Nuveen Floating Rate Income Opportunity Fund
Form N-CSR
September 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21579

Nuveen Floating Rate Income Opportunity Fund

(Exact name of registrant as specified in charter)

Nuveen Investments

333 West Wacker Drive

Chicago, IL 60606

(Address of principal executive offices) (Zip code)

Kevin J. McCarthy

Nuveen Investments

333 West Wacker Drive

Chicago, IL 60606

(Name and address of agent for service)

Registrant s telephone number, including area code: (312) 917-7700

Date of fiscal year end: July 31

Date of reporting period: July 31, 2016

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

Closed-End Funds

Nuveen
Closed-End Funds

Annual Report July 31, 2016

NSL
Nuveen Senior Income Fund

JFR
Nuveen Floating Rate Income Fund

JRO
Nuveen Floating Rate Income Opportunity Fund

JSD
Nuveen Short Duration Credit Opportunities Fund

JQC
Nuveen Credit Strategies Income Fund

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If you receive your Nuveen Fund dividends and statements directly from Nuveen.

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Chairman s Letter

to Shareholders

Dear Shareholders,

The U.S. economy is now seven years into the recovery, but its pace remains stubbornly subpar compared to past recoveries. Economic data continues to be a mixed bag, as it has been throughout this expansion period. While the unemployment rate fell below its pre-recession level and wages have grown, a surprisingly weak jobs growth report in May cast doubt over the future strength of the labor market. Subsequent employment reports have been stronger, however, easing fears that a significant downtrend was emerging. The housing market has improved markedly but its contribution to the recovery has been lackluster. Deflationary pressures, including weaker commodity prices, have kept inflation much lower for longer than many expected.

The U.S. s modest expansion and positive employment trends led the U.S. Federal Reserve (Fed) to begin its path toward policy normalization by raising its benchmark interest rate at its December 2015 meeting. However, since then, the Fed has remained on hold for reasons ranging from domestic to international, which helped continue to prop up asset prices despite bouts of short-term volatility.

Outside the U.S., optimism has been harder to come by. Investors continue to question whether China s economy is finally stabilizing or still slowing. The U.K. s June 23rd Brexit vote to leave the European Union introduced a new set of economic and political uncertainties to the already fragile conditions across Europe. Moreover, there are growing concerns that global central banks unprecedented efforts to revive growth may be showing signs of fatigue. Interest rates are currently negative in Europe and Japan and near or at zero in the U.S., U.K. and elsewhere. Yet, growth has remained subdued.

With global economic growth still looking fairly fragile, and few near-term catalysts for improvement, we anticipate that turbulence remains on the horizon for the time being. In this environment, Nuveen remains committed to both managing downside risks and seeking upside potential. If you re concerned about how resilient your investment portfolio might be, we encourage you to talk to your financial advisor.

On behalf of the other members of the Nuveen Fund Board, we look forward to continuing to earn your trust in the months and years ahead.

Sincerely,

William J. Schneider

Chairman of the Board

September 23, 2016

Portfolio Managers

Comments

Nuveen Senior Income Fund (NSL)

Nuveen Floating Rate Income Fund (JFR)

Nuveen Floating Rate Income Opportunity Fund (JRO)

Nuveen Short Duration Credit Opportunities Fund (JSD)

Nuveen Credit Strategies Income Fund (JQC)

The Funds investment portfolios are managed by Symphony Asset Management, LLC (Symphony), an affiliate of Nuveen Investments, Inc. Gunther Stein, who serves as the firm s Chief Investment Officer and Chief Executive Officer, and Scott Caraher manage NSL, JFR and JRO. Gunther and Sutanto Widjaja manage JQC, while JSD is managed by Gunther, Scott and Jenny Rhee.

Effective September 30, 2015, NSL, JFR, JRO, JSD and JQC can invest up to 5% in iBOXX Loan Total Return Swaps.

On October 18, 2015, the Board of Trustees of JSD approved a policy change regarding the Fund s use of leverage. The new policy permits the Fund to use leverage to the extent permissible under the 1940 Act, which currently permits leverage in an amount up to 50% of the Fund s managed assets. The Board of Trustees also authorized the Fund to incur additional leverage that would increase the Fund s effective leverage ratio.

Here the team discusses the U.S. economic and financial market conditions, their management strategies and the performance of the Funds for the twelve-month reporting period ended July 31, 2016.

What factors affected the U.S. economy and financial markets during the twelve-month reporting period ended July 31, 2016?

Over the twelve-month reporting period, U.S. economic data continued to point to subdued growth, rising employment and tame inflation. Economic activity has continued to hover around a 2% annualized growth rate since the end of the Great Recession in 2009, as measured by real gross domestic product (GDP), which is the value of the goods and services produced by the nation s economy less the value of the goods and services used up in production, adjusted for price changes. For the second quarter of 2016, real GDP increased at an annual rate of 1.1%, as reported by the second estimate of the Bureau of Economic Analysis, up from 0.8% in the first quarter of 2016.

The labor and housing markets improved over the reporting period, although the momentum appeared to slow toward the end of the reporting period. As reported by the Bureau of Labor Statistics, the unemployment rate fell to 4.9% in July 2016 from 5.3% in July 2015, and job gains averaged slightly above 200,000 per month for the past twelve months.

Certain statements in this report are forward-looking statements. Discussions of specific investments are for illustration only and are not intended as recommendations of individual investments. The forward-looking statements and other views expressed herein are those of the portfolio managers as of the date of this report. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements and the views expressed herein are subject to change at any time, due to numerous market and other factors. The Funds disclaim any obligation to update publicly or revise any forward-looking statements or views expressed herein.

For financial reporting purposes, the ratings disclosed are the highest rating given by one of the following national rating agencies: Standard & Poor s (S&P), Moody s Investors Service, Inc. (Moody s) or Fitch, Inc. (Fitch). This treatment of split-rated securities may differ from that used for other purposes, such as for Fund investment policies. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings, while BB, B, CCC, CC, C and D are below investment grade ratings. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this section.

Portfolio Managers Comments (continued)

The S&P CoreLogic Case-Shiller U.S. National Home Price Index, which covers all nine U.S. census divisions, recorded a 5.1% annual gain in June 2016 (most recent data available at the time this report was prepared) (effective July 26, 2016, the S&P/Case-Shiller U.S. National Home Price Index was renamed the S&P CoreLogic Case-Shiller U.S. National Home Price Index). The 10-City and 20-City Composites reported year-over-year increases of 4.3% and 5.1%, respectively.

Consumers, whose purchases comprise the largest component of the U.S. economy, benefited from employment growth and firming wages over the twelve-month reporting period. Although consumer spending gains were rather muted in the latter half of 2015, a spending surge in the second quarter of 2016 helped offset weaker business investment. A backdrop of low inflation also contributed to consumers willingness to buy. The Consumer Price Index (CPI) rose 0.8% over the twelve-month reporting period ended July 2016 on a seasonally adjusted basis, as reported by the U.S. Bureau of Labor Statistics. The core CPI (which excludes food and energy) increased 2.2% during the same period, slightly above the Fed s unofficial longer term inflation objective of 2.0%.

Business investment remained weak over the reporting period. Corporate earnings growth slowed during 2015, reflecting an array of factors ranging from weakening demand amid sluggish U.S. and global growth to the impact of falling commodity prices and a strong U.S. dollar. Although energy prices rebounded off their lows and the dollar pared some of its gains in the first half of 2016, caution prevailed. Financial market turbulence in early 2016 and political uncertainties surrounding the U.K. s Brexit vote to leave the European Union (EU) and the upcoming U.S. presidential election dampened capital spending.

With the current expansion considered to be on solid footing, the U.S. Federal Reserve (Fed) prepared to raise one of its main interest rates, which had been held near zero since December 2008 to help stimulate the economy. After delaying the rate change for most of 2015 because of a weak global economic growth outlook, the Fed announced in December 2015 that it would raise the fed funds target rate by 0.25%. The news was widely expected and therefore had a relatively muted impact on the financial markets.

Although the Fed continued to emphasize future rate increases would be gradual, investors worried about the pace. This, along with uncertainties about the global macroeconomic backdrop, another downdraft in oil prices and a spike in stock market volatility triggered significant losses across assets that carry more risk and fueled demand for safe haven assets such as Treasury bonds and gold from January through mid-February, however, fear began to subside in March. The Fed held the rate steady at both the January and March policy meetings, as well as lowered its expectations to two rate increases in 2016 from four. Also boosting investor confidence were reassuring statements from the European Central Bank, some positive economic data in the U.S. and abroad, a retreat in the U.S. dollar and an oil price rally. At its April meeting, the Fed indicated its readiness to raise its benchmark rate at the next policy meeting in June. However, a very disappointing jobs growth report in May and the significant uncertainty surrounding the U.K. s Brexit vote led the Fed to again hold rates steady at its June and July meetings.

The U.K. s vote on June 23, 2016 to leave the EU caught investors off guard. In response, U.K. sterling fell precipitously, global equities were turbulent and safe-haven assets such as gold, the U.S. dollar and U.S. Treasuries saw notable inflows. However, the markets stabilized fairly quickly, buoyed by reassurances from global central banks and a perception that the temporary price rout presented an attractive buying opportunity. Although many political and economic uncertainties for the U.K. and the EU remain, market volatility was relatively subdued throughout July, as concerns of a Brexit-induced financial crisis abated.

During the reporting period, particularly throughout the fourth quarter of 2015 and briefly during the end of the reporting period when Brexit was announced, the technical sell-off in levered credit markets continued as corporate debt was re-priced across the quality spectrum with lower rated, more illiquid issues being the most adversely impacted. Growing concerns of a more pronounced economic slowdown in China and continued commodity related sector volatility resulted in deteriorating investor sentiment. This triggered a flight of capital from credit markets, particularly among retail investors, despite generally sound macroeconomic and corporate fundamentals (ex-commodity related sectors).

This created a self-reinforcing technical feedback loop where initial selling put downward pressure on credit prices, prompting further selling as many investors attempted to exit the market before the technical downdraft intensified. Investor fears were further stoked by news of the closure of several high profile high yield mutual funds.

During the second half of the reporting period, markets reversed markedly and finished on a positive note. Risk assets were buoyed by increased demand and risk appetite largely due to dovish Fed rhetoric and the ECB expanding their monetary policy. Fears around Chinese growth subsiding along with damping concerns of a domestic recession also helped support the rally. With regard to credit markets specifically, the ensuing influx of capital into the high yield asset class as well as uptick in collateralized loan obligation (CLO) issuance later in the reporting period helped drive prices.

Loan markets posted slightly positive returns for the entire reporting period. During the first half of the reporting period, the loan market traded off largely due to technical factors and in concert with general risk aversion across the broad capital markets. While overall loan mutual fund flows continued to be negative, institutional loan demand driven by CLO issuance more than offset retail outflows. This institutional demand provided support to the loan market, allowing it in large part to avoid the downward cycle experienced in lower quality risk assets. A late period uptick in new CLO issuance along with a modest reversal in mutual fund outflows allowed for continued support in the asset class recovering much of the technical weakness experienced late in 2015.

Moving down the capital structure, high yield markets posted positive returns during the reporting period, as they rebounded from fourth quarter 2015 lows. The technical storm impacted nearly every sector of the high yield market during the fourth quarter. Most notably, energy and other commodity related sectors continued their precipitous decline. In addition, many larger, more liquid issues spanning media to information technology and across consumer sectors experienced price weakness due to their ability to be more readily sold as investors exited the high yield market. These factors were offset by an influx of capital into the high yield market during the first quarter of 2016. As a result, by the second half of the reporting period market-wide concerns had begun to dissipate with net negative flows out of the high yield bond fund category being reversed and high yield bond prices recovered.

What strategies were used to manage the Funds during the twelve-month reporting period ended July 31, 2016?

NSL, JFR and JRO have similar investment objectives and strategies. Each Fund is designed to seek a high level of current income by primarily investing in a portfolio of adjustable rate, senior secured corporate loans. The Funds also may invest in unsecured senior loans, other debt securities, equity securities and warrants acquired in connection with an investment in senior loans. A significant portion of each Fund s assets may be invested in instruments that, at the time of investment, are rated below investment grade or are unrated but judged by Symphony to be of comparable quality to below investment grade.

JSD seeks to provide current income and the potential for capital appreciation. The Fund invests primarily in a blended portfolio of below investment grade adjustable rate corporate debt instruments, including senior secured loans, second lien loans and other adjustable rate corporate debt instruments. The Fund may also make limited tactical investments in other types of debt instruments and may enter into tactical short positions consisting of primarily high yield debt. Under normal market conditions the Fund maintains a portfolio with an average duration that does not exceed two years.

JQC invests at least 70% of its assets in senior secured and second lien loans, and up to 30% of its assets opportunistically over the credit cycle in other types of securities across a company s capital structure. These other securities primarily include income-oriented securities such as high yield corporate and convertible bonds as well as

common stocks. The Fund maintained exposure to senior loans during the reporting period, while tactically allocating between high yield corporate bonds, equity securities and convertible bonds. Exposure consisted of mainly U.S. issuers, and was focused on companies that, in general, had high levels of tangible assets, predictable revenue streams, significant market share within their respective industries and positive free cash flow.

Portfolio Managers Comments (continued)

How did the Funds perform during this twelve-month reporting period ended July 31, 2016?

The tables in the Performance Overview and Holding Summaries section of this report provide total return performance for each Fund for the one-year, five-year, ten-year and/or since inception periods ended July 31, 2016. Each Fund s total returns at net asset value (NAV) are compared with the performance of a corresponding market index. For the twelve-month reporting period ended July 31, 2016, NSL, JFR, JRO, JSD and JQC underperformed the Credit Suisse Leveraged Loan Index.

As mentioned in the market commentary, during the reporting period, particularly throughout the fourth quarter of 2015 and briefly during the end of the reporting period when Brexit was announced, the technical sell-off in levered credit markets continued as corporate debt was re-priced across the quality spectrum with lower rated, more illiquid issues being the most adversely impacted. While markets reversed markedly and finished on a positive note, the Funds were not able to fully recover from the impact of the sell-off during the first half of the reporting period. As a result, the Funds underperformed their benchmarks.

Across all five Funds, our top and bottom performing individual security positions and industry groups were relatively similar. As a result, for NSL, JFR, JRO, JSD and JQC, the information technology, consumer staples and health care sectors contributed positively to absolute performance. However, these could not offset the Funds exposures to energy and telecommunication services sectors, which contributed to the Funds underperformance.

Several individual positions detracted from performance. Our energy holdings detracted as well, including Energy and Exploration Partners and Fieldwood Energy LLC. Energy related securities performed poorly as oil prices declined given negative revisions of global oil demand, weaker macroeconomic news and a surging U.S. dollar. While we continued to maintain underweight benchmark exposures to the industry, these positions still detracted from overall performance. Telecommunication services holding Intelsat Limited also detracted from performance. This lower quality credit sold off due to weak earnings and a sell-off in the high yield markets during the first half of the reporting period. Lastly, Clear Channel Communications, Inc., a leading global media and entertainment company, detracted from performance.

Several positions contributed to performance including the Fund s position in the loans of Albertson s LLC. Symphony believes the food and drug industry has historically been more defensive during periods of volatility and believes these loans offer an attractive coupon relative to the rest of the industry and broad market. Both the sector and the company have performed well and we anticipate the loans will continue to be core positions in the Fund s portfolio in the near term. The loans held in Communication Sales & Leasing, Inc. also contributed to performance. The loans of the telecommunications firm performed well as the company announced their first planned acquisition and noted a robust merger and acquisition (M&A) pipeline, which was well received by the market. In addition, Avago Technologies Limited loans positively impacted performance. The leading analog semiconductor manufacturer benefited from its acquisition of rival Broadcom Corp. The deal may be the largest of its kind in the semiconductor chip industry. Subsequent to the close of this reporting period, the combined company has been renamed Broadcom Limited.

In addition, the use of regulatory leverage was a factor affecting the performance of these Funds. Leverage is discussed in more detail later in the Fund Leverage section of this report.

For JSD and JQC we invested in credit default swaps. JSD invested in single name credit default swaps, while JQC invested in high yield index credit default swaps. These contracts contributed to a positive effect on performance for JQC and a negative effect on performance for JSD during the twelve month reporting period.

All of these Funds have owned, or currently own, loans with the LIBOR floor feature. The coupon on most senior loans consists of both LIBOR (usually 90-day U.S. LIBOR) plus a spread. For example, a senior loan might have a coupon structure of LIBOR plus 400 basis points (bp) in which the coupon consists of 90-day LIBOR, plus 400bp. Given today s relatively low LIBOR rate, however, many issuers have put in place LIBOR floors to enhance the yield (and satisfy demand from investors) for newly issued loans. LIBOR floors, as the name suggests, put a floor on the reference

LIBOR rate. LIBOR floors typically range from 150bp to 50bp. A loan with a LIBOR floor might have a structure of LIBOR + 400bp with a 100bp LIBOR floor. In this example, the effective coupon is 5% (100bp + 400bp as long as LIBOR is less than or equal to 100bp). As a result, as LIBOR rises from current levels, the yield on a senior loan with a LIBOR floor will not rise in lockstep until after the reference LIBOR rate exceeds the LIBOR floor. Although many loans have LIBOR floors (the asset class is one of the few that will float when interest rates begin to rise), we believe the senior loan asset class provides fixed income oriented investors with a potential safeguard from a secular rise in interest rates.

Fund

Leverage

IMPACT OF THE FUNDS LEVERAGE STRATEGIES ON PERFORMANCE

One important factor impacting the returns of the Funds relative to their benchmarks was the Funds use of leverage through the use of bank borrowings, Variable Rate Term Preferred (VRTP) Shares for NSL, JFR and JRO, Term Preferred Shares (Term Preferred) for JSD and reverse repurchase agreements for JQC. The Funds use leverage because our research has shown that, over time, leveraging provides opportunities for additional income and total return for common shareholders. However, use of leverage also can expose common shareholders to additional volatility. For example, as the prices of securities held by a Fund decline, the negative impact of these valuation changes on common share NAV and common shareholder total return is magnified by the use of leverage. Conversely, leverage may enhance common share returns during periods when the prices of securities held by a Fund generally are rising. The Funds use of leverage had a positive impact on performance during this reporting period.

JSD also used interest rate swap contracts to partially fix the interest cost of leverage, which as mentioned previously, is through bank borrowings and Term Preferred. Collectively, these interest rate swap contracts detracted from overall Fund performance during the period.

As of July 31, 2016, the Funds percentages of leverage are shown in the accompanying table.

	NSL	JFR	JRO	JSD	JQC
Effective Leverage*	35.87%	35.76%	35.72%	35.93%	36.00%
Regulatory Leverage*	35.87%	35.76%	35.72%	35.93%	30.89%

* Effective leverage is a Fund s effective economic leverage, and includes both regulatory leverage and the leverage effects of certain derivative and other investments in a Fund s portfolio that increase the Fund s investment exposure. Regulatory leverage consists of preferred shares issued or borrowings of a Fund. Both of these are part of a Fund s capital structure. Regulatory leverage is subject to asset coverage limits set forth in the Investment Company Act of 1940.

THE FUNDS LEVERAGE

Bank Borrowings

As noted above, the Funds employ leverage through the use of bank borrowings. The Funds bank borrowing activities are as shown in the accompanying table.

	Current Reporting Period					Subsequent to the Close of the Reporting Period		
Fund	**August 1, 2015**	**Draws**	**Paydowns**	**July 31, 2016**	**Average Balance Outstanding**	**Draws**	**Paydowns**	**September 28, 2016**
NSL	$ 112,500,000	$ 13,000,000	$ (24,500,000)	$ 101,000,000	$ 99,435,792	$ 9,000,000	$	$ 110,000,000
JFR	$ 270,300,000	$ 31,000,000	$ (60,500,000)	$ 240,800,000	$ 238,186,612	$ 21,600,000	$	$ 262,400,000
JRO	$ 188,800,000	$ 23,000,000	$ (45,000,000)	$ 166,800,000	$ 164,933,880	$ 15,000,000	$	$ 181,800,000

JSD	$ 85,200,000	$	$ (21,200,000)	$ 64,000,000	$ 71,279,781	$	$	$ 64,000,000
JQC	$ 640,000,000	$	$ (79,000,000)	$ 561,000,000	$ 587,907,104	$	$	$ 561,000,000

Refer to Notes to Financial Statements, Note 9 Borrowing Arrangements for further details.

Reverse Repurchase Agreements

As noted above, in addition to bank borrowings, JQC also utilized reverse repurchase agreements. The Fund s transactions in reverse repurchase agreements are as shown in the accompanying table.

Current Reporting Period					Subsequent to the Close of the Reporting Period		
August 1, 2015	Purchases	Sales	July 31, 2016	Average Balance Outstanding	Purchases	Sales	September 27, 2016
$160,000,000	$	$(15,000,000)	$145,000,000	$153,196,721	$	$	$145,000,000

Refer to Notes to Financial Statements, Note 9 Borrowing Arrangements, Reverse Repurchase Agreements for further details.

Variable Rate Term Preferred Shares

As noted above, in addition to bank borrowings, NSL, JFR and JRO also issued VRTP Shares. The Funds transactions in VRTP Shares are as shown in the accompanying table.

	Current Reporting Period					Subsequent to the Close of the Reporting Period		
Fund	August 1, 2015	Issuance	Redemptions	July 31, 2016	Average Balance Outstanding	Issuance	Redemptions	September 27, 2016
NSL	$ 58,000,000	$	$ (13,000,000)	$ 45,000,000	$ 53,560,109	$	$	$ 45,000,000
JFR	$ 139,000,000	$	$ (31,000,000)	$ 108,000,000	$ 128,412,568	$	$	$ 108,000,000
JRO	$ 98,000,000	$	$ (23,000,000)	$ 75,000,000	$ 90,144,809	$	$	$ 75,000,000

Refer to Notes to Financial Statements, Note 4 Fund Shares, Preferred Shares for further details on VRTP Shares.

Term Preferred Shares

As noted above, in addition to bank borrowings, JSD also issued Term Preferred. The Fund s transactions in Term Preferred are as shown in the accompanying table.

	Current Reporting Period					Subsequent to the Close of the Reporting Period		
Fund	August 1, 2015	Issuance	Redemptions	July 31, 2016	Average Balance Outstanding*	Issuance	Redemptions	September 27, 2016
JSD	$	$ 35,000,000	$	$ 35,000,000	$ 35,000,000	$	$	$ 35,000,000

*For the period November 16, 2015 (first issuance of shares) through July 31, 2016.

Refer to Notes to Financial Statements, Note 4 Fund Shares, Preferred Shares for further details on Term Preferred.

Common Share

Information

COMMON SHARE DISTRIBUTION INFORMATION

The following information regarding the Funds distributions is current as of July 31, 2016. Each Fund s distribution levels may vary over time based on each Fund s investment activity and portfolio investment value changes.

During the current reporting period, each Fund s distributions to common shareholders were as shown in the accompanying table.

	Per Common Share Amounts			
Monthly Distribution (Ex-Dividend Date)	**NSL**	**JFR**	**JRO**	**JSD**

Applying these criteria, the Corporate Governance Committee considers candidates for Board membership suggested by its members, as well as by management and shareholders. The Company has also from time to time retained the services of a third party executive search firm to assist it in identifying and evaluating such individuals.

Shareholders wishing to provide information concerning potential candidates for membership on the Board of Trustees may address such information, in writing, to the Secretary of the Company at the mailing address set forth on the last page of this proxy statement. The communication must identify the writer as a shareholder of Northeast Utilities and provide sufficient detail for the Corporate Governance Committee to consider the nominee s qualifications.

In early 2006, the Corporate Governance Committee surveyed the attributes and qualifications of the existing Board members and determined that there was need for additional Trustees with financial markets expertise and familiarity with electric industry issues. The firm of Heidrick & Struggles was retained and a number of qualified candidates were identified, several of whom were interviewed by certain members of the Corporate Governance Committee and management. In October 2006, the Corporate Governance Committee recommended the election of Kenneth R. Leibler, and he was elected Trustee on October 13, 2006, effective November 1, 2006.

COMMUNICATIONS FROM SHAREHOLDERS AND OTHER INTERESTED PARTIES

It is the policy of Northeast Utilities to provide a method for shareholders and other interested parties to communicate with the Board of Trustees, the non-management Trustees as a group, or individual Trustees, including the Lead Trustee, Dr. Elizabeth T. Kennan. In furtherance of this policy, the Board has designated the Secretary of Northeast Utilities as the contact person for such communications. Written communications from shareholders and other interested parties that are addressed to the Board, the non-management Trustees or individual Trustees, including the Lead Trustee, in care of the Secretary at the mailing address set forth on page 6 of this proxy statement, and which properly identify the sender, will be forwarded by the Secretary to the intended recipient or recipients.

THE CODE OF ETHICS AND THE STANDARDS OF BUSINESS CONDUCT

The Company has adopted a Code of Ethics for Senior Financial Officers (Chief Executive Officer, Chief Financial Officer and Controller) and a Standards of Business Conduct which is applicable to all Trustees, directors, officers, employees, contractors and agents of the Company and its subsidiaries. The Code of Ethics and the Standards of Business Conduct are both posted on the Company s web site and are available at http://www.nu.com/investors/corporate_gov/default.asp on the

Internet. Information pertaining to amendments and waivers from the Code of Ethics will be posted at this site. Printed copies of the Code of Ethics and the Standards of Business Conduct are also available to any shareholder upon written request to the Secretary of the Company at the address set forth on page 6 of this proxy statement.

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TRUSTEE INDEPENDENCE

Northeast Utilities has adopted Corporate Governance Guidelines incorporating independence standards that meet those contained in the Listed Company Manual of the New York Stock Exchange. In addition, NU has adopted an additional standard under which a charitable relationship will not be considered to be a material relationship that would impair a Trustee s independence if a Trustee serves as an officer, director or Trustee of a charitable organization, and the Company s discretionary charitable contributions to the organization, in the aggregate, do not exceed the greater of (1) $200,000 or (2) two percent of the organization s total annual charitable receipts or latest publicly available operating budget. The Trustee Independence Guidelines are available at the Company s website at http://www.nu.com/investors/corporate_gov/default.asp.

The Corporate Governance Committee of the Board of Trustees conducts an annual review of the independence of the members of the Board and reports its findings to the full Board. Applying NU s Corporate Governance Guidelines, the Corporate Governance Committee, assisted by legal counsel, and based on responses to questionnaires completed by the Trustees, reviewed and considered relationships and transactions between NU, its affiliates and subsidiaries, on the one hand, and each Trustee, entities affiliated with him or her, and/or any member of his or her immediate family, on the other hand. The Corporate Governance Committee also reviewed the Company s charitable donations to organizations as to which Board members or their immediate family members serve as officers or directors. None of these relationships were deemed to be material to the Trustees or likely to impair the independence of any of the Trustees. Likewise, the Corporate Governance Committee also examined relationships and transactions between each Trustee and (a) senior management of the Company and (b) the Company s independent auditors, to ascertain whether a Trustee s independence is compromised.

As a result of this review, based on the recommendation of the Corporate Governance Committee, on February 13, 2007, the Board of Trustees affirmatively determined that all of the non-employee Trustees nominated for election at the Annual Meeting satisfied the independence criteria (including the enhanced criteria with respect to members of the Audit Committee) set forth in the current listing standards and rules of the New York Stock Exchange and Securities and Exchange Commission and under Northeast Utilities Corporate Governance Guidelines. These independent Trustees are Messrs. Booth, Cloud, Cordes, Graham, Leibler, Patricelli and Swope, Ms. Cleveland and Drs. de Planque and Kennan, being all non-management members of the Board. Mr. Shivery is considered an inside Trustee due to his employment as President and Chief Executive Officer of Northeast Utilities.

For each of the independent Trustees identified above, the Board found that the direct and indirect relationships between each Trustee and NU and each of their affiliates were

immaterial to and did not preclude a finding of independence. In determining that each of the non-employee Trustees is independent, the Board considered the following relationships, which it determined were immaterial to the Trustees independence. The Board considered that the Company and its subsidiaries in the ordinary course of business have during the last three years sold products and services to, and/or purchased products and services from, companies at which some of our Trustees were directors or, in the case of Mr. Booth, executive officers, during fiscal 2006. In each case, the amount paid to or received from these

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companies in each of the last three years did not approach the two percent of total revenue threshold in the Corporate Governance Guidelines. The Board determined that none of the relationships it considered impaired the independence of the Trustees.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Pursuant to its Corporate Governance Guidelines discussed above under Trustee Independence, the Corporate Governance Committee monitors and conducts an annual review of whether there are any actual or potential conflicts of interest. In addition, the Company s Code of Ethics for Senior Financial Officers and its Standards of Business Conduct require Trustees, directors, officer and employees of the Company and its subsidiaries to comply on a continuing basis with restrictions on activities which may be considered conflicts of interest. Waivers and amendments to the Code of Ethics for Senior Financial Officers must be approved by the Board of Trustees, and are required to be promptly disclosed as required by law. There have been no exceptions from or changes to the Code of Ethics since its implementation. Potential conflicts of interest under the Standards of Business Conduct must be discussed with management.

MEETINGS OF THE BOARD AND ITS COMMITTEES

In 2006, the Trustees held 11 Board meetings, the non-management Trustees held four meetings, and the Board, the non-management Trustees and the Committees of the Board held a total of 50 meetings, taking into account that certain meetings were jointly held by various committees. In 2006, each Trustee attended at least 95 percent of the aggregate of the total number of meetings of the full Board and the total number of meetings of committees on which he or she serves. Dr. Kennan, as Lead Trustee, presides over meetings of the non-management Trustees. All members of the Board of Trustees attended the Annual Meeting of Shareholders held on May 9, 2006. Board members are expected to attend annual meetings, but the Company has no written policy addressing this subject.

COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table provides, as of February 28, 2007, information as to persons who are known to Northeast Utilities to beneficially own more than five percent of the common shares of Northeast Utilities. Northeast Utilities has no other class of voting securities.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Lord, Abbett & Co.	12,884,883(1)	8.37%

90 Hudson Street

Jersey City, NJ
07302

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(1) According to a Statement on Schedule 13G dated February 12, 2007, Lord, Abbett & Co. is the beneficial owner of 12,884,883 common shares of Northeast Utilities, for which it has sole dispositive power, including 12,458,083 shares for which it has sole voting power.

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COMMON STOCK OWNERSHIP OF TRUSTEES AND MANAGEMENT

The following table provides information as of February 13, 2007, as to the beneficial ownership of the common shares of Northeast Utilities by each Trustee, each of the executive officers of Northeast Utilities listed on the Summary Compensation Table and all Trustees and executive officers of NU as a group. Unless otherwise noted, each Trustee, nominee and executive officer has sole voting and investment power with respect to the listed shares. It is a policy of the Company that each member of the Board of Trustees be a shareholder of the Company.

Name	Amount of Beneficial Ownership	Nature of Beneficial Ownership	Percent of Class	Restricted Share Units, Deferred Share Units and Deferred Shares(1)
Richard H. Booth	1,000	Direct		17,786
	5,000	Vested Options		
	6,000	Total	<1%	
Gregory B. Butler(2)	17,184	Direct	<1%	46,320
Cotton Mather Cleveland	7,732	Direct		15,850
	12,500	Vested Options		
	20,232	Total	<1%	
Sanford Cloud, Jr.	18,966	Direct		8,866
	7,500	Vested Options		
	26,466	Total	<1%	
James F. Cordes	11,148	Direct		11,208
	5,000	Vested Options		
	16,148	Total	<1%	
Lawrence E. De Simone(3)	2,252	Direct	<1%	12,943
E. Gail de Planque	11,474	Direct		9,461
	12,500	Vested Options		
	23,974	Total	<1%	
John G. Graham	1,000	Direct	<1%	18,800
Cheryl W. Grisé(4)	48,812	Direct		61,323

	171,228	Vested Options		
	220,040	Total	<1%	
Elizabeth T. Kennan	4,638	Direct		18,221
	9,000	Vested Options		
	13,638	Total	<1%	
Kenneth R. Leibler	754	Direct	<1%	3,755
David R. McHale(5)	5,834	Direct		41,082
	7,500	Vested Options		
	13,334	Total	<1%	
Leon J. Olivier(6)	8,260	Direct		44,546
	19,900	Vested Options		
	28,160	Total	<1%	

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Name	Amount of Beneficial Ownership	Nature of Beneficial Ownership	Percent of Class	Restricted Share Units, Deferred Share Units and Deferred Shares(1)
Robert E. Patricelli	20,328	Direct		7,806
	12,500	Vested Options		
	32,828	Total	<1%	
Charles W. Shivery(7)	47,479	Direct		246,302
	29,024	Vested Options		
	76,503	Total	<1%	
John F. Swope	9,861	Direct		14,872
	12,500	Vested Options		
	22,361	Total	<1%	
All Trustees and Executive Officers as a Group (16 persons)	520,874		<1%	304,152

(1) Deferred restricted shares, restricted share units and deferred restricted share units as to which none of the officers or non-employee Trustees have voting or dispositive power.

(2) Includes 12,680 shares held by Mr. Butler jointly with his wife with whom he shares voting and dispositive power, and 1,945 shares as to which Mr. Butler has sole voting and no dispositive power.

(3) Mr. De Simone retired from employment with Northeast Utilities on January 1, 2007, and as a result forfeited 19,809 RSUs on January 1, 2007.

(4) Includes 5,746 shares as to which Mrs. Grisé has sole voting and no dispositive power, and 265 shares held by Mrs. Grisé s husband as custodian for her children, with whom she shares voting and dispositive power.

(5) Includes 1,130 shares as to which Mr. McHale has sole voting and no dispositive power.

(6) Includes 1,388 shares as to which Mr. Olivier has sole voting and no dispositive power.

(7) Includes 1,500 shares held jointly with Mr. Shivery s wife with whom he shares voting and dispositive power, and 16,390 shares as to which Mr. Shivery has sole voting and no dispositive power.

COMPENSATION DISCUSSION AND ANALYSIS

OVERALL OBJECTIVES OF EXECUTIVE COMPENSATION PROGRAM

The fundamental objective of our Executive Compensation Program is to motivate executives and key employees to support our strategy of investing in and operating businesses to benefit customers, employees, and shareholders. As a public company, we are responsible to our shareholders to provide a fair return on their investment. As a holding company for several regulated utilities, we are also responsible to our franchise customers to provide products reliably, safely, with respect for the environment and our employees, and at a reasonable cost.

The Executive Compensation Program supports its fundamental objective through the following design principles:

Attract and retain key executives by providing total compensation competitive with that of other executives employed by companies of similar size and complexity. The program benchmarks peer companies to ensure that compensation opportunities are competitive and capable of attracting and retaining executives with the experience and talent required to achieve our strategic objectives. As we continue to grow and improve our transmission, distribution, and regulated generation systems, having the right talent will be critical.

Establish performance-based compensation that balances rewards for short-term and long-term business results. The program motivates executives to run the business well in the short term, while executing the long-term business plan to benefit both our customers and shareholders. The program aims to strike a balance between the short- and long-term programs so that they work in tandem. It also ensures that long-term objectives are not sacrificed to achieve short-term goals or vice versa.

Incentive plan performance criteria are based on a combination of financial, operational, stewardship, and strategic goals that are essential to the achievement of our business strategies. This linkage to critical goals helps to align executives with our key stakeholders customers, employees, and shareholders. The long-term program also compares performance relative to a group of comparable utility companies.

Reward corporate and individual performance. Overall compensation has many metrics based on corporate performance but is also highly differentiated based on individual performance. The annual incentive program

(Annual Incentive Program) rewards both team performance (measured by adjusted net income) and individual performance (including individualized financial, operational and strategic metrics). Long-term incentives (LTI) are composed of a performance cash program (Performance Cash Program) and RSUs. The Performance Cash Program pays out based on the achievement of corporate goals (cumulative net income, average return on equity, average credit rating and relative total shareholder return). The ultimate value of RSUs is based on corporate total shareholder return, but the size of RSU grants reflects individual performance and contribution.

Encourage long-term commitment to the Company. Utility companies provide a public service and have a long-term commitment to ensure that customers receive reliable service day after day. Meeting this commitment requires specialized skills and institutional knowledge that are learned over time through local industry experience.

These skills include familiarity with the regions and communities that we serve, government regulations, and long-term energy policies. In addition, utility companies rely on long-term capital investments to serve their customers.

As a result, public utilities benefit from long-service employees. We have structured our executive compensation programs to build long-term commitment as well as shareholder alignment. Providing competitive compensation opportunities and offering programs such as RSUs and supplemental retirement benefits that vest and build value over time encourage long-term retention. Executive share ownership guidelines are another program component intended to build long-term shareholder alignment and commitment.

ELEMENTS OF 2006 COMPENSATION

The Executive Compensation Program is composed of base salary, an Annual Incentive Program, long-term incentives (consisting of RSUs and a Performance Cash Program), nonqualified deferred compensation, a supplemental executive retirement plan, officer perquisites, and employment agreements that specify payments and benefits upon involuntary termination and termination resulting from a change in control.

A description and the objective of each element of the Executive Compensation Program are summarized below.

Compensation Element	Description	Objective
Base Salary	Fixed compensation	Compensate officers for fulfilling their basic job responsibilities
	Usually increased annually during the first quarter based on individual performance, competitive market levels, strategic importance of the role, and experience in the position	Provide base pay commensurate with the median salaries provided to individuals with comparable positions in utilities and general industry
		Aid in attraction and retention
Annual Incentive Program	Variable compensation earned based on performance against pre-established annual team and	Promote the achievement of annual performance objectives that represent business success for the

	individual goals	Company, the executive, and his or her business unit or function
Long-Term Incentive (LTI) Program	Variable compensation granted 50% as RSUs, and 50% as performance cash (see below)	
RSUs	Share units, which vest over a three-year period, are granted based on Company performance and contribution of the individual	Align with shareholder interests through share performance and share retention
		Encourage a long-term commitment to the Company

Compensation Element	Description	Objective
Performance Cash Program	Long-term cash incentive that rewards individuals for corporate performance over a three-year period based on achieving pre-established levels of: Cumulative net income; Average return on equity; Average credit rating; Total shareholder return relative to a group of comparable utility companies	Reward performance on key Company priorities that are also key drivers of total shareholder return performance. Encourage long-term thinking and commitment to the Company
Supplemental Executive Retirement Plan (Supplemental Plan)	Non-qualified pension plan, providing additional retirement income to officers beyond what is provided in our standard defined benefit retirement plan. These include: A defined benefit make-whole plan. A supplemental target benefit (senior vice presidents and above only)	Compensate for IRS limits on qualified plans. Aid in retention of executives and build long-term commitment to the Company

	Note: Above benefits are not available to non-union employees, including executives, hired after 2005	
Other Nonqualified Deferred Compensation **(Deferral Plan)**	Opportunity to defer base salary and annual incentives, using the same investment vehicles as the NU qualified plan, and receive matching contributions otherwise capped by Internal Revenue Code limits on qualified plans	Aid executives in tax planning by allowing them to defer taxes on certain compensation Compensate for IRS limits on qualified plans
	Each year s match vests after 3 years or at retirement	Provide a competitive benefit
	For executives hired after 2005, the Company makes contributions of 2.5%, 4.5% and 6.5%, as applicable based on the relevant bracket for the sum of the officer s age and service with the Company on cash compensation that would otherwise be capped by Internal Revenue Code limits on qualified plans	Aid in retention and build long-term commitment to the Company

Compensation Element	Description	Objective
Perquisites	Financial planning and tax preparation reimbursement benefit Executive physical examination reimbursement plan	(Financial planning) Encourage use of a professional to maximize ultimate value of compensation and help executives better prepare tax returns (Physical exam) Encourage executives to undergo regular health checks (minimize the risk of losing critical employees)
Severance/Change-in-Control (CIC) Agreements	All named executive officers have employment agreements specifying benefits and payments upon involuntary termination and termination following a change in control Mr. Olivier also participates in a Special Severance Program that specifies other benefits and payments upon termination resulting from a CIC	Meet competitive expectation of employment Help focus executive on shareholder interests Provide income protection in the event of involuntary loss of employment

MIX OF COMPENSATION ELEMENTS

We strive to provide base compensation opportunities at or above the competitive median over time for fully proficient executives (see *Benchmarking* discussion for how market median is established). Accordingly, our annual and long-term incentive target percentages approximate competitive median incentives for the CEO and the other executive officers listed in the Summary Compensation Table, who we refer to together as named executive officers or NEOs.

As officers move up in the organization, a greater proportion of their total compensation is based on performance with a long-term focus. Historically, LTI has been weighted more significantly than short-term incentives at target, reflecting the longer-term nature of our business plans[1]. Accordingly, the NEOs target LTI opportunities, as a percent of base salary, are slightly higher than the survey data[2] that is used to benchmark executive compensation (see the *Benchmarking* section below for further discussion). Short-term compensation is commensurately lower.

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[1] In 2006, Mr. Olivier s and Mrs. Grisé s long-term incentive targets were exceptions and vary from the 150% of base salary target typically provided at their level. Mrs. Grisé had a long-term incentive target of 155% of salary, which was grandfathered from an older agreement, and Mr. Olivier accepted a 125% target because of his special retirement benefit.

[2] Survey data long-term opportunity is based on the present value (e.g. Black-Scholes methodology for options) of actual LTI grants.

Target annual incentive and LTI opportunities for the CEO are 100% and 300% of base salary, respectively. For the remaining NEOs, target percentages are 65% and 125 to 155%, respectively. All of the incentive compensation elements are at risk. The result is:

		Percentage of Total Direct Compensation at Target (TDC)			
Executive	Salary	Annual Incentive	Performance Cash	RSUs	TDC
Shivery	20%	20%	30%	30%	100%
Grisé	31%	20%	24%	24%	100%
Olivier	34%	22%	22%	22%	100%
McHale	32%	21%	24%	24%	100%
De Simone	32%	21%	24%	24%	100%
Butler	32%	21%	24%	24%	100%
NEO Average, Excluding CEO	32%	21%	23%	23%	100%

		(X if included in category)			
Category	Salary	Annual Incentive	Performance Cash	RSUs	TDC
Long-Term Incentives			X	X	N/A
Performance-Based[3]		X	X	X	N/A

BENCHMARKING

The Compensation Committee determines executive officer TDC levels through two steps: Step one is external comparisons; step two interprets the data based on internal considerations. First, the Committee identifies the market values of total compensation and individual components of pay (i.e., base salaries, annual incentives and long-term incentives).

We changed our business model in 2005 from a mix of competitive and regulated businesses to a solely regulated business. Accordingly, the Committee adjusted the set of companies selected for executive pay comparisons. For market comparisons, we consider the following sources:

Utility and general industry survey data (primary market comparison). We use these data as the primary market data for determining pay levels and incentive opportunities since these surveys include a diverse group of companies representative of our market for talent. Survey data are adjusted to reflect companies and business units of similar size. Utility-specific positions (e.g., EVP-NU, Utility Group and EVP NU, Transmission Group) are compared to utility market values only. General industry comparisons are blended on a 50/50 basis with utility industry comparisons only for positions that have counterparts in general industry (our Chairman of the Board, President and CEO; SVP and CFO; and SVP and General Counsel).

Customized peer group data (secondary reference only). We evaluate the pay opportunities provided by a customized group of utility peers of similar size, and complexity. Data are provided to the Committee for those positions *only where there is a title match* (e.g., the CEO, CFO, and General Counsel). For 2006, this group included

[3] RSUs are granted based on annual performance, but vest over time based on continued service.

the following 17 companies: Allegheny Energy Inc., Alliant Energy, Ameren Corp., Centerpoint Energy Inc., Consolidated Edison Inc., DTE Energy, Energy East, KeySpan Energy, NiSource, Inc., NSTAR, Pepco Holdings Inc., Pinnacle West Capital Corp., Puget Energy, Inc., SCANA Corp., Sierra Pacific Resources, Wisconsin Energy Corp., and Xcel Energy Inc. The Committee uses this group for insights into peer incentive design practices and as a secondary reference regarding specific peer company pay levels. In 2006, the Committee also used this group for performance comparisons under the Performance Cash Program (as described below in the *Long-Term Incentive Program* section).

For 2007, the Compensation Committee s consultant further refined the customized peer group to reflect: 1) utility companies that are mostly regulated with revenues between $2.5 and $12 billion (median for the group is $5.6 billion), and 2) less-regulated utility companies closer in size to NU, with revenues between $3 billion and $7 billion. The less-regulated companies represent potential sources of talent, even if they are not direct performance peers. As a result, we added seven companies to the peer group, including CMS Energy, Great Plains Energy, OGE Energy, PG&E, PPL Corporation, Progress Energy, and TECO Energy. We removed Keyspan from the group because it is being acquired. We also removed DTE because of its concentration of unregulated businesses.

The changes in the peer group s composition did not result in any significant differences in competitive pay opportunities, nor did it lead the Compensation Committee to make any changes in our compensation structure. However, the group is now more inclusive of all the companies that fit the size and business mix criteria defined above. While the peer group has been refined for pay comparison purposes, we will continue to use the 2006 peer group (minus Keyspan and DTE) for comparison of performance because we believe that the best yardstick for performance results is a group of mostly-regulated utilities.

Once the market values have been determined, we interpret the market data in the context of the strategic importance of different positions and internal equity considerations. The Committee periodically adjusts the target percentages of short-term and long-term incentives to keep them representative of market median levels. Targeted levels are adjusted over time, and care is taken to avoid sudden, drastic moves.

Supplemental benefits are also targeted to provide market-based opportunities to the executive. We provide perquisites to the extent they serve business purposes. We conduct periodic reviews of market benefits and perquisites using utility and general industry surveys (and at times, information from that year s customized peer group). Benefits are occasionally adjusted to maintain market parity. We last reviewed our supplemental retirement practices in 2005 and 2006, as described in more detail in the *Supplemental Benefits* section below. When the market indicates a reduction in benefits as a prevalent practice (e.g., elimination of defined benefit pension plans), such reductions have been applied to

new officers only.

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BASE COMPENSATION

The Compensation Committee reviews and approves executive officers salaries annually, setting salaries for each executive officer at levels considered to be reasonable and fair and reflective of the strategic importance of the position, level of responsibility, skills and experience of the incumbent, and individual performance.

In adjusting salaries, the Committee considers the following:

- Annual individual performance appraisals
- Market pay movement (as gleaned from the benchmarking exercise described above)
- Market pay positioning (as extracted from position-specific survey and proxy data)
- Incumbent experience and time-in-position at the Company
- Shifts in corporate focus with respect to strategic importance of a position
- Internal equity

Individuals who are performing well in highly strategic positions are likely to have their base salaries increased more quickly than individuals in other roles. From time-to-time, weak corporate performance has prompted salary increases to be postponed, but the Committee prefers to reflect subpar corporate performance through the variable pay components.

Based on these considerations, the Compensation Committee approved base salary increases of 3.5% in 2006 for Ms. Grisé, Mr. Olivier, and Mr. Butler. The Compensation Committee approved larger increases of 11.9% and 36.4%, respectively, for Messrs. Shivery and McHale because, as newer executive officers, they had salaries below median, and the Compensation Committee wanted to move their salaries closer to median after they demonstrated strong performance in their roles.

INCENTIVE COMPENSATION

Our incentive plan includes both the annual and LTI programs. Our shareholders approved the incentive plan in 1998 and 2003. The plan preserves the tax-deductibility offered under Section 162(m) of the Internal Revenue Code (Code), which allows companies to deduct compensation for

the CEO and certain other executives above $1 million only if it qualifies as performance based.

Incentive awards are subject to objective financial performance goals established by the Compensation Committee with the advice of the Finance Committee. Metrics are adjusted from year to year depending on our business focus for the period. Metrics have been adjusted more in recent years as we have been transforming ourselves back into a mostly regulated utility. Consistent with the requirements of Section 162(m), the Compensation Committee reports to the Board of Trustees each year the extent to which the performance objectives have been achieved.

The Committee approves individual awards based on performance achieved. Incentive award payments are made only to the extent that those objective financial performance goals are met. As discussed in more detail below relative to the annual program, the Committee

may exercise discretion around performance against individual goals, as long as overall financial performance has been met. At the time of RSU grants, the Committee exercises discretion regarding the size of grants based on the previous year s performance.

Annual Incentive Program

Target incentive opportunities under the Annual Incentive Program are established for the CEO and the other NEOs as a group as described in the *Mix of Compensation Elements* section above. Annual incentive awards may equal up to two times target when superior financial and operational results are achieved, but do not pay out when performance is below threshold levels. The opportunity to earn up to two times target reflects the Compensation Committee s belief that officers have a significant ability to affect performance outcomes.

Goals include a team goal and individual goals, as described below.

Team Goal

For Mr. Shivery and the other NEOs, the team goal is based on corporate Adjusted Net Income (ANI), defined as net income excluding the effect of certain nonrecurring income and expenses. ANI was selected because it serves as an indicator of ongoing operating performance. The nonrecurring income and expenses that were excluded included items generally outside the control of management and/or related to a decision by the Compensation Committee not to penalize executives for making correct strategic business decisions (e.g., the divestiture of the competitive business).

For 2006, there were two sets of excludable items. Items in the first set were completely excluded and included the following:

Excludable Categories	Specific 2006 Adjustments	$ Value of Adjustment to Net Income ($M)
Changes to net income as the result of accounting or tax law changes	None	None
Unexpected costs related to nuclear decommissioning	Write-off resulting from a preliminary settlement related to Connecticut Yankee litigation	+$2.7
Changes to net income as the result of a divesture or	None	None

discontinuance of a significant segment or component of the Company s business		
Changes to net income as a result of a ConEd settlement or court decision	None	None
Restructuring costs associated with a major corporate reorganization	Adjustment to regulated business termination cost	-$2.9
NU Enterprises, Inc. (NUEI)	NUEI net income	-$207.5

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Items in the second set were excluded at 85% of their value because the Committee believed they had a disproportionate effect on 2006 net income relative to management s influence over their outcome:

Excludable Categories	Specific 2006 Adjustments	$ Value of Adjustment to Net Income ($M)
Unusual IRS /regulatory decisions.	As the result of an IRS Private Letter Ruling, CL&P recorded a one-time $74.0 million reduction of income taxes related to generating plants that were sold by the regulated utilities as a result of industry restructuring.	-$74.0 x 85%= -$62.9
Asset sales or impairments other than those associated with a divestiture or discontinuance of a significant segment or component of the Company s business.	None	None
Accounting extraordinary items.	None	None

The Compensation Committee approved all final exclusions. The final ANI value was calculated by taking reported net income with adjustments for the dollar value of the exclusions noted above. The number of exclusions reflects the complexity of our business as we transition from mixed competitive and regulated business to a mostly regulated utility. In the event NU s earnings were restated as a result of noncompliance with accounting rules caused by fraud or misconduct, the Sarbanes-Oxley Act of 2002 requires the chief executive officer and chief financial officer to reimburse the Company for certain incentive compensation they had received. NU s Amended Incentive Plan contains a similar but broader provision requiring all employees to reimburse or forfeit their incentive compensation to the extent the Board determined their misconduct or fraud caused such a restatement, which would be invoked to the extent the Sarbanes provision were not applicable. To date, there have been no instances in which either the Sarbanes provision or the new provision in the Amended Incentive Plan would apply.

Individual Goals

Individual goals include a combination of key financial, operational, stewardship, and strategic metrics that are drivers of overall corporate performance. Individual goal categories

for the NEOs are detailed in the goal weightings table below. Individual goals do not result in payment of an award if a threshold level of ANI is not achieved. For 2006, the ANI threshold was based on NU corporate ANI for the CEO, CFO, and General Counsel and on Utility Group and Transmission Group ANI for Mrs. Grisé and Mr. Olivier, respectively. The threshold is defined as 25% below target ANI performance. (This threshold complies with section 162(m) of the Code).

Full incentive plan funding occurs once we achieve the ANI threshold. Actual payouts are determined with reference to attainment of individual goals and corporate goals exercising discretion in a manner which comports with Internal Revenue Code rules under Code Section 162(m) (that is, to assure that the incentive is qualified performance based compensation therefore avoiding the $1 million deductibility cap). In no case may an officer receive more than two times target for the individual portion of the incentive award. The

Compensation Committee recommends to the Board of Trustees the amount of any award for the CEO. For the remaining NEOs, the CEO recommends awards to the Compensation Committee for its approval.

Goal Weightings for 2006

The table below provides the weighting of team and individual goals for the NEOs for 2006. These weightings communicate the Compensation Committee s intention of balancing the need for teamwork across the organization with individual accountability. During 2006, Mr. De Simone had a unique role as the head of a business unit (the competitive business) that NU was in the process of exiting. Considering this unusual role and his responsibility in transitioning out of the competitive business, Mr. De Simone s entire incentive award was based on individual goals to keep focus on the factors that would help lead to a successful strategic transition. Individual goal weightings more typically range from 40% to 60%, as is the case for all other NEOs.

In 2006, the annual incentive thresholds were designed to reward performance on a more localized level. They were intended to recognize the distinctions among, and individual performance of, the distribution, transmission, and competitive business groups at a time when the organization was going through a restructuring, and we needed each unit to avoid distraction and maximize its own business results. As a result, Mrs. Grisé and Mr. Olivier had thresholds based on their own businesses performance.

2006 Financial Thresholds and Goals

Annual goals for 2006 were based on the first year of the multi-year business plan adopted by the Board. As shown in the table below, maximum and minimum performance levels were set at 15% above and below the target performance level, respectively. As mentioned above, the individual goal threshold was set 25% below target. At this threshold, the individual goal portion of the incentive may be paid.

Position	**Team Goal (Weighting)**	**Individual Goal Threshold (Weighting)**	**Summary Individual Goal Factors**
Mr. Shivery, Chairman of the Board, President, and Chief Executive Officer	Corporate ANI (60%)	Corporate ANI (40%)	Execution of operating and capital plans to ensure implementation of regulated growth strategy Leadership role in State and Federal regulatory matters; development and implementation of New England energy policy

Exit from competitive business in manner that maximizes shareholder value

Strategic planning and risk management

Operational excellence (related to talent management, culture, safety, diversity, and the environment)

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Position	Team Goal (Weighting)	Individual Goal Threshold (Weighting)	Summary Individual Goal Fac
Mr. McHale, SVP and Chief Financial Officer	Corporate ANI (60%)	Corporate ANI (40%)	Strategic /operational planning and risk manageme Meeting Operation & Maintenance budget Exit from competitive business in manner that maximizes shareholder valu Talent management
Mrs. Grisé, EVP NU (Utility Group)	Corporate ANI (40%)	Utility Group ANI (60%)	Meeting Utility Group Ne Income and Capital Budget Effective implementatio Utility Group capital projects Leadership role in State regulatory matters; developn and implementation of New England energy policy Organizational restructu
Mr. Olivier, EVP NU (Transmission)	Corporate ANI (40%)	Transmission Group ANI (60%)	Effective implementatio Transmission capital progra Transmission Group Ne Income Organizational Improve (related to organizational restructuring, development, compliance)

			Leadership in strategic planning and positioning wit[h] regulatory agencies
Mr. De Simone, President, Competitive Group	None (0%)	Corporate ANI (100%)	Competitive Business N[et] Income Exit the competitive bus[iness] in a manner that maximizes shareholder value Operational Excellence (related to safety and environmental compliance)
Mr. Butler, SVP and General Counsel	Corporate ANI (50%)	Corporate ANI (50%)	Performance of Legal, Corporate Affairs, IT, Real Estate, and Facilities Restructuring and Developm[ent] Leadership role in State [and] Federal regulatory matters; development and implementation of New Engl[and] energy policy Strategic planning and r[isk] management

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The Compensation Committee determines appropriate stretch around the targets based on the following factors:

An assessment of the potential volatility in results

The degree of difficulty in achieving target

Minimum and maximum goals

The minimum acceptable ANI

Annual incentive program financial thresholds and goals for 2006 are shown below.

2006 ANI Goals

	Adjusted Net Income in $Millions				
	Threshold -25% Target	**Min -15% Target**	**Target**	**Max +15% Target**	**Actual Results**
NU (Regulated Business and NU Parent)	$ 127.7	$ 144.7	$ 170.2	$ 195.7	$ 193.5
Utility Group	$ 89.0	$ 100.8	$ 118.6	$ 136.4	$ 131.1
Transmission Group	$ 38.0	$ 43.1	$ 50.7	$ 58.3	$ 59.8

2006 Results

Each NEO was awarded annual incentives for the 2006 program based on the achievement of the corporate ANI goal and individual goals. The corporate ANI goal result was near maximum. The Utility Group and Transmission Group ANI results exceeded the threshold levels; consequently, all NEOs received a payment for individual goals. The CEO s performance against individual goals was assessed at 175% of target, reflecting the successful execution of the Company s strategic plan, including the exit from its competitive business, notably the sale of its generation plants, and significant progress in building the expanded transmission infrastructure. In combination with the corporate ANI goal results, the CEO s overall incentive payment was set at 185% of target. Performance measured against individual goals for each of the other NEOs was above target in aggregate, which, when combined with corporate ANI performance for all but Mr. De Simone, resulted in incentive payments from 129% to 172% of target. As stated in *Goal Weightings for 2006*, Mr. De Simone s incentive payment was determined solely on the basis of individual goals focused on the competitive business.

2007 Design Changes

For 2007, the Compensation Committee changed three aspects of the Annual Incentive Program in recognition that our transition to a mostly regulated utility is largely complete. These changes, which are described below, also simplify the program.

1. Individual goal thresholds for all NEOs will be based on Corporate (as compared to Business Unit) ANI. This change encourages teamwork by emphasizing performance of the overall Company rather than separate business groups.

2. The number of ANI adjustment categories will be modified and reduced to include adjustments for only:

   Accounting or tax law changes

   Unusual IRS or regulatory issues

Unexpected costs related to nuclear decommissioning

Unexpected costs related to environmental remediation at the Holyoke Water Power Company

Divesture or discontinuance of a segment or component of the Company s business

ConEd settlement or court decision

NUEI mark-to-market impacts

Unbudgeted charitable contributions

Impairments on goodwill booked more than five years before the incentive program s performance period began.

3. The payout range will be narrowed to 10% above and below the target goal, and the payout at minimum goal point will change to 50% of target. The narrower performance range is now appropriate due to the change in risk profile resulting from the exit from the NUEI businesses. Similarly, the threshold performance level for individual goal payout was changed to 20% below target ANI.

Long-Term Incentive Program

Target incentive opportunities under this program are established for the CEO and the other NEOs as a group as described in the *Mix of Compensation Elements* section above. The target opportunity for each participant is stated as a percentage of base pay at the time of the grant. One-half of the target LTI value is granted in RSUs, and one-half is granted as performance cash (see discussion of each element below). This mix balances internal financial performance with total shareholder return. The Compensation Committee chose RSUs as the equity incentive vehicle because utilities create value for shareholders not only through stock price appreciation, but also through dividends.

The LTI program rewards aggregate financial and total shareholder return performance over time; the Annual Incentive Program reflects critical annual operating plans. The two programs work in tandem, such that achievement of annual goals moves the Company towards attainment of our long-term financial goals.

Restricted Share Units

Each RSU is equal to the value of one share of our common stock. In 2006, NU granted RSUs that vest equally over three years. Participants earn dividend equivalents on the RSUs that have been granted, but these dividend equivalents are calculated as reinvested shares of Company stock until the related RSUs vest.

The Compensation Committee establishes a pool for RSU grants annually at the beginning of each year based on performance for the prior year. The pool concept adds a performance component to the RSU program. At the Compensation Committee s discretion, the RSU pool is adjusted up or down from the target level based on three factors: 1) Company performance in the prior year, 2) the contribution by the executives to NU s longer-term strategic direction, and 3) the need to motivate future performance. Each executive

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officer receives an RSU grant from the RSU pool reflecting his or her individual performance and contribution. Adjustments to the RSU pool, and therefore to individual grants, will have the effect of raising or lowering NU s positioning versus peer companies pay opportunities.

In 2005, at the Compensation Committee s March 1 meeting, the RSU pool was reduced to 76% of target based on disappointing 2004 results in the competitive businesses. The CEO received a grant at 75% of target, and the other NEOs received grants between 65% and 85% of target. In 2006, at the Committee s February 14 meeting, the CEO and CFO were granted RSUs at 125% of target. These awards recognized their efforts to reposition the Company and a successful large equity offering in the fourth quarter of 2005. The other NEOs were granted RSUs at target.

As to the timing of grants:

All grants are approved by the Committee.

All grants are made on date of the Committee meeting at which they were approved.

Grants are not timed to take advantage of material, non-public information.

2006 Results/2007 Pool

The 2007 RSU pool for executives was set at 147% of target. This upward adjustment to the pool reflects the Company s superior financial performance in 2006 as well as the significant progress in its transformation to an entirely regulated business. In recognition of their significant contributions, the CEO received a grant at 175% of target, and Mssrs. Butler, McHale, and Olivier received grants of between 130% and 150% of target. Neither Mrs. Grisé nor Mr. De Simone received RSU grants because of their retirements.

2007 Design Changes: Share Ownership Guidelines

Except for the CEO, payment of half of any vested RSUs, prior to, and through 2006, was deferred an additional four years beyond vesting. For the CEO, payment of all of the vested units was deferred until after retirement. This deferral feature was intended to foster executive share ownership.

Beginning in 2007, the Compensation Committee simplified the RSU program to eliminate the deferral feature and introduce share ownership guidelines instead. The share ownership guidelines reinforce the importance of building NU share ownership among senior executives in a way that more actively involves the executives. Executives will be able to receive all RSU shares upon vesting, rather than deferring

half for an additional four years. As a consequence, executives will be taxed upon vesting on all shares versus receiving the benefit of tax deferral on a portion of their awards for an additional four years.

The following share ownership guidelines for NEOs took effect January 1, 2007. The guidelines are equivalent to approximately six-times base salary for the CEO and three-times base salary for the other NEOs:

Officer Level	**Ownership Guideline (Number of Shares)**
CEO	200,000
Remaining NEOs	45,000

Executives have five years to attain these levels, although most NEOs currently are at, or close to, these ownership levels. RSUs, shares held in individual 401(k) accounts, and shares owned outright count toward the ownership guidelines. Stock options do not count toward the ownership guidelines.

As of the last trading day in 2006, the CEO s ownership requirement will place his ownership above the prevalent proxy peer standard for CEOs of five-times base salary. In order to allow NU to preserve the tax deduction on his RSU grants under Section 162(m), Mr. Shivery has elected to continue to defer all of his RSUs until one year after retirement, as long as it is beneficial to the Company (see *Tax and Accounting Considerations* section, below).

Performance Cash Program

The Performance Cash Program is a three-year performance program, with a new performance cycle beginning every year.

2004-2006 Cycle

Performance Cash Program goals are set based on NU s three-year strategic operating plan at the beginning of each cycle.

In the 2004 to 2006 cycle, the Performance Cash Program was based exclusively on Cumulative Net Income (excluding pension income or expense). Significant losses in the competitive business in 2004 and 2005 resulted in no payouts for the 2004-2006 Performance Cash Program. NU began exiting the competitive businesses during this performance cycle, which exacerbated losses when divestiture accounting rules were applied.

Program Changes Beginning with the 2005-2007 Cycle

Beginning with the 2005 to 2007 performance cycle, the Compensation Committee changed two aspects of the Performance Cash Program to better reflect the Company s strategic redirection to a mostly regulated utility.

First, the Cumulative Net Income definition was adjusted to specifically exclude certain net income effects of the competitive businesses[4]. This change was designed to motivate executives working to reposition NU in the new strategic direction as a mostly regulated company.

Second, the metrics were expanded to include three additional objectives:

1. Average ROE, defined as the average of the annual Return on Equity for the three years during the

Performance Period. Average ROE is adjusted on the same basis as Cumulative Net Income.

2. Average credit rating, defined as the time-weighted average daily credit rating by S&P, Moody s, and Fitch (Average Credit Rating). This objective has the additional provision that the Moody s and S&P ratings must remain above investment grade.

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[4] In addition, pension income or expense was excluded for the 2005 to 2007 performance cycle.

3. Relative total shareholder return versus the 2006 proxy peers described in the *Benchmarking* discussion above.

Cumulative Net income, Average ROE, and Average Credit Rating are directly related to NU s multi-year business plan for 2006 to 2008. The relative total shareholder return metric reinforces the importance of delivering total shareholder return performance at or above the industry median.

All four metrics are weighted equally, communicating that all of these outcomes are important to investors and critical enablers of NU s ability to execute its transmission build-out and distribution system upgrade. The three internal financial metrics are supplemented by the total shareholder return metric, which is intended to focus executives on delivering results that are ultimately recognized by shareholders as industry-leading. A minimum level of performance must be met for each metric before that portion of the grant will pay out. The minimum performance level results in a payout equal to half of the target award. The plan pays a maximum value of 150% of target when maximum performance goals are achieved. The maximum pay opportunity is set at 150% of target to correspond to typical market practices.

Program Changes for the 2007-2009 Cycle

For the 2007-2009 cycle, cumulative net income will be adjusted to have the same exclusions as in the Annual Incentive Program beginning in 2007, as described above in *2007 Design Changes*. This change will maintain consistency in goals across compensation programs and facilitate simplified performance tracking by program participants going forward.

SUPPLEMENTAL BENEFITS

We provide a range of basic and supplemental benefits that are designed to assist us in attracting and retaining executives critical to our success and to reflect the competitive practices. The Compensation Committee endeavors to adhere to a high level of propriety in managing executive benefits and perquisites. Permanent lodging or personal entertainment is not provided for any executive officer or employee, and our health care and benefit programs offer substantially the same benefits to all full-time employees as they do to executive officers.

Retirement Benefits

We provide retirement income benefits from the Northeast Utilities Service Company Retirement Plan (Retirement Plan) and, for system officers, the Supplemental Plan. Each plan is a defined benefit pension plan, which determines retirement benefits based on Company service, age at retirement, and plan compensation. Plan compensation for the Retirement Plan, which is a qualified plan under the Code, includes primarily base pay and nonofficer annual incentives up to the IRS limits for qualified plans.

The Supplemental Plan adds base pay over the IRS limits, deferred compensation, awards under the executive Annual Incentive Program and, for certain participants, LTI program awards to plan compensation as explained in the narrative accompanying the Pension Benefits Table.

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The Supplemental Plan has two parts, as explained below:

The first part is the make-whole benefit. This benefit makes up for benefits lost through the application of certain tax code limitations on the benefits that may be provided under the Retirement Plan. For certain participants, it also adds LTI program awards to plan compensation.

The second part is the target benefit, which is available to all of the NEOs except Mr. Olivier. This benefit supplements the Retirement Plan and make-whole benefits under the Supplemental Plan so that, upon achieving at least 25 years of service, total retirement benefits from these plans equal a target percentage of the annual average of the participant s highest consecutive 36 months of plan compensation (Final Average Compensation). To receive this benefit, a participant must remain in the employ of NU companies until at least age 60 (unless the Board of Trustees sets an earlier age).

The value of the target benefit was reduced in 2005 to reflect changes in competitive practices, which showed a general reduction in the prevalence of defined benefit plans and in the value of special retirement benefits to senior executives. The target benefit for officers who became eligible for the target benefit before February 2005 uses a 60% target formula. For officers who become eligible after January 2005, the benefit uses a 50% target formula. Messrs. Shivery and Butler and Mrs. Grisé all have 60% target benefits. Mr. McHale has a 50% target benefit.

Mr. Olivier has separate retirement provisions in lieu of the Supplemental Plan benefits described above for the other NEOs. His retirement provisions were included in his employment agreement to provide a benefit similar to that provided by his previous employer. Based on his agreement, Mr. Olivier will receive a targeted pension value if he meets certain eligibility requirements (see the Pension Benefits Table and accompanying narrative for more details of this arrangement). As noted in the *Mix of Compensation Elements* discussion above, because of these additional retirement benefits, Mr. Olivier s LTI target and termination benefits are less generous than those provided to other similarly situated officers.

In addition, Mr. Shivery s employment agreement provides for a special total retirement benefit determined with the Supplemental Plan target benefit formula, but with the addition of three years of company service. The benefit is reduced by two percent for each year Mr. Shivery retires before age 65. Mr. Shivery is also eligible upon retirement for the cash value of retirement health benefits (see the Pension Benefits Table and accompanying narrative for more details of these arrangements).

Savings Plan

We also provide an opportunity for employees to save on a tax-favored basis through the Northeast Utilities Service Company 401k Plan (Savings Plan). The Savings Plan is a

defined contribution plan. Participants who have six months of service receive matching contributions, not to exceed 3% of base compensation, one-third of which is in the form of cash available for investment in various mutual fund investments and two-thirds of which is in the form of NU common shares (ESOP shares).

Employees hired before 2006 continue to participate in the Savings Plan as well as the defined benefit retirement plans described above. Beginning in 2006, newly-hired non-union employees, including new NU System Officers, also participate in an enhanced defined contribution retirement plan (the K-Vantage benefit) instead of the defined benefit retirement plans. The K-Vantage benefit provides for Company contributions to the Savings Plan of between 2.5% and 6.5% of plan compensation based on age and service. These contributions are in addition to employer matching contributions. Officers hired after 2005 will, likewise, participate only in the K-Vantage benefit as well as a companion nonqualified benefit, described below, that provides defined contribution benefits above the Code limits on qualified plans.

Nonqualified Deferred Compensation Plan

The primary purpose of the Deferral Plan is to provide employee deferral and Company contributions not available in the Company s Savings Plan because of the Code limits on qualified plans. Executive officers can defer up to 100% of base salary and annual incentive awards. The Company matches employee deferrals equal to three percent of base pay above the Code limits on qualified plans. The match is invested in Company shares and vests at the end of the third year after the calendar year in which the match was earned, or at retirement. Participants can invest their deferred amounts in the same investments as are available in the Savings Plan. The Company also makes contributions to this plan equal to the K-Vantage benefit that would have been provided under the Savings Plan but for the Code limits on qualified plans. This Deferral Plan is unfunded. Please see the Nonqualified Deferred Compensation Table and the accompanying notes for more plan details.

Perquisites

It is NU s philosophy that perquisites should be provided to executives as needed for business reasons, and not simply in reaction to prevalent market practice.

Most senior executives, including all NEOs, are eligible for financial planning and tax preparation. This benefit helps ensure that executives seek competent tax advice, better prepare complex tax returns, and leverage the value of the Company s compensation programs. The benefit is $1,500 per year for tax form preparation and $4,000 every two years for financial planning services.

All executives qualify for a special annual physical examination benefit to help ensure serious health issues are detected early. The benefit is a reimbursement of up to $500 for fees incurred beyond those covered by the Company s medical plan.

As required when hiring a new executive, the Company may reimburse executives for certain temporary living and relocation expenses, or provide a lump sum payment in lieu of

specific reimbursement. Such expenses are grossed-up for taxes.

When required for a valid business purpose, an executive will be asked that a spouse accompany him or her, in which case spousal travel expenses are reimbursed and grossed-up for taxes.

Tax gross-ups are provided only as described above because of the direct benefit to the corporation when the executive incurs such expense. The impact to the Company of the gross-ups is immaterial.

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CONTRACTUAL AGREEMENTS

Each NEO has an employment agreement that specifies details of pay and benefits on an ongoing basis and under certain termination events. These agreements were put in place to foster executive attraction and retention. Involuntary and change in control termination benefits are specified in the agreements in recognition of the higher exposure executives have. The benefits also help ensure executives continued dedication and objectivity at a time when they might otherwise be concerned about their future employment. In the event of a change in control, the agreement provides for enhanced cash severance benefits upon termination without cause, as defined in each agreement, or for good reason (constructive termination[5]). The Compensation Committee believes that constructive termination is conceptually the same as actual termination without cause, and potential acquirers would otherwise have an incentive to constructively terminate NEOs to avoid paying severance. Under the NU Incentive Plan rules in place when stock options were granted to NEOs, NEOs who are involuntarily terminated or who terminate for good reason also receive an extension on the expiration date of their vested stock options. The extension of 36 months after termination allows executives to benefit from the shareholder value created by any transaction.

While an NEO must terminate in the event of a change in control in order to receive enhanced cash severance (i.e., a double trigger), the provisions of the incentive plan provide for full vesting of RSUs and full vesting and immediate payout at target for performance cash whether or not the NEO is terminated, unless the Committee determines otherwise. In addition, the deferred compensation plan provides for immediate vesting of any Company matches, although these matches will be paid according to the schedule defined by the executive s original election.

As part of the change in control severance benefits provided for in their agreements, all NEOs other than Mr. Olivier will be reimbursed the full amount of any excise taxes imposed on their severance payments and any other payments under Section 4999 of the Code. This gross-up is intended to make the executives whole for any adverse tax consequences they may become subject to under the tax law. It also preserves the level of change in control severance protection provided through the employment agreements and other compensation plans. The mechanics and impact of the termination arrangements in the NEOs agreements are described in more detail in the Potential Payments Upon Termination or Change of Control Tables, appearing further below. Mr. Olivier s severance payments will be cut back to avoid excise taxes.

To help protect the Company after an executive s termination, the employment agreements include non-competition and non-solicitation covenants. The NEOs have agreed not to compete with the Company or solicit talent for a period of two years (one year for Mr. Olivier) after termination.

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[5] Constructive termination is a termination of employment initiated by the executive upon any failure of the Company materially to comply with and satisfy any of the terms of his or her agreement, or to transfer the executive, without his or her consent, to a location that is more than 50 miles from the executive s principal place of business immediately preceding shareholder approval or consummation of a Change of Control.

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As discussed in the *Supplemental Benefits* section above, Mr. Shivery s and Mr. Olivier s contracts also include enhancements to their retirement benefits that were negotiated when they were recruited to the Company.

Mrs. Grisé has announced her plans to retire from the Company on July 1, 2007. In determining the date of her retirement, the Company entered into an agreement in principle with Mrs. Grisé to assure that she would remain with the Company until at least July 1, 2007 in order to ensure an orderly transition of her responsibilities. As part of the agreement in principle, Mrs. Grisé affirmed the commitments previously made under her employment agreement, including an agreement that, for two years following her retirement, she generally may not engage in activities on behalf of certain competitors, solicit certain employees or interfere with the Company s business relationships. In consideration of these factors and the other terms of the agreement in principle, the Company will provide Mrs. Grisé with a special retirement benefit which, when combined with her annual benefit under the Retirement Plan and the Supplemental Plan, will provide an approximate annual benefit of $644,000. Under the agreement in principle, Mrs. Grisé will also be eligible for a lump sum cash payment of roughly $120,000 in lieu of receiving a grant of RSUs or performance cash under the 2007-2009 Long-Term Incentive Program. The agreement in principle also contains a standard general release of all claims against the Company in connection with Mrs. Grisé s employment.

TAX AND ACCOUNTING CONSIDERATIONS

Tax Considerations. All executive compensation for 2006 was fully deductible to the Company for federal income tax purposes, except for less than $250,000 in RSU gains for Mr. Shivery.

Section 162(m) of the Code limits the tax deduction for compensation paid to a company s CEO and certain other executives. An exception is provided for performance-based compensation. The Company s annual incentives and Performance Cash Program qualify as performance-based compensation under the Code. RSUs do not qualify as performance-based.

Currently, Mr. Shivery is the only NEO to exceed the 162(m) limit. To avoid a lost tax deduction for the Company, he has agreed, for as long as it is beneficial to the Company, to defer receipt of all RSUs until the calendar year following termination of employment, at which time Section 162(m) will no longer be applicable for him. The less than $250,000 in 2006 RSU gains for Mr. Shivery noted above related to RSU grants made before Mr. Shivery began this practice.

Section 409A of the Code provides that amounts deferred under nonqualified deferred compensation plans are includable in an employee s income when vested unless certain requirements are met. If these requirements are not met, employees are also subject to an additional income tax

and interest penalties. All of the Company s supplemental retirement plans, severance arrangements, and other nonqualified deferred compensation plans currently meet, or will be amended to meet, these requirements. As a result, employees will be taxed when the deferred compensation is actually paid to them. The Company will be entitled to a tax deduction at that time.

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Section 280G of the Code disallows a company s tax deduction for what are defined as excess parachute payments, and Section 4999 of the Code imposes a 20% excise tax on any person who receives excess parachute payments. As discussed above, NEOs are entitled to certain payments upon termination of their employment, including termination following a change in control of the Company. Under the terms of their contracts, all NEOs other than Mr. Olivier are entitled to tax gross ups in the event of any payment that would be an excess parachute payment. Accordingly, the Company s tax deduction would be disallowed under Section 280G for all excess parachute payments as well as tax gross-ups. Not all of the payments to which NEOs are entitled are excess parachute payments. The amounts of the payments that constitute excess parachute payments are set forth in the tables found in the Potential Payments at Termination or Change of Control section that follows.

NU s share awards are currently structured to accelerate in the event of a change in control, even if the executive remains employed by the Company. Depending on the share price on the date of the change in control and the time remaining until the awards would otherwise have vested, this acceleration could contribute significantly to potential excess parachute payments.

Accounting Considerations. RSUs as disclosed in the Grants of Plan-Based Awards Table are accounted for based on their grant date fair value, as determined under Statement of Financial Accounting Standards No. 123(R), which is recognized over the service period, which is the three-year vesting period applicable to the RSUs. Assumptions used in the calculation of this amount are set forth in section 6 of the Management s Discussion and Analysis and Results of Operations section of our annual report to shareholders for the fiscal year ended December 31, 2006 as incorporated by reference in our Form 10-K report filed with the Securities and Exchange Commission. Forfeitures are estimated, and the compensation cost of the awards will be reversed if the employee does not remain employed by the Company throughout the three-year vesting period. Performance Cash Program payments are accounted for on a variable basis based on the most likely payment outcome.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Northeast Utilities Board of Trustees has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with Northeast Utilities management. Based on this review and discussion the Compensation Committee has recommended to the Board of Trustees that the Compensation Discussion and Analysis be included in this proxy statement and our Form 10-K annual report.

The Compensation Committee

E. Gail de Planque, Chair

Robert E. Patricelli, Vice Chair

Richard R. Booth

Sanford Cloud, Jr.

James F. Cordes

Elizabeth T. Kennan

Dated: February 20, 2007

SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid or earned by our President/CEO, CFO and four most highly compensated executive officers other than the CEO and CFO (collectively, the named executive officers). As explained in the footnotes below, the amounts reflect the economic benefit to each named executive officer of the compensation item paid or accrued on his or her behalf for the fiscal year ended December 31, 2006.

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(2)	Stock Awards ($)(3)	Option Awards ($)(4)	Non-Equity Incentive Plan Compensation ($)(5)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)(6)	All Other Compensation ($)(7)
Charles W. Shivery Chairman of the Board, President and	2006	918,846		1,061,205		1,698,395	1,274,011	40,691

Chief Executive Officer						
David R. McHale Senior Vice President and Chief Financial Officer	2006	353,847	148,512	395,693	413,275	6,600
Cheryl W. Grisé Executive Vice President	2006	532,295	494,672	530,613	479,176	16,396
Lawrence E. De Simone President Competitive Group	2006	488,108	201,658	407,692	402,009	1,649,466
Leon J. Olivier(9) Executive Vice President Operations	2006	411,039	178,951	451,419	275,264	13,692
Gregory B. Butler Senior Vice President and General Counsel	2006	359,659	218,078	383,279	251,780	7,077

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(1) Amounts reported in the Salary column include amounts deferred by Messrs. Shivery and Olivier and Mrs. Grisé under the Deferral Plan, as set forth in the Executive Contributions in the Last Fiscal Year column of the Non-Qualified Deferred Compensation Plans Table.

(2) No discretionary bonus awards were made to any of the named executive officers in the fiscal year ended December 31, 2006.

(3) Amounts reported in the Stock Awards column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with the treatment of time-based RSU and restricted share grants under generally accepted accounting principals. The amounts therefore reflect the accounting expense of awards granted in and prior to 2006. Assumptions used in the calculation of this amount are set forth in section 6D of the Management s Discussion and Analysis and Results of Operations section of our annual report to shareholders for the fiscal year ended December 31, 2006 as incorporated by reference in our Form 10-K report filed with the Securities and Exchange Commission. In 2005 and 2006, all named executive officers were awarded RSUs as long-term incentive compensation, which vest over three years, with 50 percent payable at vesting and 50 percent payable four years after vesting, with the exception of RSUs awarded to Mr. Shivery, which vest over three years and are payable after retirement. Dividends on RSUs are reinvested, and additional shares added as a result of reinvestment are vested and paid on the same schedule as the related restricted share units. In 2004, Messrs. Shivery, McHale, Olivier and Butler and Mrs. Grisé were awarded RSUs as long-term incentive compensation, which vest over four years, with 50 percent payable at vesting and 50 percent payable four years after vesting. In 2004 Mr. Shivery and Mrs. Grisé received RSU grants vesting over three years, in partial payment of their awards under the 2003 Annual Incentive Program. In addition, Mr. Shivery was awarded 25,000 restricted shares in 2004, upon his appointment as Chairman, President and Chief Executive Officer; these shares vest over four years, and dividends are paid out during the vesting period. In 2003 Messrs. Shivery, McHale, Olivier and Butler and Mrs. Grisé were awarded restricted shares as long-term incentive compensation, which vest over four years; dividends on these restricted shares are paid out during the vesting period. Mr. De Simone s RSUs were vested on a prorated basis for time worked in 2006 in connection with his retirement on January 1, 2007. Additional information regarding Mr. De Simone s retirement is available in the Post-Employment Compensation Table prepared for Mr. De Simone.

(4) No option awards were made to any of the named executive officers in the fiscal year ended December 31, 2006.

(5) Amounts reported in the Non-Equity Incentive Plan Compensation column represent the payment to the named executive officers of short-term incentives under the 2006 Annual Incentive Program. Under the 2006 Annual Incentive Program, performance goals were

communicated during the first 90 days of 2006 to each officer by the CEO or, in the case of the CEO, by the Chairman of the Compensation Committee. Satisfaction of these performance goals was determined by the Compensation Committee (based on input from the CEO, in the case of officers other than the CEO) in February 2007 with reference to minimum, target and maximum goal achievement.

(6) Amounts reported in the Change in Pension Value and Non-Qualified Deferred Compensation Earnings column include the actuarial increase in the present value from December 31, 2005 to December 31, 2006 of the named executive officer s accumulated benefits under all pension plans established by the Company determined using interest rate and mortality rate assumptions consistent with those set forth in section 6 of the Management s Discussion and Analysis and Results of Operations section of our annual report to shareholders for the fiscal year ended December 31, 2006 as incorporated by reference in our Form 10-K report filed with the Securities and Exchange Commission. The named executive officer may not be fully vested in such amounts. More information on this topic is set forth in the notes to the Pension Benefits table, appearing further below. There were no above-market earnings on deferrals that were required to be reported in this column.

According to the terms of Mr. De Simone s employment agreement, accruals for Mr. De Simone under the Supplemental Plan accelerated upon his January 1, 2007 retirement to provide for the benefit due under the agreement. The change in pension accrual in 2006 for Mr. De Simone reported in this column represents the remainder required to be accrued in the fiscal year ended December 31, 2006 to provide this benefit.

(7) Amounts reported in the All Other Compensation column include matching contributions ($6,600 for each officer) allocated by the Company to the account of each of the named executive officers under the Savings Plan, and Company matching contributions under the Deferral Plan for the named executive officers who deferred part of their salary in the fiscal year ended December 31, 2005 (Mr. Shivery $19,249, Mrs. Grisé $9,334, and Mr. Olivier $5,758) and tax gross-up (Mr. Shivery $3,614, Mrs. Grisé $463, Mr. De Simone $557, Mr. Olivier $1,335, and Mr. Butler $477). Except for Mr. Shivery, whose total also includes spousal travel and a cell phone allowance, the aggregate of perquisites received by any named executive officer was less than $10,000, and therefore was not reportable.

(8) In connection with Mr. De Simone s January 1, 2007 retirement, he is entitled to receive various payments pursuant to the terms of his employment agreement, such payments to be delayed until July 1, 2007, with interest accruing from January 1, 2007 through June 30, 2007, as follows: (i) a lump sum payment of $19,946 representing the present value of eighteen months of Company health care contributions; (ii) a one-time severance payment of $811,162 in consideration for a general release, and (iii) a one-time payment of $811,162 in return for his covenant not to compete for a period of two years. Additional information is set forth in the Post-Employment Compensation Table prepared for Mr. De Simone.

(9) Mr. Olivier was elected Executive Vice President-Operations of NU on February 13, 2007 and has served as Executive Vice President since December 1, 2005.

GRANTS OF PLAN-BASED AWARDS DURING 2006

The Grants of Plan-Based Awards Table provides information on the range of potential payouts under all incentive plan awards during the fiscal year ended December 31, 2006. The table also discloses the underlying stock awards and the grant date for equity-based awards. No option awards were made to any of the named executive officers in the fiscal year ended December 31, 2006.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	Grant Date Value of St and Opti Awards
		Threshold	Target	Maximum		
Name	Grant Date	($)	($)	($)	(#)(3)	($)(4)
Charles W. Shivery						
Annual Incentive(1)	2/14/2006	0	918,846	1,837,692		
Long-Term Incentive(2)	2/14/2006	630,000	1,260,000	1,890,000	78,987	1,554
David R. McHale						
Annual Incentive(1)	2/14/2006	0	230,000	460,000		
Long-Term Incentive(2)	2/14/2006	103,150	206,300	309,450	12,929	254
Cheryl W. Grisé						
Annual Incentive(1)	2/14/2006	0	345,992	691,984		
Long-Term Incentive(2)	2/14/2006	200,750	401,500	602,250	20,133	396
Lawrence E. De Simone						
Annual Incentive(1)	2/14/2006	0	317,270	634,540		
Long-Term Incentive(2)(5)	2/14/2006	178,150	356,300	534,450	17,866	351
Leon J. Olivier						
Annual Incentive(1)	2/14/2006	0	267,175	534,350		
Long-Term Incentive(2)	2/14/2006	125,000	250,000	375,000	12,538	246
Gregory B. Butler						
Annual Incentive(1)	2/14/2006	0	233,778	467,556		
Long-Term Incentive(2)	2/14/2006	131,300	262,600	393,900	13,164	259

(1) Amounts reflect the range of potential payouts established for 2006 performance under the 2006 Annual Incentive Program for each named executive officer, as described in

the Compensation Discussion and Analysis. The 2007 payment for 2006 performance is set forth in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

(2) Amounts in the Estimated Future Payouts Under Non-Equity Incentive Plan Awards columns show the range of potential payouts under non-equity Long-Term Incentive Program awards, as described in the Compensation Discussion and Analysis. Grants of three-year performance cash units were made to officers during 2006 under the 2006-2008 Long-Term Incentive Program. Any payments due will be made in cash following the close of the performance period. Payments at the threshold, target, and maximum levels will be determined based on cumulative net income, average return on equity, average credit rating, and total shareholder return relative to sixteen utility companies over the performance period. The Target award for each officer is stated as a percentage of base rate of pay at the time of grant, and ultimate payout, if any, varies from 50 percent of target for achievement of minimum performance goals to 150 percent of target for achievement of maximum performance goals. Performance cash will be fully vested at the end of the Performance Period and paid to the officer within 2 1/2 months after the end of the Performance Period.

(3) The amounts shown in the All Other Stock Awards: Number of Shares of Stock or Units column reflect the number of RSUs granted to each of the named executive officers on February 14, 2006 under the 2006-2008 Long-Term Incentive Program. The RSUs will vest by one-third on the 25th of February in each of the first three years following the calendar year of award. Except for Mr. Shivery, half of the vested RSUs shall be paid out four years after their respective vesting dates; the other half of the vested RSUs shall be paid out immediately upon vesting. For Mr. Shivery, the vested RSUs shall be paid out in three approximately equal annual installments beginning the later of six months after his separation from the Company and January of the calendar year following the year he separates from the Company. Payouts will be in cash of an amount sufficient to pay tax withholding, plus whole common shares of Northeast Utilities. Until RSUs are paid out, the value of dividends that would have been paid to the recipient had the RSUs been actual Northeast Utilities common shares will be deemed to be invested in additional RSUs and paid out at the same time the related RSUs are paid.

(4) Amounts in this column reflect the grant-date fair value of RSUs granted to the named executive officers on February 14, 2006, under the 2006-2008 Long-Term Incentive Program. Amounts are reported as determined pursuant to generally accepted accounting principles.

(5) The amount reported for Mr. De Simone in the All Other Stock Awards: Number of Shares of Stock or Units column represents the full grant of RSUs made by the Board of Trustees to Mr. De Simone on February 14, 2006. This grant and other outstanding unvested RSUs held by Mr. De Simone on his January 1, 2007 retirement date were prorated for time worked in 2006. Additional information is set forth in the Post-Employment Compensation Table prepared for Mr. De Simone.

EQUITY GRANTS OUTSTANDING AT DECEMBER 31, 2006

The following table sets forth option, restricted share and RSU grants outstanding at the end of our fiscal year ended December 31, 2006 for each of the named executive officers. All option grants were fully vested as of December 31, 2006.

Name	Option Awards(1)	Stock Awards