This flexible pricing adjustment resulted in recognition of $961,000 and $380,000 of revenues and a corresponding regulatory asset in 2001 and 2000, respectively. These regulatory assets will be recovered in future rates. The annual revenue requirement associated with the recovery of stranded costs will be reviewed at least every three years, and was reviewed in late 2001. See "MPUC Approves Stranded Cost Revenue Requirements Effective March 1, 2002" for additional information.

WPS Complaint

On October 30, 2000, WPS Energy Services (WPS), a Competitive Electricity Provider (CEP) offering retail sales of electricity in the Company's service territory, filed a Complaint against the Company as well as a Petition to Alter or Amend the MPUC's September 2, 1998 Order in Docket No. 98-138, which authorized the formation of Energy Atlantic, LLC.

The Complaint alleged that the Company violated various provisions of Chapter 304 of the MPUC's Regulations governing relations between the Company and all CEPs, including the Company's own marketing subsidiary, Energy Atlantic, LLC (EA). According to the Complaint, various of the Company's employees engaged in conduct that either awards EA a competitive advantage over other CEPs or burdened WPS with an unfair disadvantage relative to EA. These allegations included such practices as denying WPS information made available to EA, or providing EA with information about WPS's customers that is not available publicly. The Company did not believe it in any way violated any provisions of Chapter 304 and so argued to the MPUC.

In its September 2, 1998 Order in Docket No. 98-138 authorizing the formation of EA, the Commission allowed the Company and EA to share the services of certain employees under certain conditions on the ground that such sharing was in the public interest and would not have any anti-competitive effect on the retail market for electricity. WPS claims that the sharing does not conform to the conditions set forth in the Order and that, in any event, the Commission should now find such sharing not in the public interest, thereby amending its original September 2, 1998 Order.

The Complaint and Petition to Amend the September 2, 1998 Order, in addition to requesting a prohibition on the sharing of certain employees, particularly Maine Public Service Company's General Counsel, also seeks a formal investigation of the Complaint, penalties for any violations of the Commission's rules and certain specific relief for

violations of Chapter 304.

In its response, the Company strongly denied the allegations in the WPS Complaint and asked the Commission to dismiss the Complaint and for Summary Judgment in its favor.

On May 1, 2001, the Commission issued its Order in this matter, finding that some counts in the WPS Complaint should be dismissed but that others raised factual issues that could be resolved only through a more formal hearing process. The Commission declined, however, to take initial jurisdiction over the Complaint. Instead, the Commission ordered the parties to submit their dispute to the informal dispute resolution process set forth in MPS's Chapter 304 Implementation Plan. Under this Plan, the dispute must be submitted to an independent law firm which must issue its decision within 30 days. Only if the matter is not resolved to both parties' satisfaction would the Commission then take jurisdiction over the dispute. The Commission also stated that it would open an investigation into the issues of whether MPS's General Counsel's dual role with MPS and EA is inherently problematic and the standards that should govern any MPS employees who also provide services to EA. A schedule for this investigation has not yet been announced.

The parties submitted the dispute to an independent arbitrator who issued his proposed findings on June 29, 2001. The arbitrator found that MPS did not violate any provisions of Chapter 304, except for the Company's unintentional failure to identify WPS as a Standard Offer Service provider on its March and April 2000 bills to customers. The arbitrator recommended that MPS refund to WPS its billing fees for these two months, approximately $18,000. On July 5, 2001, the Company and WPS informed the Commission of their acceptance of the arbitrator's findings. As a result, the Commission, in its July 13, 2001 Order, stated that it would not be necessary for it to further address the allegations in the WPS complaint, even though it would continue its investigation into the sharing of employee services. This investigation continues and the Company is unable to predict the timing or nature of the MPUC's ultimate decision.

Generating Asset Sale

On June 8, 1999 the Company sold its generating assets to WPS Power Development, Inc. The sale of the assets, 91.8 megawatts of generating capacity, for $37.4 million was required by the State's electric industry restructuring law. For further information, see Note 12 of the Notes to Consolidated Financial Statements, "Commitments, Contingencies, and Regulatory Matters -- Capacity Arrangements - Generating Asset Sale".

Four-Year Rate Stabilization Plan

The Maine Public Utilities Commission (MPUC) approved a stipulation on November 13, 1995 that established a multi-year rate plan, effective January 1, 1996 through March 1, 2000. The plan provided our customers with predictable rates and shared operating risks and benefits between the Company's shareholders and customers. For further information, see Note 12 of the Notes to Consolidated Financial Statements, "Commitments, Contingencies, and Regulatory Matters -- Four-Year Rate Stabilization Plan".

Accounting Pronouncements

The Company has adopted Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities" effective January 1, 2001. The Company has reviewed its business activities and determined that interest rate caps on the three variable rate long-term debt issues qualify as derivatives in accordance with SFAS 133. On June 1, 1998, the Company purchased an interest rate cap of 7% at a cost of $172,000, to expire June 8, 2008 on $11,540,000 of FAME's Taxable Electric Rate Stabilization Notes, Series 1998A, issued on behalf of the Company. On November 20, 2000, the Company purchased an interest cap of 6% at a cost of

$36,000 to expire November 2003 that applies to the 2000 and 1996 Series of Maine Public Utilities Financing Bank's (MPUFB) bonds issued on behalf of the Company with outstanding balances of $9.0 million and $13.6 million, respectively. The Company recorded the cost of the caps as regulatory assets and is amortizing them over their useful lives. SFAS 133 requires companies to record derivatives on their balance sheet at fair value, with the related changes in fair value recorded as either income/expense or as a component of other comprehensive income, depending on the intended use of the derivative. For regulated entities, the amount the fair value is below the carrying value is recorded as a regulatory asset to the extent the difference is recoverable in the rate base of the Company. The Company has adopted a policy under regulatory accounting that requires any gain on the sale of these regulatory assets to be recorded as regulatory liabilities and returned to rate payers. The issuers of the caps related to the Company's FAME and MPUFB debt have declared their fair values as of December 31, 2001 to be $118,000. The corresponding unamortized regulatory assets as of December 31, 2001 are $133,000.

In June of 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143 "Accounting for Asset Retirement Obligations." This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

In October of 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long Lived Assets". This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and is effective for fiscal years beginning after December 15, 2001. This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). This Statement also amends ARB No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS 144 establishes a single accounting model, based on the framework established in Statement 121, for long-lived assets to be disposed of by sale and also resolves significant implementation issues related to Statement 121. The Company does not expect the adoption of either of these statements will have a material impact on its financial position or results of operations.

Forward-Looking Statements

The above discussion may contain "forward-looking statements", as defined in the Private Securities Litigation Reform Act of 1995, related to expected future performance or our plans and objectives. Actual results could potentially differ materially from these statements. Therefore, there can be no assurance that actual results will not materially differ from expectations.

Factors that could cause actual results to differ materially from our projections include, among other matters, electric utility restructuring; future economic conditions; changes in tax rates, interest rates or rates of inflation; and developments in our legislative, regulatory, and competitive environment.

Shareholder Information

General

The Company's Common Stock is listed and traded on the American Stock Exchange. As of December 31, 2001 and 2000, Common Stock shares issued and outstanding were 1,573,510 and 1,572,898, respectively. As of December 31, 2001, shares were held by 1,001 shareholders or nominees in forty-six states, the District of Columbia, Canada, and

the United Kingdom.

The annual meeting of shareholders is held each year on the second Tuesday in May at the Company's headquarters in Presque Isle. Market price and dividend information relative to the two most recent calendar years are shown in the tabulation below.

Income Tax Status of 2001 Dividends

The Company has determined that the Common Stock dividends paid in 2001 are fully taxable for federal income tax purposes. These determinations are subject to review by the Internal Revenue Service, and shareholders will be notified of any significant changes.

	Market Price		Dividends Paid	Dividends Declared
	High	Low	Per Share	Per Share
2001				
First Quarter	$26.63	$23.37	$.32	$.32
Second Quarter	$30.50	$26.00	.32	.32
Third Quarter	$29.60	$27.00	.32	.35
Fourth Quarter	$30.75	$27.75	.35	.35
Total Dividends			$1.31	$1.34
2000				
First Quarter	$18.00	$16.00	$.30	$ .30
Second Quarter	$20.75	$17.38	.30	.30
Third Quarter	$25.60	$20.25	.30	.32
Fourth Quarter	$27.13	$23.75	.32	.32
Total Dividends			$1.22	$1.24

Dividends declared within the quarter are paid on the first day of the succeeding quarter.

Five-Year Summary of Selected Financial Data

	2001	2000	1999	1998	1997
Revenues	**$49,698,040**	$78,238,279	$67,456,117	$56,626,906	$55,072,196
Net Income (Loss) Available for Common Stock	$5,236,527	$5,300,632	$4,005,556	$2,252,915	$(2,177,137)
Net Income (Loss) Per Share of Common Stock	**$3.33**	$3.34	$2.48	$1.39	$(1.35)
Dividends Per Share of Common Stock:					

Declared Basis	**$1.34**	$1.24	$1.10	$1.00	$1.00
Paid Basis	$**1.31**	$1.22	$1.05	$1.00	$1.21
Total Assets	**$143,334,943**	$150,856,876	$171,548,480	$164,295,548	$163,480,739
Long-Term Debt Outstanding	**$34,940,000**	$35,990,000	$42,015,000	$47,190,000	$39,805,000
Less amount due within one year	**1,175,000**	1,050,000	25,000	1,275,000	4,155,000
Long-Term Debt	**$33,765,000**	$34,940,000	$41,990,000	$45,915,000	$35,650,000

Report of Independent Accountants

To The Directors and Shareholders of

MAINE PUBLIC SERVICE COMPANY:

In our opinion, the accompanying consolidated balance sheets and statements of capitalization and the related consolidated statements of income, common shareholders' equity and cash flows present fairly, in all material respects, the financial position of Maine Public Service Company and its Subsidiaries as of December 31, 2001 and

2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers, LLP

Portland, Maine

February 7, 2002

(Page 16)**MAINE PUBLIC SERVICE COMPANY AND SUBSIDIARIES**

Statements of Consolidated Income

	Year Ended December 31,		
	2001	**2000**	**1999**
Revenues			
Operating Revenues	**$47,551,157**	$75,464,430	$67,456,117
EA Standard Offer Service Margin	**2,146,883**	2,773,849	--
Total Revenues	**49,698,040**	78,238,279	67,456,117
Operating Expenses			
Energy Supply	**14,983,899**	43,593,025	40,264,089
T&D Operation and Maintenance	**11,637,878**	12,063,273	11,320,556

Depreciation	**2,502,034**	2,310,252	2,346,285
Amortization of Stranded Costs	**9,259,657**	8,905,707	--
Amortization	**216,842**	297,360	1,479,098
Taxes Other Than Income	**1,344,299**	866,259	1,439,870
Provision for Income Taxes	**3,393,006**	3,197,446	3,529,542
Total Operating Expenses	**43,337,615**	71,233,322	60,379,440
Operating Income	**6,360,425**	7,004,957	7,076,677
Other Income (Deductions)			
Equity in Income of Associated Companies	**299,299**	334,136	491,024
Interest and Dividend Income	**167,684**	854,093	902,146
Allowance for Equity Funds Used During Construction	**85,963**	35,809	51,248
Benefit (Provision) for Income Taxes	**46,702**	(292,610)	130,592
Other - Net	**(432,208)**	(176,732)	(410,034)
Total	167,440	754,696	1,164,976
Income Before Interest Charges	**6,527,865**	7,759,653	8,241,653
Interest Charges			
Long-Term Debt and Notes Payable	**2,285,711**	3,245,138	4,268,315
Less Stranded Cost Carrying Charge	**(962,579)**	(767,751)	--
Less Allowance for Borrowed Funds Used During Construction	**(31,794)**	(18,366)	(32,218)
Total	**1,291,338**	2,459,021	4,236,097
Net Income Available for Common Stock	**$5,236,527**	$5,300,632	$4,005,556
Basic and Diluted Earnings Per Share of Common Stock	**$3.33**	$3.34	$2.48
Average Shares Outstanding	**1,573,294**	1,588,009	1,617,250

See Notes to Consolidated Financial Statements.

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MAINE PUBLIC SERVICE COMPANY AND SUBSIDIARIES

Statements of Consolidated Cash Flows

	Year Ended December 31,		
	2001	**2000**	**1999**
Cash Flow From Operating Activities			
Net Income	$5,236,527	$5,300,632	$4,005,556
Adjustments to Reconcile Net Income to			
Net Cash Provided by (Used For) Operations:			
Depreciation	2,502,034	2,310,252	2,346,285
Amortization	1,362,434	1,178,684	1,398,256
Amortization of Deferred Gain from Asset Sale	(4,863,027)	(5,439,750)	--
Deferred Income Taxes - Net	872,815	4,228,605	2,225,933

Deferred Investment Tax Credits and Excess Deferred Income Taxes	(32,580)	(35,539)	(438,270)
Allowance for Funds Used During Construction	(117,757)	(54,175)	(83,466)
Income on Tax-Exempt Bonds-Restricted Funds	(249,928)	(97,105)	(8,830)
Change in Deferred Regulatory and Debt Issuance Costs	(548,257)	84,633	(2,003,759)
Amortization of W/S Up-front Payment	1,451,000	--	--
Gain on Sale of Miscellaneous Property	--	(205,237)	(14,935)
Change in Deferred Revenues	--	--	(1,170,136)
Change in Benefit Obligations	(173,944)	86,395	(1,371,238)
Change in Current Assets and Liabilities:			
Accounts Receivable and Unbilled Revenue	5,860,682	(4,305,676)	(495,353)
Deferred Fuel and Purchased Energy Cost	--	--	(300,000)
Other Current Assets	255,210	(193,870)	92,371
Accounts Payable	(1,414,457)	2,308,867	1,079,246
Accrued Taxes and Interest	(342,082)	(823,025)	952,454
Other Current Liabilities	2,537	2,581	(7,375)
Other - Net	289,079	335,440	(912,023)
Net Cash Flow Provided By Operating Activities	10,090,286	4,681,712	5,294,716
Cash Flow From Financing Activities			
Dividend Payments	(2,060,821)	(1,948,371)	(1,293,800)
Purchase of Common Stock	--	(921,763)	--
Bond Issuance Costs	--	(322,755)	(102,705)
Drawdown (Deposit) of Asset Sale Proceeds with Trustee, net	--	18,957,051	(17,998,000)
Deposit of Land Sale Proceeds with Trustee	--	(211,400)	--
Issuance of Long-Term Debt	--	9,000,000	--
Retirements of Long-Term Debt	(1,050,000)	(15,025,000)	(5,175,000)
Premium on Retirement of Long-Term Debt	--	(2,105,470)	--
Short-Term Borrowings, Net	(950,000)	1,300,000	(4,500,000)
Net Cash Flow Provided By (Used For) Financing Activities	(4,060,821)	8,722,292	(29,069,505)
Cash Flow From Investing Activities			
Investment in Restricted Funds	--	(9,000,000)	--
Drawdown of Tax-Exempt Bond Proceeds	2,012,353	1,612,305	427,886
Proceeds from Sale of Generating Assets	1,050,679	--	37,547,381
Stock Redemption from Associated Co.	499,484	--	--
Payment of Taxes on Generating Asset Sale	--	(7,853,047)	(3,925,049)
Proceeds from Sale of Miscellaneous Property	--	208,319	19,800
Investment in Electric Plant	(4,707,152)	(4,746,144)	(4,763,782)
	(1,144,636)	(19,778,567)	29,306,236

Net Cash Flow Provided By (Used For) Investing Activities			
Increase (Decrease) in Cash and Cash Equivalents	4,884,829	(6,374,563)	5,531,447
Cash and Cash Equivalents at Beginning of Year	610,710	6,985,273	1,453,826
Cash and Cash Equivalents at End of Year	$5,495,539	$610,710	$6,985,273
Supplemental Disclosure of Cash Flow Information:			
Cash Paid During The Year For:			
Interest	$2,499,080	$3,198,874	$4,289,102
Income Taxes (2001, 2000, and 1999 are net of tax refunds			
of $200,000, $499,201, and $208,836, respectively)	$1,499,654	$7,505,312	$5,273,330

See Notes to Consolidated Financial Statements.

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MAINE PUBLIC SERVICE COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

Assets		
	December 31,	
	2001	**2000**
Utility Plant		
Electric Plant in Service	**$ 82,664,751**	$ 78,824,891
Less Accumulated Depreciation	**37,782,598**	36,289,791
Net Electric Plant in Service	**44,882,153**	42,535,100
Construction Work-In-Progress	**876,179**	1,467,818
Total	**45,758,332**	44,002,918
Investments in Associated Companies	**3,600,384**	3,907,818
Net Utility Plant and Investments in Associated Companies	**49,358,716**	47,910,736
Current Assets:		
Cash and Cash Equivalents	**5,495,539**	610,710
Accounts Receivable (less allowance for uncollectible		
accounts of $216,500 in 2001 and $334,690 in 2000)	**5,544,051**	9,140,199
Unbilled Revenue	**1,093,767**	3,358,301
Inventory	**623,543**	465,314
Income Tax Refund Receivable	**61,646**	648,537
Prepayments	**408,690**	231,597
Total	**13,227,236**	14,454,658
Regulatory Assets:		

Uncollected Maine Yankee Decommissioning Costs	**24,708,311**	28,055,741
Recoverable Seabrook Costs (less accumulated amortization of		
$37,078,399 in 2001 and $35,968,399 in 2000)	**16,108,611**	17,218,611
Regulatory Assets-SFAS 109 & 106	**7,597,091**	8,101,240
Deferred Fuel and Purchased Energy Costs	**12,106,818**	11,977,239
Regulatory Asset - Power Purchase Agreement Restructuring	**7,254,750**	8,705,750
Unamortized Debt Expense (less accumulated amortization		
of $1,132,358 in 2001 and $735,776 in 2000)	**2,798,333**	3,234,805
Deferred Regulatory Costs, less accumulated amortization	**1,427,927**	613,556
Total	**72,001,841**	77,906,942
Other Assets:		
Restricted Investments (at cost, which approximates market)	**8,104,005**	9,876,037
Miscellaneous	**643,145**	708,503
Total	**8,747,150**	10,584,540
Total Assets	**$143,334,943**	$150,856,876

See Notes to Consolidated Financial Statements.

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Capitalization and Liabilities		
	December 31,	
	2001	2000
Capitalization (see accompanying statements):		
Common Shareholders' Equity	**$ 42,731,149**	**$** 39,585,951
Long-Term Debt	**33,765,000**	34,940,000
Total	**76,496,149**	74,525,951
Current Liabilities:		
Long-Term Debt Due Within One Year	**1,175,000**	1,050,000
Notes Payable to Banks	**3,950,000**	4,900,000
Accounts Payable	**5,415,525**	6,675,215
Accounts Payable - Associated Companies	**222,284**	271,688
Accrued Employee Benefits	**973,768**	1,079,131
Dividends Declared	**550,729**	503,328
Customer Deposits	**22,210**	19,673

Taxes Accrued	**417,160**	12,187
Interest Accrued	**188,556**	948,610
Total	**12,915,232**	15,459,832
Deferred Credits:		
Uncollected Maine Yankee Decommissioning Costs	**24,708,311**	28,055,741
Income Taxes	**21,906,295**	21,420,344
Investment Tax Credits	**219,594**	252,174
Deferred Gain & Related Accounts - Generating Asset sale	**3,593,089**	7,446,216
Miscellaneous	**3,496,273**	3,696,618
Total	**53,923,562**	60,871,093
Commitments, Contingencies, and Regulatory Matters (Note 12)		
Total Capitalization and Liabilities	**$143,334,943**	$150,856,876

MAINE PUBLIC SERVICE COMPANY AND SUBSIDIARIES

Statement of Consolidated Common Shareholders' Equity

	Shares	Par Value Issued	Paid-In Capital	Retained Earnings	Treasury Stock
Balance, January 1, 1999	1,617,250	$13,070,750	$38,317	$27,538,336	$(5,714,376)
Net Income				4,005,556	
Dividends:					
Common Stock ($1.10 per share)				(1,778,975)	
Balance, December 31, 1999	1,617,250	13,070,750	38,317	29,764,917	(5,714,376)
Net Income				5,300,632	
Dividends:					
Common Stock ($1.24 per share)				(1,966,523)	
Stock Repurchased:					
Common Stock	(45,000)				(921,763)
Treasury Stock Reissued	648		1,351	(1,314)	13,960
Balance, December 31, 2000	1,572,898	13,070,750	39,668	33,097,712	(6,622,179)
Net Income				5,236,527	
Dividends:					
Common Stock ($1.34 per share)				(2,108,222)	
Treasury Stock Reissued	612		3,794		13,099
Balance, December 31, 2001	1,573,510	$13,070,750	$43,462	$36,226,017	$ (6,609,080)

See Notes to Consolidated Financial Statements.

MAINE PUBLIC SERVICE COMPANY AND SUBSIDIARIES

Consolidated Statements of Capitalization

	December 31,	
	2001	**2000**
Common Shareholders' Equity		
Common Stock, $7 Par Value-Authorized 3,000,000 Shares in 2001 and 2000;		
Issued 1,867,250 Shares in 2001and 2000	**$13,070,750**	$13,070,750
Paid-In-Capital	**43,462**	39,668
Retained Earnings	**36,226,017**	33,097,712
Total	**49,340,229**	46,208,130
Treasury Stock-Total Shares of 293,740 in 2001 and 294,352 in 2000, at cost	**(6,609,080)**	(6,622,179)
Total	**$42,731,149**	$39,585,951
Long-Term Debt		
First Mortgage and Collateral Trust Bonds:		
7.95% Due Serially through 2003-Interest Payable,		
March 1 and September 1 *	**$ 1,825,000**	$ 1,850,000
Maine Public Utility Financing Bank, Public Utility Revenue Bonds:		
Refunding Series 1996: Due 2021-Variable Interest Payable Monthly	**13,600,000**	13,600,000
(1.75% as of December 31, 2001)		
Series 2000: Due 2025-Variable Interest Payable Monthly	**9,000,000**	9,000,000
(1.75% as of December 31, 2001)		
Finance Authority of Maine:		
1998 Taxable Electric Rate Stabilization		
Revenue Notes: Due 2008 - Variable Interest Payable Monthly	**10,515,000**	11,540,000
(2.0% as of December 31, 2001)		
Total Outstanding	**34,940,000**	35,990,000
Less-Amount Due Within One Year	**1,175,000**	1,050,000
Total	**$33,765,000**	$34,940,000

Current Maturities and Redemption Requirements for the Succeeding Five Years and Thereafter Are as Follows:

Long-Term Debt:

2002	$1,175,000
2003	$3,085,000
2004	$ 1,450,000
2005	$ 1,625,000
2006	$ 1,830,000
Thereafter	$25,775,000

* Subject to early redemption premiums as defined in the bond indentures.

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Regulations

Maine Public Service Company (the Company) is subject to the regulatory authority of the Maine Public Utilities Commission (MPUC) and the Federal Energy Regulatory Commission (FERC). As a result of the ratemaking process, the applications of accounting principles by the Company differ in certain respects from applications by non-regulated businesses.

Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned Canadian subsidiary, Maine and New Brunswick Electrical Power Company, Limited, (Maine and New Brunswick), and its wholly-owned marketing subsidiary, Energy Atlantic, LLC, (EA). All intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency of Maine and New Brunswick is the U.S. dollar. Accordingly, translation gains and losses are included in other income. Income and expenses of Maine and New Brunswick are translated at rates of exchange prevailing at the time the income is earned or the expenses are incurred, except for depreciation which is translated at rates existing on the applicable in-service dates. Assets and liabilities are translated at year-end exchange rates, except for utility plant which is translated at rates existing on the applicable in-service dates.

Deferred Fuel and Purchased Energy Costs

Certain Wheelabrator-Sherman fuel costs and the sharing provisions for Maine Yankee replacement power costs were deferred for future recovery as defined in the Company's rate plan until March1, 2000. All other fuel and purchased power costs were expensed as incurred.

Revenue Recognition

Operating revenues include sales billed on a cycle billing basis and estimated unbilled revenues for electric service rendered prior to the normal billing cycle. In October 1999, in preparation for retail competition, the Company converted all residential customers to monthly meter reading while the majority had been previously read bi-monthly.

In July, 2000, the Company began recording the difference between the approved tariff rate for two large industrial customers and their current special discount rates, under contracts approved by the MPUC, as accrued revenue. The resulting deferred asset will be subsequently collected in rates as approved by the MPUC. During 2001 and 2000, $961,000 and $380,000, respectively, were recognized as revenue as flexible pricing adjustments, as described in Note

12, "Commitments, Contingencies and Regulatory Matters -- MPUC Approves Elements of Rates Effective March 1, 2000".

On April 1, 1999, the Company began recognizing revenue from the foregone 3.66% rate increase, with an offset to the available value from the sale of the generating assets in accordance with the rate stipulations approved by the MPUC. During 2000 and 1999, $379,000 and $1.3 million, respectively, of revenue was recognized under these Stipulations, as discussed further in Note 12, "Commitments, Contingencies and Regulatory Matters -- Four-Year Rate Stabilization Program".

Utility Plant

Utility plant is stated at original cost of contracted services, direct labor and materials, as well as related indirect construction costs including general engineering, supervision, and similar overhead items and allowances for the cost of equity and borrowed funds used during construction (AFUDC). The cost of utility plant which is retired, including the cost of removal less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs, including replacement of minor items of property, are charged to maintenance expense as incurred. The Company's property, with minor exceptions, is subject to first and second mortgage liens.

Costs which are disallowed or are expected to be disallowed for recovery through rates are charged to income at the time such disallowance is probable.

Depreciation and Amortization

Utility plant depreciation is provided on composite basis using the straight-line method. The composite depreciation rate, expressed as a percentage of average depreciable plant in service, was approximately 3.37%, 3.23%, and 2.66% for 2001, 2000, and 1999, respectively.

Bond issuance costs and premiums paid upon early retirements are amortized over the terms of the related debt. Recoverable Seabrook costs and deferred regulatory expenses are amortized over the period allowed by regulatory authorities in the related rate orders. Recoverable Seabrook costs are being amortized principally over thirty years (See Note 12, "Commitments, Contingencies, and Regulatory Matters - Seabrook Nuclear Power Project").

Income Taxes

Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes", requires an asset and liability approach to accounting and reporting income taxes. SFAS No. 109 prohibits net-of-tax accounting and requires the establishment of deferred taxes on all differences between the tax basis of assets or liabilities and their basis for financial reporting.

The Company has deferred investment tax credits and amortizes the credits over the remaining estimated useful life of the related utility plant.

The Company records regulatory assets or liabilities related to certain deferred tax liabilities or assets, representing its expectation that, consistent with current and expected ratemaking, those taxes will be recovered from or returned to customers through future rates.

Investments in Associated Companies

The Company records its investments in Associated Companies (see Note 4, "Investments in Associated Companies") using the equity method.

Pledged Assets

The Common Stock of Maine and New Brunswick is pledged as additional collateral for the first and second mortgage and collateral trust bonds of the Company. In December, 1999, a liquidating dividend in the amount of $14.8 million, representing after-tax proceeds from the sale of the generating assets was paid by Maine and New Brunswick to the Company. In accordance with the mortgage indentures, the dividend net of withholding taxes was deposited with the first mortgage trustee.

Inventory

Inventory is stated at average cost.

Cash and Cash Equivalents

For purposes of the Statements of Consolidated Cash Flows, the Company considers all highly liquid securities with a maturity, when purchased, of three months or less to be cash equivalents.

Reclassifications

Certain reclassifications have been made to the 2000 and 1999 financial statement amounts in order to conform to the 2001 presentation.

Accounting Pronouncements

The Company has adopted Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities" effective January 1, 2001. The Company has reviewed its business activities and determined that interest rate caps on the three variable rate long-term debt issues qualify as derivatives in accordance with SFAS 133. See Note 10, "SFAS No. 133" for required disclosure on this adoption.

In June of 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

In October of 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long Lived Assets". This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and is effective for fiscal years beginning after December 15, 2001. This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). This Statement also amends ARB No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS 144 establishes a single accounting model, based on the framework established in Statement 121, for long-lived assets to be disposed of by sale and also resolves significant implementation issues related to Statement 121. The Company does not expect the adoption of either of these statements will have a material impact on its financial position or results of operations.

2. INCOME TAXES

A summary of Federal, Canadian and State income taxes charged (credited) to income is presented below. For accounting and ratemaking purposes, income tax provisions included in "Operating Expenses" reflect taxes applicable to revenues and expenses allowable for ratemaking purposes, with the exception of Energy Atlantic activity, which is above the line and not allowable for ratemaking purposes. The tax effect of items not included in rate base or normal operating activities is allocated as "Other Income (Deductions)".

	2001	2000	1999
Current income taxes	$ 2,489,429	$ (853,466)	$13,305,318
Deferred income taxes	889,455	4,379,061	(9,857,507)
Investment credits, net	(32,580)	(35,539)	(48,861)
Total income taxes	$ 3,346,304	$ 3,490,056	$ 3,398,950
Allocated to:			
Operating income	$ 3,393,006	$3,197,446	$ 3,529,542
Other income	(46,702)	292,610	(130,592)
Total	$ 3,346,304	$ 3,490,056	$ 3,398,950

The effective income tax rates differ from the U.S. statutory rate as follows:

	2001	2000	1999
Statutory rate	34.0%	34.0%	34.0%
Excess Canadian taxes	.1	(1.7)	.7
Amortization of recoverable Seabrook costs	2.6	2.6	3.8
State income taxes	5.6	5.9	10.1
Other	(3.3)	(1.1)	(2.7)
Effective rate	39.0%	39.7%	45.9%

(Page 24)The elements of deferred income tax expense (credit) are as follows:

(Dollars in Thousands)

	2001	2000	1999
Temporary Differences at Statutory Rates:			
Seabrook - costs	$ (186)	$ (188)	$ (200)
Liberalized depreciation	118	109	46
AFUDC-borrowed funds	--	(6)	(38)
Deferred fuel	(332)	196	455
Deferred regulatory expense	(27)	(44)	(113)
Flexible pricing revenue	383	--	--
Accrued pension and postretirement benefits	101	31	723
Wheelabrator-Sherman power purchase restructuring	(579)	1,344	1,344
Generating Asset Sale	1,538	2,320	(11,956)
Reacquired debt	(101)	765	--
Other	(26)	(148)	(119)
Total temporary differences - statutory rates	$ 889	$ 4,379	$ (9,858)

The Company has not accrued U.S. income taxes on the undistributed earnings of Maine and New Brunswick Electrical Power Company, Ltd. (Maine and New Brunswick), as the withholding taxes due on the distribution of any remaining amount would be principally offset by foreign tax credits. Dividends received from Maine and New Brunswick were $16,281,664 in 1999, while no dividends were received in 2001 or 2000. In addition to $1,481,644 of regular dividends in 1999, Maine and New Brunswick paid a liquidating dividend of $14,800,000. The regular dividends exceeded earnings by $932,304 in 1999.

The following summarizes accumulated deferred income taxes established on temporary differences under SFAS 109 as of December 31, 2001 and 2000.

	(Dollars in Thousands)	
	2001	2000
Seabrook	$ 8,898	$ 9,511
Property	6,663	6,516
Flexible pricing revenue	535	--
Deferred fuel	4,140	4,472
Generating asset sale	(1,013)	(2,551)
Wheelabrator-Sherman Up-front payment	2,894	3,473
Pension and post-retirement benefits	(74)	(175)
Other	(137)	174
Net accumulated deferred income taxes	$21,906	$21,420

3. ENERGY ATLANTIC

In January, 1999, Energy Atlantic, the Company's wholly-owned unregulated marketing subsidiary, formally began operations. This marketing subsidiary was involved in wholesale energy transactions during 1999 and the first two months of 2000, and began selling to retail customers on March 1, 2000, the commencement of retail competition in the State of Maine. EA's net income was $897,000 for 2001 compared to $1,688,000 in 2000 and a loss of $354,000 for 1999. The decrease from 2000 reflects the expiration of several large competitive retail contracts in Central Maine Power's (CMP) service territory, as well as the expiration of most medium non-residential service in the Company's

service territory. As discussed below, EA also recognized a settlement charge of $1.08 million.

Energy Atlantic provides standard offer service (SOS) and competitive energy supply (CES) to retail customers, both of which utilize power principally provided via a Wholesale Power Sales Agreement with Engage Energy America, LLC (Engage). Revenues are received and expenses are paid directly by an escrow agent pursuant to instruction from Engage. EA receives a percentage of the net profit from the sale of energy. EA was the SOS provider for approximately 525,000 residential and small non-residential customers in CMP's service territory through February 28, 2002. Under the original SOS terms, EA had furnished a performance bond of approximately $33,000,000 issued by Frontier Insurance Company. The utility (in this case CMP) bears the SOS account collection risk, as it is required to remit the amounts billed 26 days after the billing date to the escrow account mentioned above and maintain the billing and customer service relationship. EA records the accrued net margin of the SOS activity as revenue in the financial statements.

EA's CES activity currently consists of industrial and commercial customers in Maine in which EA maintains collection risk and negotiates contracts directly with customers. CES activity is recorded on a gross basis to include the related revenues and purchased power expenses.

On December 5, 2000, the Federal Energy Regulatory Commission (FERC) issued an order requiring an increase in the Installed Capacity (ICAP) Deficiency Charge in the New England market from $0.17 to $8.75 per kw/month, which was subsequently reduced to $4.87 on September 1, 2001. Engage sent EA a letter giving notice that it was invoking certain contract renegotiation rights and setting

forth its position that an increase of this magnitude would give it grounds to cancel its contract with EA. EA responded by stating its view that the contract requires Engage to sustain the market risks of increases in the cost of supplying power and that the notice was in breach of the contract. Without agreeing with EA's position, Engage withdrew its notice letter. Subsequently, Engage alleged that EA previously breached the contract in certain respects. EA denied these allegations.

On May 24, 2001, the Maine Public Utilities Commission (MPUC) issued an Order authorizing a comprehensive settlement of the dispute between EA and Engage. In connection with the MPUC Order, EA, Engage, CMP, and other parties entered into a comprehensive settlement which includes the following:

(i) Engage will continue to supply EA with all energy required to perform outstanding retail contracts and the SOS commitments.

(ii) Engage and EA released one another from liabilities arising on or before May 24, 2001, with limited exceptions.

(iii) EA is no longer required to purchase power exclusively from Engage.

(iv) Before its expiration on February 28, 2002, the Wholesale Agreement cannot be terminated by EA or Engage except upon the willful and material misconduct of the other party.

(v) The order waives the requirement that EA provide a performance bond. Frontier Insurance Company (Frontier) was released from liability under its bond and Frontier released EA and the Company from any and all claims for indemnification, subrogation or contribution under the bond and associated indemnification agreement.

(vi) Westcoast Energy, Inc. (Engage's current parent company) has provided CMP a $33 million guarantee of Engage's performance, and Coastal Corporation (a former affiliate of Engage) was released from its prior guarantee of Engage's performance.

(vii) Engage will receive $8 million over the remaining term of the Wholesale Power Agreement consisting of the following: $1 million received from Frontier; a $4.5 million offset from amounts Engage was otherwise obligated to pay to CMP for entitlements; a total of $1.0 million of payments from EA in monthly increments through March, 2002; and a $1.5 million payment from EA in April, 2002. Under the Order, CMP will be allowed to recover the $4.5 million from ratepayers instead of from Engage.

In connection with this settlement, EA recognized a charge against second quarter 2001 earnings (after-tax) of approximately $1.08 million, or $.69 per share.

After the elimination of the requirement to purchase power exclusively from Engage in May, 2001, EA began securing other sources of supply to support further CES sales. In September, 2001, after examining several competitive bids, including EA's, the MPUC awarded the SOS contract for residential and small commercial customers in CMP's territory to a different marketer beginning March1, 2002. Although positive, EA's CES sales to retail customers will produce far less revenue in 2002 than EA received in 2001 from SOS in CMP's territory. EA continues to pursue additional supply to increase revenues.

The Company has determined that EA's activity and related energy contracts are considered non-trading in accordance with EITF 98-10, "Accounting for Companies Involved in Energy Trading and Risk Management Activities".

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Investments and Hedging Activities" on January 1, 2001. The Company has reviewed EA contracts and determined they are not derivative contracts as defined by SFAS No. 133. During the quarter ended March 31, 1999, the Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information", which became applicable as a result of the start-up of Energy Atlantic. The accounting policies of the segments are the same as those described in Note 1, "Summary of Significant Accounting Policies". The Company provides certain administrative support services to Energy Atlantic, which are billed to that entity at cost, based on a combination of direct charges and allocations. The Company is organized on the basis of products and services. The Company's reportable segments include the electric utility portion of the business, consisting of Maine Public Service Company (MPS) and Maine and New Brunswick Electrical Power Company, Limited, (Maine and New Brunswick), and the energy marketing portion of the business, consisting of Energy Atlantic. In June, 1999, Maine and New Brunswick sold its generating assets and ceased operations.

(Dollars In Thousands)

	Twelve Months Ended December 31,								
	2001			2000			1999		
	EA	MPS	Total Company	EA	MPS	Total Company	EA	MPS	Total Company
Operating Revenues	$15,771	$31,780	$47,551	$38,021	$37,443	$75,464	$8,429	$59,027	$67,456
EA Standard Offer Service Margin	2,147	--	2,147	2,774	--	2,774	--	--	--
Total Revenues	17,918	31,780	49,698	40,795	37,443	78,238	8,429	59,027	67,456
Operations & Maintenance Expense	16,320	23,625	39,945	38,167	29,869	68,036	8,973	47,876	56,849
Taxes	592	2,801	3,393	1,113	2,084	3,197	(209)	3,739	3,530
Total Operating Expenses	16,912	26,426	43,338	39,280	31,953	71,233	8,764	51,615	60,379
Operating Income (Loss)	1,006	5,354	6,360	1,515	5,490	7,005	(335)	7,412	7,077
Other Income & Deductions	(103)	271	168	247	508	755	4	1,161	1,165
Income (Loss) Before Interest Charges	903	5,625	6,528	1,762	5,998	7,760	(331)	8,573	8,242
Interest Charges	6	1,285	1,291	74	2,385	2,459	23	4,213	4,236
Net Income (Loss)	$897	$4,340	$5,237	$1,688	$3,613	$5,301	$(354)	$4,360	$4,006
Total Assets as of December 31,	$5,632	$137,703	$143,335	$6,385	$144,472	$150,857	$1,445	$170,103	$171,548

4. INVESTMENTS IN ASSOCIATED COMPANIES

The Company owns 5% of the Common Stock of Maine Yankee Atomic Power Company (Maine Yankee), a jointly-owned nuclear electric power company, and 7.49% of the Common Stock of the Maine Electric Power Company (MEPCO), a jointly-owned electric transmission company. For additional information, see Note 12, "Commitments, Contingencies, and Regulatory Matters -- Capacity Arrangements - Maine Yankee" regarding the closing and decommissioning of Maine Yankee.

Dividends received during 2001, 2000, and 1999 from Maine Yankee were $206,000, $470,000, and $453,750, respectively, and from MEPCO $7,249, $9,061, and $207,974, respectively. In 2001, Maine Yankee completed a stock redemption of $499,484. Substantially all earnings of Maine Yankee and MEPCO are distributed to investor companies. Condensed financial information (unaudited) for Maine Yankee and MEPCO is as follows:

(Dollars in Thousands)	Maine Yankee			MEPCO		
	2001	2000	1999	2001	2000	1999
Earnings						
Operating revenues	$ 61,994	$43,813	$69,439	$4,514	$4,029	$2,936
Earnings applicable to Common Stock	$4,371	$4,640	$4,863	$1,152	$1,363	$3,309
Company's equity share of net earnings	$219	$232	$243	$ 86	$102	$248
Investment						
Total assets	$802,118	$915,097	$998,308	$7,396	$6,771	$7,772
Less:						
Preferred stock	--	15,000	15,000	--	--	--
Long-term debt	31,200	40,800	48,000	--	--	--
Other liabilities and deferred credits	707,643	788,703	860,330	1,320	1,761	4,043
Net assets	$63,275	$70,594	$74,978	$6,076	$5,010	$3,729
Company's equity in net assets	$3,164	$3,530	$3,749	$455	$375	$279

5. INVESTMENT IN JOINTLY-OWNED UTILITY PLANT

As more fully explained in Note 12, "Commitments, Contingencies, and Regulatory Matters -- Capacity Arrangements -- Generating Asset Sale", the Company sold its 3.3455% ownership interest in a jointly-owned utility plant, W. F. Wyman Unit No. 4 (Wyman), an oil-fired generation plant on June 8, 1999, as required by the Maine utility industry restructuring legislation. The Company's proportionate share of the direct expenses of Wyman are included in the corresponding operating expenses in the statements of consolidated operations through June 8, 1999.

6. SHORT-TERM CREDIT ARRANGEMENTS

The Company has a revolving credit arrangement with two banks for borrowings up to $6 million. The revolving credit agreement is subject to extension with the consent of the participating banks and has been extended through May 24, 2002. These agreements contain certain restrictive covenants including interest coverage tests and debt-to-equity ratios. As of December 31, 2001, the Company was in compliance with those covenants. The Company can utilize, at its discretion, two types of loan options: A Loans, which are provided on a pro rata basis in accordance with each participating bank's share of the commitment amount, and B Loans, which are provided as arranged between the Company and each of the participating banks. The A Loans, at the Company's option, bear interest equal to either the agent bank's prime rate or LIBOR-based pricing. The Company also pays a quarterly commitment fee of .50% of the unused portion of the A Loans. The B Loans bear interest as arranged between the Company and the participating bank. On September 15, 2000, the Company entered a temporary line of credit arrangement for $2.5 million with one of the banks that terminated on March 15, 2001. This temporary line was required for working capital needs during this period. As of December 31, 2001, an A Loan for $2.8 million and a B Loan for $1.15 million were outstanding under the revolving credit arrangement at 3.3125% and 3.37%, respectively. As of December 31, 2000, an A Loan for $2.4 million at 8.125% and temporary credit line loans of $1.3 million and $1.2 million at 7.8125% and 8.0%, respectively, were outstanding under these arrangements.

The unregulated subsidiary, Energy Atlantic, LLC (EA) has a revolving line of credit with a bank, established in January, 2000 for $600,000. In November, 2001, the line was increased to $1.2 million and extended until March 31, 2002. EA has requested an extension and an increase to the line of credit and expects renewal on or prior to March 31,

2002. Interest is based on the bank's prime lending rate. As of December 31, 2001, EA was in compliance with the covenants set forth by the line of credit agreement. The line was not used during 2001 and had no balance outstanding as of December 31, 2000.

The Canadian subsidiary, Maine and New Brunswick, cancelled their long-standing $200,000 (Canadian) bank line of credit in April, 2000. This line, which provided for interest at the bank's prime rate, is no longer necessary because of the sale of the generating assets in June 1999.

7. COMMON SHAREHOLDERS' EQUITY

On November 17, 1999, the Maine Public Utilities Commission (MPUC) authorized the repurchase of up to 500,000 shares of the Company's Common Stock in order to maintain the Company's capital structure at levels in accordance with the Stipulation approved by the MPUC on December 1, 1999. The Stipulation limits common equity to 51% of the capital structure for the determination of transmission and distribution rates. The shares will be repurchased through an open-market program. Previously, over a five-year period from September, 1989 to September, 1994, under a similar program, the Company purchased 250,000 shares at a cost of $5.7 million. During 2000, the Company purchased 45,000 shares at a cost of $922,000. Subtracting 612 and 648 shares issued to Company Directors during 2001 and 2000, respectively, as a component of their compensation, 293,740 shares are held as treasury shares with a cost of $6.6 million as of December 31, 2001.

Under the most