Emera Maine

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July 3, 2014

Heather Hunt
Executive Director
New England States Committee on Electricity
655 Longmeadow Street
Longmeadow, MA 01106

Dear Heather:

Re: Emera Maine Expression of Interest

This is the response of Emera Maine to the Request for Expressions of Interest (REI) of the New England States Committee on Electricity (NESCOE) as an entity that has an interest in serving as one of the creditworthy counterparties to precedent agreements with natural gas pipeline companies. Emera Maine is supportive of the Electric Distribution Company (EDC) proposal outlined in the April 22, 2014 letter to you from NU, NGrid and UI and the Maine EDC position further explained in the June 5, 2014 letter from Central Maine Power (CMP) and Emera Maine. We understand that CMP and other participating EDCs will be filing as well, and we look forward to working with them.

Please let me or Alan Richardson (207-973-2816 alan.richardson@emeramaine.com) know if you have any questions or require any further information from Emera Maine.

Yours truly,

Jeff Jones
207-973-2899
jeff.jones@emeramaine.com

Response of Emera Maine to the Request for Expressions of Interest (REI) of the New England States Committee on Electricity (NESCOE)

Emera Maine is an entity that has an interest in serving as one of the creditworthy counterparties to precedent agreements with natural gas pipeline companies. Emera Maine is supportive of the Electric Distribution Company (EDC) proposal outlined in the April 22, 2014 letter to you from NU, NGrid and UI and the Maine EDC position further explained in the June 5, 2014 letter from Central Maine Power (CMP) and Emera Maine. We understand that CMP and other participating EDCs will be filing as well, and we look forward to working with them.

Executive Summary

Emera Maine is qualified to serve as a Contract Entity given that it is a Transmission Owner under the ISO New England Open Access Transmission Tariff and also as the distribution utility for a good portion of the State of Maine. The function of Capacity Manager is most likely an independent function and therefore not part of this expression of interest. Also, this expression of interest is not contingent upon having the authority to select or use a capacity manager. Equity ownership of a portion of the facilities with associated return and expenses is our preferred method for remuneration for us to serve as the Contract Entity. Emera Maine, like the other New England Transmission Owners, is a tightly regulated utility and already has many of the mechanisms in place such that our participation would contribute greatly to FERC approval of the proposed tariff changes reflecting the IGER (we would say EDC) approach and state approval of any precedent agreements that may be required by state public utility commissions and siting board approvals. Potential benefits are that systems are already in place for recovery of costs from customers and would not need to be duplicated. Other than necessary regulatory approvals, there are no other known pre-requisites or barriers to serving as the Contract Entity.

Description of Entity

Emera Maine is the fully regulated transmission and distribution utility responsible for electricity delivery to northern and east-coastal Maine, and is incorporated in the state of Maine. It is the successor to Bangor Hydro Electric and Maine Public Service companies, with the merger effective January 1, 2014. The most recent audited financial statements are for the year ending December 31, 2013 and are attached for Bangor Hydro and Maine & Maritimes Corporation, the former parent of Maine Public. Emera Maine is a fully owned subsidiary of BHE Holdings, Inc., which is a fully owned subsidiary of Emera U.S. Holdings, Inc., in turn a fully owned subsidiary of Emera, Inc. A corporate organizational chart is attached.

As of March 31, 2014 Emera Maine had a capital structure comprised of approximately 63% equity and 37% debt. In the last five years, Emera Maine has issued $70 million of private placement unsecured long-term debt to fund the Company's capital program and for general corporate purposes. Emera Maine is a party to a committed revolving credit facility under which it may borrow up to $80 million dollars. Emera Maine has access to equity capital from its parent Company, Emera, Inc., and in the last five years, $14 million of equity contributions were received from Emera, Inc. Emera, Inc. has a BBB+ corporate credit rating with a stable outlook from S&P and BBB (high) from DBRS.

Alan Richardson, Vice President – Transmission alan.richardson@emeramaine.com (207) 973-2816 is the individual authorized to represent Emera Maine in this REI process. His and the company's principal business address is:

970 Illinois Ave, Bangor ME 04401

Emera Maine has not had any complaints alleging misconduct or malfeasance or requesting an investigation filed against them with FERC or any state agency in connection with the provision of any natural gas-related service.

Emera Maine's participation as a Contract Entity would not preclude the participation of others in this role.

There are no known limits to the level of gas transportation capacity over which we could act as the Contract Entity.

Qualifications

Emera Maine is the fully regulated transmission and distribution utility responsible for the electricity demands of northern and east-coastal Maine.

Emera Maine has relevant experience serving in a similar Contract Entity role as the signatory to multiple contracts such as long term contracts for electricity from generators on behalf of customers at the direction of the Maine Public Utilities Commission. Being fully regulated ensures that we are transacting business in a way that is fully transparent and accountable to government agencies and authorities including, but not limited to, the FERC, EPA, Maine PUC, and Maine Department of Environmental Protection. .

Capacity Manager Selection and Controls

The function of Capacity Manager is most likely an independent function and therefore not part of this expression of interest. Also, this expression of interest is not contingent upon having the authority to select or use a capacity manager.

Costs and Other Business Terms

Equity ownership of a portion of the facilities with associated return and expenses is our preferred method for remuneration for us to serve as the Contract Entity.

FERC Review

As a current fully regulated Transmission Owner under the ISO New England Open Access Transmission Tariff, Emera Maine's Respondents should contribute to the FERC's favorable review and approval of the proposed tariff changes reflecting the IGER/EDC proposed approach.

State Review

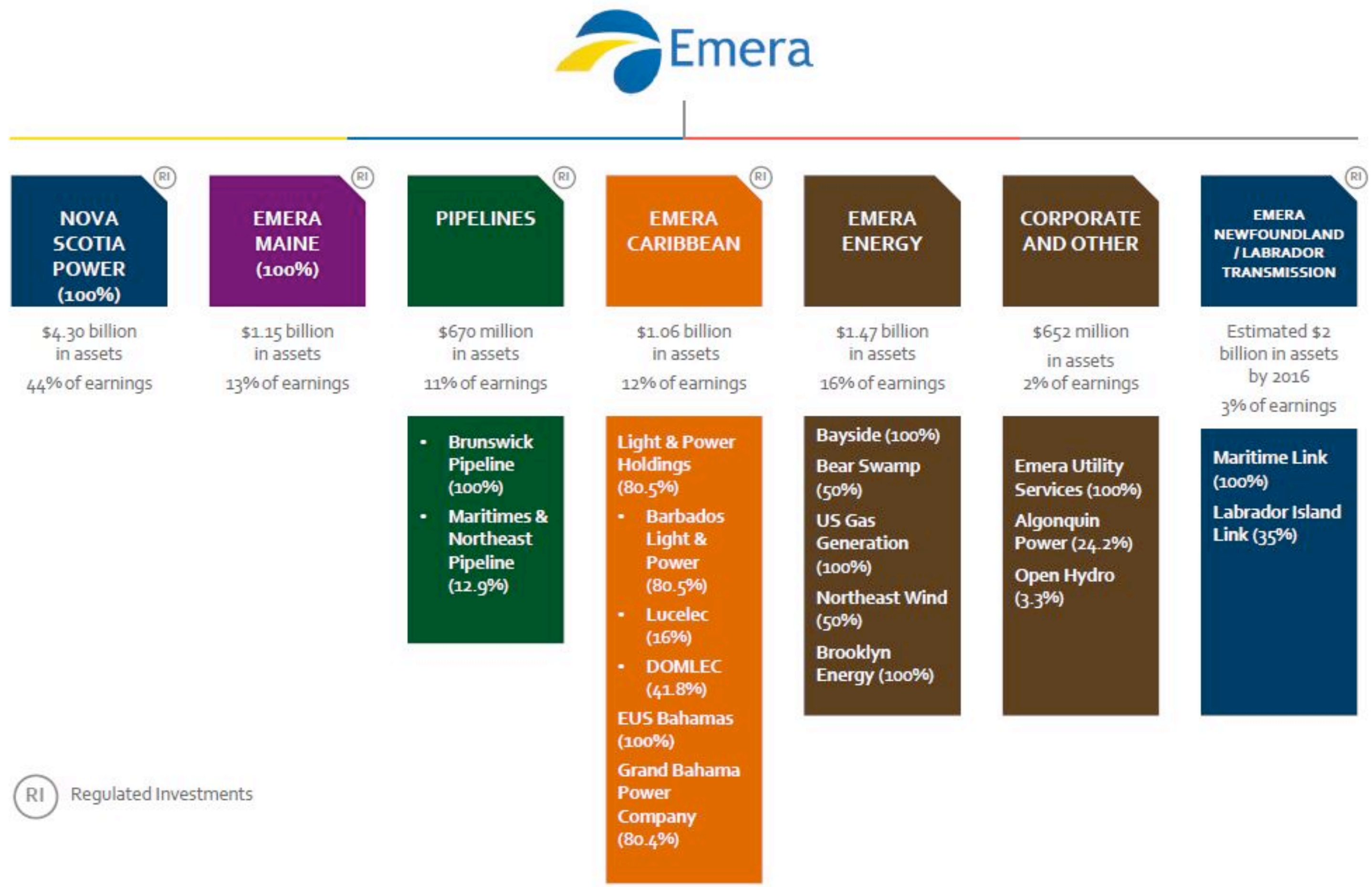
The State of Maine has already passed enabling legislation and has been a leading proponent of this initiative. Participation by Emera Maine and CMP should contribute positively to state approval of any precedent agreements or other regulatory approvals that may be required at the state public utility commissions and siting board approvals.

Prerequisites or Impediments to Participation

Other than the FERC review and approval required for the contemplated tariff changes, Emera Maine does not know of any potential prerequisites, pending or anticipated regulatory and/or board approvals, or barriers (e.g., legal, state regulatory, corporate) that could delay or impede serving as the Contract Entity.

Conflicts of Interest

Emera Maine is not aware of any potential actual or apparent conflict of interest with current or potential customers of the natural gas pipeline capacity that is not already covered by FERC and MPUC Standards of Conduct.



Note: Earnings %'s are as at Dec 31, 2013, and are based on "adjusted net income". Assets are as at March 31, 2014. Adjusted net income calculated as reported net income, adjusted for mark-to-market impacts.

Annual Financial Report

For the Year Ended December 31, 2013

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Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116

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Report of Independent Auditors

To the Stockholders and Directors of
Bangor Hydro Electric Company

We have audited the accompanying consolidated financial statements of Bangor Hydro Electric Company and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, capitalization, cash flows and common stock investment for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bangor Hydro Electric Company and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 3, 2014

Bangor Hydro Electric Company
Consolidated Statements of Income
For the Years Ended December 31,
$000's Omitted

	2013	2012
Operating Revenues:		
Electric operating revenue	$ 115,445	$ 112,494
Transmission pool revenue	50,718	46,147
Resale of purchased power	13,614	14,496
Other revenue (Note 7)	381	2,207
	$ 180,158	$ 175,344
Operating Expenses:		
Purchased power and fuel for generation (Note 14)	$ 30,757	$ 31,764
Transmission pool expense	22,902	19,359
Other operation and maintenance	30,767	35,659
Depreciation and amortization	20,795	19,445
Regulatory amortizations (Note 7)	5,619	3,245
Taxes		
Local and property and other	8,436	7,955
	$ 119,276	$ 117,427
Operating Income	$ 60,882	$ 57,917
Other Income (Expense):		
Allowance for equity funds used during construction and stranded cost carrying charges	$ 3,244	$ 4,927
Other, net of applicable income taxes (Note 18)	(646)	19
Income Before Interest Expense	$ 63,480	$ 62,863
Interest Expense:		
Long-term debt (Note 9)	$ 11,774	$ 12,970
Other (Note 9)	1,087	701
Allowance for borrowed funds used during construction and stranded cost carrying charges	(1,336)	(2,061)
	$ 11,525	$ 11,610
Net Income Before Income Taxes	$ 51,955	$ 51,253
Provision for income taxes (Note 10)	19,069	18,802
Net Income	32,886	32,451
Dividends on preferred stock (Note 8)	26	26
Net Income Attributable to Common Shareholder	$ 32,860	$ 32,425

The accompanying notes are an integral part of these consolidated financial statements.

Bangor Hydro Electric Company
Consolidated Statements of Comprehensive Income
For the Years Ended December 31,
$000's Omitted

		2013		2012
Net Income	$	32,886	$	32,541
Other Comprehensive Income (Loss), net of tax (Note 3):				
Defined Benefit and Postretirement Medical Plan:				
Amortization of prior service cost included in net periodic pension cost [1]	$	2,539	$	2,010
Net actuarial gains (losses) arising during the period [2]		18,865		(4,459)
Defined Benefit and Post-Retiree Medical Plan, net:	$	21,404	$	(2,449)
Net loss on treasury-lock hedge [3]	$	83	$	83
Other Comprehensive Income (Loss), net of tax		21,487		(2,366)
Comprehensive Income		54,373		30,175
Less: Dividends on preferred stock		26		26
Comprehensive Income Attributable to Common Shareholder	$	54,347	$	30,149

[1] Net of deferred taxes of $1.8 million in 2013 and $1.4 million in 2012
[2] Net of deferred taxes of $13.0 million in 2013 and $3.1 million in 2012
[3] Net of deferred taxes of $.06 million in 2013 and 2012

The accompanying notes are an integral part of these consolidated financial statements.

Bangor Hydro Electric Company
Consolidated Balance Sheets
As of December 31,
$000's Omitted

		2013		2012
Assets				
Investment in Utility Plant: (Notes 1 and 4)				
Electric plant in service, at original cost	$	830,882	$	782,906
Less Accumulated depreciation and amortization		189,873		171,267
	$	641,009	$	611,639
Construction work in progress		40,986		25,133
	$	681,995	$	636,772
Investments in corporate joint ventures (Note 5):				
Maine Yankee Atomic Power Company	$	163	$	155
Maine Electric Power Company, Inc.		1,371		703
	$	683,529	$	637,630
Other Assets, at cost (Note 1 and Note 17)	$	2,642	$	2,658
Current Assets:				
Cash and cash equivalents	$	-	$	787
Accounts receivable, net of reserve of $690 for 2013 and $618 for 2012		27,815		26,346
Due from Associated Companies (Note 17)		544		220
Unbilled revenue receivable		7,263		7,806
Inventories, at average cost:				
Materials and supplies and fuel oil		3,640		3,306
Prepaid expenses		1,808		1,338
Current income taxes refundable (Note 10)		-		2,222
Total current assets	$	41,070	$	42,025
Regulatory Assets and Deferred Charges:				
Goodwill - Acquisition by Emera	$	82,537	$	82,537
Investment in Seabrook nuclear project (Note 7)		3,183		4,882
Costs to restructure purchased power contract (Note 7)		7,771		9,502
Maine Yankee decommissioning costs (Note 5)		1,485		845
Other regulatory assets (Notes 5, 6, 7 and 11)		70,093		61,662
Other deferred charges (Note 15)		4,219		4,558
Total regulatory assets and deferred charges	$	169,288	$	163,986
Total Assets	$	896,529	$	846,299

The accompanying notes are an integral part of these consolidated financial statements.

Bangor Hydro Electric Company
Consolidated Balance Sheets
As of December 31,
$000's Omitted

		2013		2012
Stockholders' Investment and Liabilities				
Capitalization: (see accompanying statement) (Notes 8 and 9)				
Common stock investment	$	400,717	$	352,595
Preferred stock		366		366
Long-term debt, net of current portion		158,182		192,727
Total capitalization	$	559,265	$	545,688
Current Liabilities:				
Borrowings under revolving credit facility (Note 9)	$	27,327	$	-
Current portion of long-term debt (Note 9)		34,546		19,946
Accounts payable		26,913		28,791
Dividends payable		6		6
Accrued interest		4,015		4,098
Customers' deposits		2,768		2,697
Current income taxes payable (Note 10)		5,985		-
Total current liabilities	$	101,560	$	55,538
Regulatory and Other Long-Term Liabilities:				
Other accumulated deferred income taxes (Note 10)		157,817		125,743
Maine Yankee decommissioning liability (Note 5)		1,485		845
Other regulatory liabilities (Notes 7 and 10)		16,735		13,127
Unamortized investment tax credits (Note 1 and 10)		432		482
Accrued pension and post-retirement benefit costs (Note 11)		50,052		95,687
Other long-term liabilities (Notes 5 and 12)		9,182		9,189
Total regulatory and other long-term liabilities	$	235,703	$	245,073
Total Stockholders' Investment and Liabilities	$	896,529	$	846,299

The accompanying notes are an integral part of these consolidated financial statements.

Bangor Hydro Electric Company
Consolidated Statements of Capitalization
As of December 31,
$000's Omitted

	2013	2012
Common Stock Investment (Note 8)		
Common stock, no par value, stated value $5 per share	$ 48,000	$ 48,000
Authorized shares - 100,000,000		
Outstanding shares - 9,600,030		
Amounts paid in excess of stated value	205,169	205,169
Accumulated other comprehensive loss	(16,346)	(37,833)
Retained earnings	163,894	137,259
Total common stock investment	$ 400,717	$ 352,595
Preferred Stock (Note 8)		
Non-participating, cumulative, par value $100 per share, authorized 600,000 shares, not redeemable or redeemable solely at the option of the issuer -		
7%, Noncallable		
Authorized shares - 25,000		
Outstanding shares - 3,664 in 2013 and 2012	$ 366	$ 366
	$ 366	$ 366
Long-Term Debt (Note 9)		
Borrowings under revolving credit facility	$ -	$ 15,400
General and refunding mortgage bonds		
10.25% Series due 2020	$ 30,000	$ 30,000
8.98% Series due 2022	20,000	20,000
	$ 50,000	$ 50,000
Other long-term debt		
Senior unsecured note, 5.65%, due 2014	30,000	30,000
Senior unsecured note, 5.87%, due 2017	20,000	20,000
Senior unsecured note, 5.31%, due 2018	22,728	27,273
Senior unsecured note, 3.61%, due 2022	70,000	70,000
	$ 142,728	$ 147,273
	$ 192,728	$ 212,673
Less: current portion of long-term debt	34,546	19,946
Total long-term debt	$ 158,182	$ 192,727
Total Capitalization	$ 559,265	$ 545,688

The accompanying notes are an integral part of these consolidated financial statements.

Bangor Hydro Electric Company
Consolidated Statements of Cash Flows
For the Years Ended December 31,
$000's Omitted

	2013	2012
Cash Flows from Operating Activities:		
Net income	$ 32,886	$ 32,541
Adjustments to net income for non-cash items:		
Depreciation and amortization	20,795	19,445
Amortization of Seabrook nuclear project (Note 7)	1,699	1,699
Amortization of costs to restructure purchased power contract (Note 7)	1,731	1,731
Other amortizations and regulatory deferrals (Note 7)	2,718	(1,389)
Allowance for equity funds used during construction	(3,244)	(4,927)
Deferred income tax provision and amortization of investment tax credits	13,797	13,232
Changes in assets and liabilities:		
Accounts receivable, net and unbilled revenue	(1,251)	(1,501)
Accounts payable	(725)	(4,685)
Accrued interest	(83)	287
Current income taxes	8,207	3,218
Accrued pension and postretirement benefit costs	(8,258)	2,551
Other current assets and liabilities, net	(732)	(250)
Other, net	(2,792)	(2,563)
Net Increase in Cash from Operating Activities:	$ 64,748	$ 59,389
Cash Flows from Investing Activities:		
Construction expenditures	$ (64,634)	$ (47,907)
Investment in corporate joint ventures	(711)	-
Proceeds from equity investee dividends	14	14
Allowance for borrowed funds used during construction	(1,336)	(2,061)
Net Decrease in Cash from Investing Activities	$ (66,667)	$ (49,954)
Cash Flows from Financing Activities:		
Dividends on preferred stock	$ (26)	$ (26)
Dividends on common stock	(6,225)	(7,400)
Redemption of preferred stock	-	(18)
Payments on long-term debt	(4,545)	(24,546)
Proceeds from long-term debt	-	70,000
Revolving credit facility, net	11,928	(46,658)
Net Increase (Decrease) in Cash from Financing Activities	$ 1,132	$ (8,648)
Net Increase in Cash and Cash Equivalents	$ (787)	$ 787
Cash and Cash Equivalents at Beginning of Period	787	-
Cash and Cash Equivalents at End of Period	$ -	$ 787
Cash Paid (Received) During the Period for:		
Interest (net of amount capitalized)	$ 11,508	$ 11,440
Income taxes	(2,803)	2,023

The accompanying notes are an integral part of these consolidated financial statements.

Bangor Hydro Electric Company
Consolidated Statements of Common Stock Investment
$000's Omitted

	Common Stock	Amounts Paid in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stock Investment
Balance December 31, 2011	$ 48,000	$ 205,169	$ 112,146	$ (35,467)	$ 329,848
Net income	-	-	32,541	-	32,541
Other comprehensive loss net of taxes	-	-	-	(2,366)	(2,366)
Loss on redemption of preferred stock	-	-	(2)	-	(2)
Cash dividends declared on:					
Preferred stock	-	-	(26)	-	(26)
Common stock	-	-	(7,400)	-	(7,400)
Balance December 31, 2012	$ 48,000	$ 205,169	$ 137,259	$ (37,833)	$ 352,595
Balance December 31, 2012	$ 48,000	$ 205,169	$ 137,259	$ (37,833)	$ 352,595
Net income	-	-	32,886	-	32,886
Other comprehensive income net of taxes	-	-	-	21,487	21,487
Cash dividends declared on:					
Preferred stock	-	-	(26)	-	(26)
Common stock	-	-	(6,225)	-	(6,225)
Balance December 31, 2013	$ 48,000	$ 205,169	$ 163,894	$ (16,346)	$ 400,717

The accompanying notes are an integral part of these consolidated financial statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations - Bangor Hydro Electric Company (the "Company" or "Bangor Hydro") is a wholly-owned subsidiary of Emera, Inc ("Emera") through BHE Holdings, Inc. ("BHE Holdings") and is a public utility engaged in the transmission and distribution ("T&D") of electric energy, with a service area of approximately 7,100 square miles. The Company serves approximately 119,000 customers in portions of the Maine counties of Penobscot, Hancock, Washington, Waldo, Piscataquis, and Aroostook. The Company's regulated operations are subject to the regulatory authority of the Maine Public Utilities Commission ("MPUC") as to retail rates, accounting, service standards, territory served, the issuance of securities and other matters. The Company is also subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") as to certain matters, including rates for transmission services. The Company is a member of the New England Power Pool ("NEPOOL"), and is interconnected with other New England utilities to the south and with New Brunswick Power Corporation to the north.

The accounts of the Company are maintained in accordance with the Uniform System of Accounts prescribed by the regulatory bodies having jurisdiction and in accordance with accounting principles generally accepted in the United States.

Basis of Consolidation - The Consolidated Financial Statements of the Company include its wholly-owned subsidiaries, Bangor Fiber Co., Inc. ("Bangor Fiber") and Bangor Var Co., Inc. ("BVC"). Bangor Fiber supplies fiber optic communications cable to communications companies and cable service providers. See Note 5 for additional information with respect to BVC. All significant intercompany balances and transactions have been eliminated.

As a result of regulatory accounting, the Company accounts for its investments in the common stock of Maine Yankee Atomic Power Company ("Maine Yankee") and Maine Electric Power Company, Inc. ("MEPCO") under the equity method of accounting, and records its proportionate share of the net earnings of these companies as a component of other income. See Note 5 for additional information with respect to these investments.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Management evaluates the Company's estimates on an on-going basis based upon historical experience, current conditions and assumptions believed to be reasonable at the time the assumption is made, with any adjustments reported in earnings in the period in which they arise.

The most significant estimates are included in, but are not limited to: unbilled revenue, allowance for doubtful accounts, inventory, regulatory assets and liabilities, depreciation, amortization, income taxes (including deferred income taxes), pension and post-retirement benefits, goodwill impairment assessments and commitments and contingencies. Actual results may differ from these estimates.

Regulatory Matters - The Company is subject to the provisions of ASC 980-340, Regulated Operations - Other Assets and Deferred Costs ("ASC 980-340"). Regulatory accounting applies where rates are established by, or subject to approval by, an independent third party regulator; are designed to recover the costs of providing the regulated products or services; and it is reasonable to assume rates are set at levels such that the costs can be charged to and collected from customers. In accordance with rate and accounting orders issued by the MPUC and FERC, the Company has recorded regulatory assets and liabilities on its consolidated balance sheet.

Regulatory assets represent incurred costs that have been deferred because it is probable that they will be recovered through future rates collected from customers. Management believes that existing regulatory assets are probable of recovery either because the Company received specific approval from the appropriate regulator, or due to regulatory precedent set for similar circumstances. If management no longer considers it probable that an asset will be recovered, the deferred costs are charged to income.

Regulatory liabilities represent obligations to make refunds to customers or to reduce future revenues for previous collections. If management no longer considers it probable that a liability will be settled, the related amount is recognized in income.

For regulatory assets and liabilities that are amortized, the amortization is approved by the appropriate regulator and are amortized over varying lives through charges to earnings. These regulatory assets and liabilities are included in "Regulatory Assets and Deferred Charges" and "Regulatory and Other Long-term Liabilities", certain of which are described in more detail in Notes 6 and 7.

Note 1. Nature of Operations and Summary of Significant Accounting Policies, continued

Electric Operating Revenue - Operating revenues are recognized when electricity is delivered to customers or when products are delivered and services are rendered. Revenues are recognized on an accrual basis and include billed and unbilled revenues. Revenues related to the sale of electricity are recognized at rates approved by the respective regulator and recorded based on meter readings and estimates, which occur on a systematic basis throughout a month. At the end of each month, the electricity delivered to customers, but not billed, is estimated and the corresponding unbilled revenue is recognized.

Transmission Pool Revenue and Expense - The Independent System Operator of New England ("ISO-NE") manages open access to its network transmission assets within New England. The ISO manages the region's bulk power generation and transmission systems and administers the open access transmission tariff. Currently, the Company, along with all other participating transmission providers, recovers the full cost of service for their transmission assets from the customers of the participating transmission providers. The cost recovery is recorded as transmission pool revenue in the Consolidated Statement of Income. (See Note 6). Participating transmission providers are also required to contribute to the cost of service of such transmission assets on a ratable basis according to the proportion of the total New England load that their customers represent. These expenses are recorded as transmission pool expense in the Consolidated Statement of Income.

Resale of Purchased Power - The Company has several above-market purchase power contracts, with the power purchased under these arrangements being resold to a third party at market rates as determined through a bid process administered and approved by the MPUC. The difference between the cost of the power purchased under these arrangements and the revenue collected is recovered through stranded cost rates under a full reconciliation mechanism. For a discussion of these contracts, see Note 14, and for a discussion of the stranded cost rate setting mechanism, see Note 6.

Other Revenue - other revenues are recognized when services are performed or goods are delivered.

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts - Customer receivables are recorded at the invoiced amount and do not bear interest. Standard payment terms for electricity sales are approximately 30 days. A late payment fee may be assessed on account balances after the due date.

The Company is exposed to credit risk with respect to amounts receivable from customers. Credit risk assessments are conducted on all new customers and deposits are requested on any high risk accounts. The Company also maintains provisions for potential credit losses, which are assessed on a regular basis. Management estimates uncollectible accounts receivable after considering historical loss experience and the characteristics of existing accounts. Provisions for losses on receivables are expensed to maintain the allowance at a level considered adequate to cover expected losses. Receivables are written off against the allowance when they are deemed uncollectible.

The Company bills customers for the energy supplied by most competitive energy and all standard offer providers. Competitive energy providers are paid only after the funds are collected from customers. The Company records accounts receivable for the amounts billed to competitive energy customers and a corresponding accounts payable for the amounts due the energy supplier. No revenue is recognized as the Company is acting as an agent. For the standard offer providers, the Company is obligated to pay the providers for amounts billed on their behalf, reduced by a contractually agreed upon percentage retained by the Company to offset collection risks associated with these standard offer receivables.

Allowance for Funds Used During Construction ("AFUDC") - In accordance with regulatory requirements of the MPUC, the Company capitalizes as AFUDC financing costs related to portions of its construction work in progress, at a rate equal to its weighted cost of capital, into utility plant with offsetting credits to other income and interest expense. This cost is not an item of current cash income, cash is realized under the rate-making process over the service life of the related property through future revenues resulting from a higher rate base and recovery of higher depreciation expense. In addition, carrying costs on certain regulatory assets and liabilities were also capitalized and included in AFUDC in the Consolidated Statements of Income. AFUDC is calculated using a weighted average cost of capital, as per the method approved by the MPUC, and is compounded semi-annually. The average AFUDC (carrying costs) rates computed by the Company were 8.9% in 2013 and 8.8% in 2012.

Note 1. Nature of Operations and Summary of Significant Accounting Policies, continued

Electric Plant in Service and Intangible Assets - Costs of additions, replacements, and renewals of items considered to be units of property are charged to the utility plant accounts, and any items retired are removed from such accounts. The original costs of units of property retired and removal costs, less salvage, are charged to accumulated depreciation with no gain or loss reflected in income. The Company follows the practice of charging to maintenance the costs of repairs, replacements, and renewals of minor items considered to be less than a unit of property. Maintenance expense was approximately $9.0 million in 2013 and $9.4 million in 2012.

Intangible assets, which are a component of electric plant in service, consist primarily of land rights of $28.2 million in 2013 and $28.3 million in 2012 and computer software of $2.4 million in 2013 and $2.9 million in 2012.

Depreciation and Amortization - Depreciation of electric plant is provided using the straight-line method at rates designed to allocate the original cost of properties over their estimated service lives. The service lives of utility plant assets are determined based on formal depreciation studies and require appropriate regulatory approval. The composite depreciation rate (excluding intangible assets) expressed, as a percentage of average depreciable plant in service, was approximately 2.5% in 2013 and 2.7% in 2012.

Amortization of intangible assets, which are included in electric plant in service, is determined by the straight-line method, based on the estimated service lives of the depreciable intangible assets in each category. The service lives of intangible assets are determined based on formal depreciation studies and require appropriate regulatory approval. The estimated useful life for the Company's land rights is 71 years and 3 to 10 years for computer software. The estimated aggregate amortization expense for each of the next five years is as follows: $971,000 in 2014, $745,000 in 2015, $616,000 in 2016, $426,000 in 2017 and $182,000 in 2018.

Capitalization Policy - Capital assets of the Company include labor, inventories, AFUDC and other non-labor costs directly attributable to the capital activity. In addition, in order to ensure the full cost approach, overhead costs that contribute to the capital program are allocated to capital projects. These costs include corporate costs such as finance, information technology, executive and other support functions, and employee benefits, insurance, inventory costs, and fleet operating and maintenance costs. The Company calculates an application rate and only eligible operating expenditures are used in the calculation. The Company applies overhead costs based on direct labor costs. The application rate varies depending on the type of capital expenditure. In addition, the Company applies inventory overhead based on inventory issued to the project, and applies general and administrative overhead based upon non-labor charges.

Inventory - Inventories of materials, supplies and fuel oil are valued at the weighted average cost. Fuel and materials are charged to inventory when purchased and then expensed or capitalized, as appropriate, using the weighted average cost method.

Asset Impairment

Goodwill - Goodwill represents the excess of Emera's purchase price of the Company over the net amount of the fair values assigned to its identifiable assets and liabilities and is not subject to amortization. Emera's reporting units containing goodwill perform annual goodwill impairment tests during the fourth quarter of each year, and interim impairment tests are performed when impairment indicators are present. The carrying amount of the Company's goodwill is considered not recoverable if the carrying amount of the reporting unit as a whole exceeds the reporting unit's fair value. An impairment charge is recorded for any excess of the carrying value of the goodwill over the implied fair value.

Long-lived assets **-** Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company bases its evaluation of other long-lived assets on the presence of impairment indicators such as the future economic benefit of the assets, any historical or future profitability measurements, and other external market conditions or factors.

Assets Held and Used **-** The carrying amount of assets held and used is considered not recoverable if it exceeds the undiscounted sum of cash flows expected to result from the use and eventual disposition of the asset. If the carrying value is not recoverable, the impairment loss is measured as the excess of the asset's carrying value over its fair value.

Equity Method Investments **-** The carrying value of investments accounted for under the equity method are assessed for impairment by comparing the fair values of these investments to their carrying values, if a fair value assessment was completed, or by reviewing for the presence of impairment indicators. If an impairment exists and it is determined to be other-than-temporary, a charge is recognized equal to the amount the carrying value exceeds the investment's fair value.

There were no material asset impairments for the years ended December 31, 2013 and 2012.

Note 1. Nature of Operations and Summary of Significant Accounting Policies, continued

Income Taxes - The Company recognizes deferred income tax assets and liabilities for the future tax consequences of events that have been included in the financial statements or income tax returns. Deferred income tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the balance sheet and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. Under MPUC ratemaking regulations, for timing differences associated with MPUC jurisdictional electric plant assets, no State of Maine deferred income tax expense/benefit are recognized, and the tax effects of these timing differences are flowed-through to income tax expense/benefit currently. The Company recognizes the effect of income tax positions only when it is more likely than not that they will be realized. If management subsequently determines that it is likely that some or all of a deferred income tax asset will not be realized, then a valuation allowance is recorded to report the balance at the amount expected to be realized.

Investment tax credits are recorded as a reduction to income tax expense in the current or future periods to the extent that realization of such benefit is more likely than not. Investment tax credits earned by the Company on regulated assets are deferred and amortized over the estimated service lives of the related properties, as required by United States tax laws and MPUC regulatory practices.

The Company recognizes regulatory assets or liabilities where the deferred income taxes are expected to be recovered from or returned to customers in future rates.

The Company classifies interest and penalties associated with unrecognized tax benefits as interest and non-operating expense, respectively. More details are provided in Note 10.

Pension and Other Post-Retirement Benefit Plans - The Company has defined benefit plans that cover the majority of its employees. The Company also has post-retirement plans that provide certain medical benefits and life insurance for retirees and eligible dependents. Management makes certain assumptions relating to the long-term rate of return on plan assets, discount rates used to measure future obligations and expenses, salary scale inflation rates, health care cost trends, mortality and other assumptions. The Company believes that the accounting estimates related to our pension and post-retirement plans are critical accounting estimates because they are highly susceptible to change from period to period based on the performance of plan assets, actuarial valuations, market conditions and contracted benefit changes. The selection of assumptions is based on historical trends and known economic and market conditions at the time of the valuation. However, actual results may differ substantially from the estimates that were based on the critical assumptions. The Company recognizes the funded status of its defined benefit and other post-retirement plans on the balance sheet and recognizes changes in funded status in the year the change occurs. The Company recognizes the unamortized gains and losses and past service costs in Accumulated Other Comprehensive Loss.

Variable Interest Entities - The Company performs ongoing analysis to assess whether it holds any variable interest entities ("VIEs"). To identify potential VIEs, management reviews contracts under leases, long-term purchase power agreements, and jointly-owned facilities. VIEs of which the Company is deemed the primary beneficiary must be consolidated. The primary beneficiary of a VIE has both the power to direct the activities of the entity that most significantly impact its economic performance and the obligation to absorb losses of the entity that could potentially be significant to the entity. In circumstances where the Company is not deemed the primary beneficiary, the VIE is not recorded in the Company's Consolidated Financial Statements.

The Company holds a variable interest in the Chester Static Var Compensator ("Chester"), a VIE for which it was determined that the Company was not the primary beneficiary since it does not have the controlling financial interest in Chester. BVC is a 50 percent general partner in Chester, which owns electrical equipment that supports a major transmission line. A wholly-owned subsidiary of Central Maine Power Company owns the other 50 percent interest. Chester is 100 percent debt financed and accordingly the partners have no equity interest; and the holders of the Chester debt are without recourse against the partners or their parent companies. More details are provided in Note 5.

The Company has identified certain long-term purchase power agreements that could be defined as variable interests as the Company has to purchase all or a majority of the electricity generation at a fixed price. However, it was determined that the Company was not the primary beneficiary since it lacked the power to direct the activities of the entity, including the ability to operate the generating facilities and make management decisions.

Note 1. Nature of Operations and Summary of Significant Accounting Policies, continued

Debt Financing Costs - The Company capitalizes the external costs of obtaining debt financing and includes them in "other deferred charges" on the Consolidated Balance Sheets. Financing costs pertaining to debt issues are amortized over the life of the related debt and included in other interest expense.

Principal Risks and Uncertainties - Sound risk management is an essential discipline for running the business efficiently and pursuing the Company's strategy successfully. Bangor Hydro has a business-wide risk management process, monitored by the Board of Directors, to ensure a consistent and coherent approach.

Interest Rate Risk- The Company's major financial market risk exposure is changing interest rates. Changing interest rates will affect interest paid on variable rate debt and the fair value of fixed rate debt. The Company manages interest rate risk through a combination of both fixed and variable rate debt instruments. The Company did not hold any derivative financial instruments as of December 31, 2013 or 2012.

Liquidity Risk- Liquidity risk encompasses the risk that the Company cannot meet its financial obligations. The Company's main sources of liquidity are its cash flows from operations, short-term, and long-term debt. The Company manages its liquidity by holding adequate volumes of liquid assets and maintaining revolving credit facilities in addition to the cash flow generated by its operating business.

Environmental Legislation- The Company is subject to regulation by federal, state and municipal authorities with regard to environmental matters primarily related to its utility operations. Changes in environmental legislation could adversely affect utility operations. Bangor Hydro is committed to operating in a matter that is respectful and protective of the environment, and in full compliance with legal requirements and Company policy. Bangor Hydro has implemented this policy through development and application of environmental management systems.

Labor Risk- Certain Bangor Hydro employees are subject to a collective labor agreement which expires on June 30, 2015. Therefore Bangor Hydro may be subject to the detrimental effects of a strike or other labor action. Approximately 48 percent of Bangor Hydro's employees are represented by a local union affiliated with the International Brotherhood of Electrical Workers. Bangor Hydro seeks to manage this risk through ongoing discussions with the union. The Company has contingency plans in place in the event of a labor disruption.

Regulatory and Political Risk- Bangor Hydro faces risk with respect to the recovery of costs and investments in a timely manner. As a regulated utility, Bangor Hydro must obtain regulatory approval to change general electricity rates. The recovery of costs and investments is subject to the approval of the MPUC or FERC, through the adjustment of rates, which normally requires a public hearing process. In addition, the regulatory framework under which Bangor Hydro operates can be impacted by significant shifts in government policy and changes in governments. During public hearing processes, consultants and customer representatives scrutinize the Company's costs, actions and plans, and the MPUC or FERC determines whether to allow recovery and to adjust rates based upon Bangor Hydro's evidence and any contrary evidence from other hearing participants. The Company manages this regulatory risk through transparent regulatory disclosure, ongoing stakeholder and government consultation and multi-party engagement on aspects such as utility operations, rate filings and capital plans. The Company employs a collaborative regulatory approach through technical conferences and, where appropriate, negotiated settlements.

Fair Value Measurement - The Company is required to determine the fair value of all derivatives, and uses a market approach to do so. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly arms-length transaction between market participants at the measurement date. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information including the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. The Company uses a fair value hierarchy, based on the relative objectivity of the inputs used to measure fair value, with Level 1 representing the highest.

The three levels of the fair value hierarchy are defined as follows:

Level 1 Valuations - Where possible, the Company bases the fair valuation of its financial assets and liabilities on quoted prices in active markets ("quoted prices") for identical assets and liabilities.

Note 1. Nature of Operations and Summary of Significant Accounting Policies, continued

Level 2 Valuations - Where quoted prices for identical assets and liabilities are not available, the valuation of certain contracts must be based on quoted prices for similar assets and liabilities with an adjustment related to location differences. Also, certain derivatives are valued using quotes from over-the-counter clearing houses.

Level 3 Valuations - Where the information required for a Level 1 or Level 2 valuation is not available, derivatives must be valued using unobservable or internally-developed inputs.

The primary reasons for a Level 3 classification are as follows:
• While valuations were based on quoted prices, significant assumptions were necessary to reflect seasonal or monthly shaping and locational basis differentials.
• The term of certain transactions extends beyond the period when quoted prices are available, and accordingly, assumptions were made to extrapolate prices from the last quoted period through the end of the transaction term.
• The valuations of certain transactions were based on internal models, although quoted prices were utilized in the valuations.

Derivative assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Other Assets, cost - Other assets consist primarily of non-utility property and equipment and other long-term investments, $325,000 of notes receivable associated with a heat-pump loan program to Bangor Hydro customers as of December 31, 2013, and a $219,000 of employee notes receivable as of December 31, 2012, respectively ($0 in 2013). Also included is a deposit of $750,000 in an interest bearing money market account to meet certain financial assurance obligations associated with ISO-NE. This deposit is not available for the Company to use in its operations. All other assets are accounted for at cost. Interest income is recognized over the life of the notes receivable and is included in other income, net of applicable taxes.

Other - Rents, advertising, and research and development expenses are not significant. No royalty expenses were incurred.

Comparative information - Certain 2012 amounts have also been reclassified to conform to the Company's 2013 financial statement presentation.

Future Accounting Pronouncements
Income Taxes, ASU No. 2013-11 - In July 2013, the Financial Accounting Standards Board ("FASB") issued an ASU amending guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. The purpose of this amendment is to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. ASU No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2013. The Company is currently in compliance with this standard and therefore, does not expect the adoption of this standard will have any impact on the financial statements.

Note 2. Change in Accounting Policy

In Q1 2013, the Company adopted Accounting Standards Update ("ASU") Number ("No.") 2013-02. This ASU did not change the current requirements for reporting net income or other comprehensive income. The amendments require an entity to present, either parenthetically on the face of the financial statements or in the notes, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. An entity would not show the income statement line item affected for certain components, which are not required to be reclassified in their entirety to net income. New disclosures have been added to reflect this change in presentation; however, the amendment had no effect on the financial results of the Company.

In Q1 2013, the Company adopted ASU No. 2012-04. This ASU amended Accounting Standard Codification ("ASC") 820 for technical corrections and improvements and conforming amendments related to fair value measurements (ASU 820). The amendments represented clarifications and corrections to unintended application of guidance and minor improvements to the ASCs and had no effect on the financial results of the Company.

In Q1 2013, the Company adopted ASU No. 2011-11. This ASU amended ASC 815 Derivatives and Hedging, requiring companies to disclose gross and net information for derivative instruments. The Company is currently in compliance with this standard and therefore, the adoption of this standard did not have any impact on the financial statements.

Note 3. Accumulated Other Comprehensive Loss

Accumulated balances, net of tax, related to each component of Other Comprehensive Loss consist of the following ($000's omitted):

	Pension	Post Retirement Medical	Cash Flow Hedge	Accumulated Other Comprehensive Loss
Balance as of January 1, 2012	$ 27,341	$ 7,810	$ 316	$ 35,467
Comprehensive Loss (Income)	1,933	516	(83)	2,366
Balance as of December 31, 2012	29,274	8,326	233	37,833
Comprehensive Income	(13,512)	(7,893)	(83)	(21,487)
Balance at December 31, 2013	$ 15,762	$ 433	$ 150	$ 16,346

The reclassifications out of accumulated comprehensive loss are as follows ($000's omitted):

	Amounts reclassified from AOCL	Affected Line item in the Consolidated Income Statement
Losses on Cash Flow Hedge:		
Total before deferred income taxes	$ 140	Long term debt interest expense
Deferred income tax	57	
Total net of tax	$ 83	
Net Change in Pension and Post Retirement Medical benefit costs:		
Actuarial losses before deferred income taxes	$ 4,289	Other operation and maintenance expense
Deferred income tax	1,750	
Total net of tax	$ 2,539	
Total reclassifications of out accumulated compresensive loss, net of tax for the period:	$ 2,622	

Note 4. Electric Plant in Service

Electric plant in service are comprised of the following ($000's omitted):

2013

	Cost	Accumulated Depreciation	Net Book Value
Transmission	$ 431,160	$ (48,765)	$ 382,395
Distribution	305,495	(108,625)	196,871
Other	57,800	(27,426)	30,363
Intangibles	36,427	(5,057)	31,380
	$ 830,882	$ (189,873)	$ 641,009

2012

	Cost	Accumulated Depreciation	Net Book Value
Transmission	$ 401,566	$ 40,959	$ 360,607
Distribution	290,102	101,314	188,788
Other	55,240	24,303	30,937
Intangibles	35,998	4,691	31,307
	$ 782,906	$ 171,267	$ 611,639

Note 5. Jointly-Owned Facilities

Maine Yankee - The Company owns 7% of the common stock of Maine Yankee, which owned and, prior to its permanent closure in 1997, operated an 880-megawatt (MW) nuclear generating plant in Wiscasset, Maine. Pursuant to a contract with Maine Yankee, the Company is obligated to pay its pro rata share of Maine Yankee's decommissioning costs.

Maine Yankee's most recent estimate of the total costs of decommissioning for the period from 2013 to 2014 is approximately $24.7 million (undiscounted). The Company's share of the estimated cost at December 31, 2013 is approximately $1.5 million and is recorded as a regulatory asset and decommissioning liability. The regulatory asset was recorded for the full amount of the decommissioning costs due to the state's industry restructuring legislation allowing the Company future recovery of nuclear decommissioning costs as a component of stranded costs (see Note 6). Total decommissioning expense was approximately $443,000 and $472,000 in 2013 and 2012, respectively, and is recorded as a component of purchased power and fuel for generation expense. The Company's equity in net income of Maine Yankee amounted to $7,000 in 2013 and 2012, respectively, and is recorded as a component of other income.

In early 2013, Maine Yankee received from the U.S. Government approximately $81.7 million associated with litigation with the U.S. Department of Energy on issues with spent nuclear fuel storage. Under a plan approved by FERC, Maine Yankee is returning approximately $74.3 million to the Maine Yankee owners over a three-year period starting with the first payment in 2013. Bangor Hydro, as a 7% owner of Maine Yankee common stock, is receiving its pro-rata share of these proceeds. Also in connection with these proceeds, legislation was passed in the State of Maine, whereby a portion of the funds received from Maine Yankee are required to be remitted to the Efficiency Maine Trust (EMT) to be utilized for energy efficiency programs. The remaining funds are being retained by Bangor Hydro for the benefit of its ratepayers. In October 2013, Bangor Hydro received approximately $1.94 million from Maine Yankee as the first installment of these proceeds, and of this amount, approximately $1.1 million was recorded in a regulatory liability account to be remitted to EMT in 2014. The remaining $872,000 of proceeds were recorded as a reduction to the stranded cost reconciliation deferral (see note 6) and will be returned to ratepayers through future stranded cost rates.

MEPCO - The Company owns 14.2% of the common stock of MEPCO. MEPCO owns and operates electric transmission facilities from Wiscasset, Maine, to the Maine-New Brunswick border. The Company's equity in net (loss) income of MEPCO amounted to ($35,000) in 2013 and $135,000 in 2012, respectively, and is recorded as a component of other income. In June 2013, the Company made an additional investment of $711,000 in MEPCO to fund additional capital projects.

Bangor Var Co. - In 1990, the Company formed BVC, whose sole function is to be a 50% general partner in Chester. Chester financed the acquisition and construction of the static var compensator ("SVC") through the issuance of $33 million in principal amount of 10.48% senior notes due 2020, and up to $3.25 million in principal amount of additional notes due 2020 (collectively, the "SVC notes"). The holders of the SVC Notes are without recourse against the partners of their parent companies and may only look to Chester and to the collateral for payment. Certain New England utilities have agreed under a FERC approved contract to bear the cost of Chester, on a cost of service basis, which includes a return on and of all capital costs.

NEPOOL/Hydro-Quebec Project - The Company is a 1.6% participant in the NEPOOL/Hydro-Quebec Phase 1 project (Phase 1), a 690 MW DC intertie between the New England utilities and Hydro-Quebec constructed by a subsidiary of another New England utility at a cost of about $140 million. The participants receive their respective share of savings from energy transactions with Hydro-Quebec, and are obliged to pay for their respective shares of the costs of ownership and operation whether or not any savings are realized.

The Company is also a 1.5% participant in the NEPOOL/Hydro-Quebec Phase 2 project (Phase 2), which involves an increase to the capacity of the Phase 1 intertie to 2,000 MW. As in the Phase 1 project, the Company receives a share of the anticipated energy cost savings derived from purchases from Hydro-Quebec and capacity benefits provided by the intertie and is required to pay its share of the costs of ownership and operation whether or not any savings are obtained. In connection with its generation asset sale in May 1999, the Company sold its rights as a participant in the regional utilities agreement with Hydro-Quebec. The Company is still required to pay its share of the costs of ownership and operation of the Hydro-Quebec intertie.

Note 5. Jointly-Owned Facilities, continued

Also in connection with the asset sale, PP&L Global (PP&L) agreed to pay the Company $400,000 per year to partially offset the Company's on-going Hydro-Quebec support payments. Since the Company still has an obligation for the costs of Hydro-Quebec intertie, but it has sold the rights to the benefits as a participant, liabilities of approximately $5.5 million (included in Other Long-term Liabilities) and corresponding regulatory assets (included in Other Regulatory Assets) have been recorded as of December 31, 2013 and $5.4 million as of December 31, 2012, respectively, on the Consolidated Balance Sheets. These amounts represent the present value of the Company's estimated future payments (net of the $400,000 received from PP&L) for costs of ownership and operation of the Hydro-Quebec intertie. The regulatory asset and obligation are being reduced as expenses are incurred with the reduction of the regulatory asset amortized to purchased power and fuel for generation expense; the net amounts amortized in 2013 and 2012 were $312,000 and $273,000, respectively.

Casco Bay - The Company entered into an agreement with Casco Bay Energy ("Casco Bay") whereby the Company constructed various transmission facilities required to allow a generating facility in Veazie, Maine to interconnect with the Company's electrical system and deliver its output to the New England Power Pool Transmission Facility ("PTF") grid. Under this agreement, Casco Bay agreed to advance funds necessary to pay for such construction. Pursuant to a FERC order approving an amendment to the NEPOOL Agreement, approximately 50% of the construction funds advanced are being refunded to Casco Bay by customers of NEPOOL over an approximate 30 year period.

The Company began refunding such construction costs to Casco Bay starting in June 2000. The annual refunds amounted to approximately $645,000 in 2013 and $686,000 in 2012. The Company has recorded approximately $4 million of electric plant in service for these PTF facilities in 1999 and a remaining long-term payable of $2.7 million and $2.8 million has been recorded as of December 31, 2013 and 2012, respectively. The long-term payable is included on the Consolidated Balance Sheets as a component of Other Long-term Liabilities.

Note 6. Rate Regulation

Electric rates for the Company's customers are divided into four components, (i) distribution, (ii) stranded costs, (iii) transmission, and (iv) energy service. The rates charged to customers for transmission, distribution, and stranded costs are established in distinct regulatory proceedings. The Company's revenues are primarily generated by both energy (kWh) delivery charges and demand (kW) delivery charges for the distribution, transmission, and stranded cost portions of the business. Due to deregulation of electric utility generation in the state of Maine, the Company presently does not participate in the generation or supply of electricity.

Distribution Service - Distribution revenues represent approximately 50% of the Company's total electric operating revenue. The MPUC, under a traditional cost of service regulatory structure, issued an Order in December 2007 approving an approximate 2% increase in distribution rates effective January 1, 2008. The allowed return on equity ("ROE") used in setting the new distribution rates is 10.2%, with a 50% common equity ratio.

Stranded Cost Service - Stranded cost revenues represent approximately 19% of the Company's total electric operating revenue. Pursuant to the Maine restructuring law in the 1990's, and effective March 1, 2000, electric utilities are entitled to recover all prudently incurred stranded costs that cannot reasonably be mitigated.

In connection with the Company's stranded cost rate proceeding with the MPUC, the major regulatory assets and liabilities being recovered from/returned to customers as stranded costs include:

-Maine Yankee Decommissioning costs (see Note 5)
-Obligations associated with Hydro-Quebec (see Note 5)
-The cost of energy and capacity associated with the power purchase contracts, net of revenues from resale (see Note 14)
-Purchased power contract restructuring costs (see Note 7)
-Seabrook investment (see Note 7)
-Deferrals under the Company's stranded cost full reconciliation mechanism

Note 6. Rate Regulation, continued

In May 2011, the MPUC approved an approximate 27% increase in Bangor Hydro's stranded cost rates for the period of June 1, 2011 to February 28, 2014. Effective July 1, 2012, the MPUC approved an additional 4% increase in stranded cost rates associated with an annual adjustment for amounts deferred under the prior-year's full reconciliation mechanism. In July 2013, the MPUC approved an additional 14.9% increase in stranded cost rates. The increased stranded cost revenues are offset, for the most part by changes in regulatory amortizations, purchased power expense and resale of purchased power. The allowed ROE used in setting these new stranded cost rates is 7.35%, with a common equity ratio of 48%.

While the stranded cost revenue requirements differ throughout the period, due to changes in purchased power expenses and varying amortization periods for regulatory assets and liabilities, the annual stranded cost revenues are the same during the period. To levelize the impact of the varying revenue requirements, cost or revenue deferrals are recorded (the deferrals are a component of "Regulatory Amortization" in the Consolidated Statements of Income). As of December 31, 2013 and 2012, the deferred stranded cost revenue requirement levelizer balance was an asset of approximately $0.3 million and $0.9 million, respectively, and was recorded as a component of "Other Regulatory Assets". The rate recovery of these deferrals will be addressed in a subsequent stranded cost rate proceeding.

The Company's stranded cost revenues, purchased power (net of resale revenues), Maine Yankee, and Hydro-Quebec costs are fully reconcilable (recoverable) and for any variances between the actual amount of these items and the amounts used in setting rates, a regulatory deferral is recorded with a credit or charge to regulatory amortizations. Under this full reconciliation mechanism, the Company's cumulative deferral amounted to $9.7 million and $8.5 million as of December 31, 2013 and 2012, respectively. This amount is included as a component of Other Regulatory Assets.

In November 2013, the Company filed with the MPUC a request to increase its stranded cost rates effective for March 1, 2014 by approximately 22%, based on a levelized revenue requirements for the three-year period from March 2014 to February 2017. This rate request is currently under review at the MPUC, and a final decision on the rate change is expected in February 2014.

Transmission Service - Local transmission revenues currently represent 31% of the Company's total electric operating revenues. Transmission rates are set by the FERC annually on June 1, based upon a formula utilizing prior year actual transmission investments and expenses, adjusted for current year forecasted transmission investments and expenses. The allowed ROE for these local transmission operations is 11.14%. The common equity component is based upon the prior calendar year actual average balances. On June 1, 2013, the Company's local transmission rates decreased by approximately 5 percent (2012 – increased 4 percent).

The Company's bulk transmission assets are managed by the ISO as part of a region-wide pool of assets. The ISO manages open access to its network transmission assets within New England. Currently, the Company, along with all other participating transmission providers, recovers the full cost of service for its transmission assets from the customers of participating transmission providers, based on a regional formula that is updated on June 1 of each year. This formula is based on prior year regionally funded transmission investments and expenses, adjusted for current year forecasted investments and expenses. The Company's allowed ROE for these transmission investments ranges from 11.64 percent to 12.64 percent, and the common equity component is based upon the prior calendar year average balances. The cost recovery is recorded as transmission pool revenue in the Consolidated Statements of Income. On June 1, 2012, the Company's regional transmission revenue requirement increased by 18 percent, and on June 1, 2013, it decreased by 1 percent.

Energy Service - The Company does not currently supply electric energy to customers. Pursuant to Maine restructuring law, energy service is provided to the Company's customers either by a competitive supplier of their choice or by a standard-offer service provider who acts as a provider of last resort for those customers unable to select a competitive supplier or uninterested in doing so. The Company acts as a billing and collection agent for all standard offer providers and for most competitive energy suppliers.

Note 7. Regulatory Assets and Liabilities

The Company is subject to the provisions of ASC 980-340, Regulated Operations - Other Assets and Deferred Costs ("ASC 980-340"). This topic allows for the establishment of regulatory assets for costs accumulated for certain items other than the usual and customary capital assets, and allows the deferral of the income statement impact of those costs if they are expected to be recovered in future rates. The Company continues to meet the requirements of ASC 980-340 since the Company's rates are intended to recover the cost of service plus a rate of return on the Company's investment, as well as providing specific recovery of costs deferred in prior periods.

Note 7. Regulatory Assets and Liabilities, continued

The legislation enacted in Maine associated with industry restructuring specifically addressed the issue of cost recovery of regulatory assets stranded as a result of industry restructuring. Specifically, the legislation required the MPUC, when retail access began, to provide a "reasonable opportunity" for the recovery of stranded costs through the rates of the transmission and distribution company, comparable to the utility's opportunity to recover stranded costs before the implementation of retail access under the legislation. MPUC rate orders subsequent to a March 1, 2000 restructuring have not resulted in the Company writing off any significant stranded costs, but if the Company had not been allowed full recovery of its stranded costs, it would be required to write-off any disallowed costs.

As provided for in ASC 980-340, the Company will continue to record regulatory assets in a manner consistent with the topic as long as future recovery is probable, since the Maine legislation provides the opportunity to recover regulatory assets, including stranded costs, through the rates of the Transmission and Distribution company. The Company anticipates, based on current generally accepted accounting principles that ASC 980-340 will continue to apply to the regulated T&D segments of its business.

If the Company failed to meet the requirements of ASC 980-340, due to legislative or regulatory initiatives, the Company would be required to apply ASC 980-20, Discontinuation of Rate-Regulated Accounting ("ASC 980-20"). If legislative or regulatory changes and/or competition result in electric rates which do not fully recover the Company's costs, a write-down of regulatory assets would be required. The Company does not anticipate any write-down of assets at this time.

Recovery of Seabrook Investment - The Company was a participant in the Seabrook nuclear project in Seabrook, New Hampshire. On December 31, 1984, the Company had almost $87 million invested in Seabrook, but because the uncertainties arising out of the Seabrook project were having an adverse impact on the Company's financial condition, an agreement for the sale of Seabrook was reached in mid-1985 and was finally consummated in November 1986. During 1985, a comprehensive agreement was negotiated among the Company, the MPUC staff, and the Maine Public Advocate addressing the recovery through rates of the Company's investment in Seabrook (the "Seabrook Stipulation"). This negotiated agreement was approved by the MPUC in late 1985. The Seabrook Stipulation also provided for the recovery through customer rates of 70% of the Company's year-end 1984 investment in Seabrook Unit 1 over 30 years, with base rate treatment on the unamortized balances. This regulatory asset is being recovered as a component of the Company's stranded costs.

Purchased Power Contract Restructuring - In June 1998, the Company completed a major restructuring of its obligations under various agreements with the Penobscot Energy Recovery Company ("PERC"), a 20 MW generation facility fueled by municipal solid waste. In connection with this restructuring, PERC is sharing the net revenues generated by the facility over the remaining term of the PERC contract on a pro rata basis with the Company and the Municipal Review Committee ("MRC"), which represents over 130 Maine municipalities receiving waste disposal service from PERC. The Company also made $10 million in additional payments to PERC over a four-year period starting in June 1998. These amounts were recorded as regulatory assets when the payments were made.

Also, in connection with the PERC contract restructuring in 1998, the Company issued two million warrants to purchase common stock, one million each to PERC and the MRC. As a result of the exercise of the warrants, the Company increased its regulatory asset associated with the PERC contract restructuring by approximately $18.5 million.

In its current stranded cost rates, the Company is recovering, over the remaining term of the PERC contract, the full amount of deferred PERC restructuring costs, including the value of the warrants exercised, amounting to an annual amortization of $1.7 million. As of December 31, 2013 and 2012, the unamortized balance of the PERC contract restructuring regulatory asset balance amounted to approximately $7.8 million and $9.5 million, respectively.

Note 7. Regulatory Assets and Liabilities, continued

The following table summarizes the major components of Other Regulatory Assets and Liabilities for 2013 and 2012 ($000's omitted):

	2013	2012
Unfunded future income tax asset	$ 34,322	$ 30,594
Stranded cost full reconciliation mechanism deferrals (Note 6)	9,677	8,547
Smart Grid	9,070	8,329
Hydro-Quebec obligations (Note 5)	5,537	5,436
2013 Ice Storm Costs	3,527	-
Pension & retiree medical unrecognized asset (Note 11)	2,436	3,655
Stranded cost levelizer deferrals (Note 6)	285	894
Other regulatory assets	5,239	4,207
Total Other Regulatory Assets	$ 70,093	$ 61,662
Deferred income tax regulatory liability (Note 10)	$ 6,354	$ 7,173
Unfunded future income tax liability	6,180	5,047
FERC Transmission ROE liability	2,426	-
Other regulatory liabilities	1,775	907
Total Other Regulatory Liabilities	$ 16,735	$ 13,127

Smart Grid - In January 2010, the Company received an Accounting Order from the MPUC, which allowed for the deferral of costs associated with the Company's investment in Smart Grid advanced metering information systems. These systems allow for the collection of data to enable dynamic pricing programs for electric energy supply, improve reliability and utilization of the distributed infrastructure and position the Company to better support distributed renewable generation, demand response and customer load control. The total of the cost deferrals amounted to $9.1 million and $8.3 million as of December 31, 2013 and 2012, respectively. The Company is seeking recovery of these costs in its current distribution rate request with the MPUC (See Note 17).

Unfunded Future Income Tax Asset and Liability - In accordance with regulatory accounting, the Company is required to flow-through to customers the benefits/expenses of certain book/tax temporary differences including State of Maine excess income tax depreciation, allowance for equity funds used during construction and the excess deferred income taxes. Under ASC 740, Income Taxes, ("ASC 740") the Company must record the balance sheet impacts for the temporary differences flowed-through to customers as regulatory assets/liabilities and deferred income tax liabilities.

2013 Ice Storm Costs - In late December 2013, Bangor Hydro experienced a major ice storm in its service territory, with over one-third of the Company's customers experiencing power outages at the peak of the storm impact. Due to the volume of power outages and significant damage to the Company's electrical system in certain areas, numerous outside resources were utilized to assist with the restoration of electrical service. The total incremental costs associated with the service restoration during the ice storm amounted to approximately $3.5 million, and the Company has recorded this amount as a regulatory asset on its consolidated balance sheets as of December 31, 2013. Given the significance of the storm related costs, the Company believes there is strong regulatory precedence for rate recovery of these costs through a regulatory filing with the MPUC, and the Company plans to make such filing in the first quarter of 2014. Rate recovery will likely be aligned with the Company's current distribution rate proceeding currently in progress at the MPUC.

FERC Transmission ROE Liability - On September 30, 2011, a consortium of New England Commission's Public Advocates and End Users (Complainants) filed a complaint with the FERC alleging that the 11.14% base ROE under the ISO-NE Open Access Transmission Tariff ("OATT") is unjust and unreasonable. New England Transmission Owners (NETOs) answered the complaint asserting that the 11.14% ROE was within a zone of reasonableness under current economic conditions. The parties offered evidence and testimony over the course of the Fall of 2012 supporting their filed positions. FERC staff filed their analysis and testimony on January 18, 2013, recommending a ROE of 9.66%. On April 17, 2013, the parties filed their updated analysis to reflect the market data for the six-month period ending March 31, 2013. The NETO's analysis produced a ROE range of 7.3% to 12.2%, but the NETO's continued to contend that the existing 11.14% was reasonable due to anomalous market conditions. The FERC Staff's updated analysis revised its ROE recommendation downward to 8.93% based on the midpoint of a zone of reasonableness of 6.12% to 11.74%. Complainants' updated analysis resulted in an updated ROE recommendation of 8.9%.

Note 7. Regulatory Assets and Liabilities, continued

On August 6, 2013, the Administrative Law Judge at FERC recommended an ROE of 10.6% for the retroactive refund period (from October 1, 2011 to December 31, 2012) and 9.7% prospectively, subject to adjustment for current market conditions. While not yet final, the recommended decision provided a basis on which to calculate a likely potential loss. The Company recorded a $2.2 million regulatory liability for the estimated loss associated with the retroactive refund, plus interest, as of September 30, 2013. A final decision is not expected by the FERC until sometime in 2014. This loss is reported as a component of Other Revenue and Other Interest Expense in the Consolidated Statements of Income.

Other - The Company also has various other regulatory assets and liabilities recorded on its Consolidated Balance Sheets where the Company's regulated rates are designed to recover/return these deferred costs/revenues from/to customers, including a return on the unamortized balance.

Regulatory amortization represents current amortizations and regulatory deferrals allowed in the Company's distribution and stranded cost rates as allowed by the MPUC in prior rate orders. The following summarizes regulatory amortization expense/(deferrals) for 2013 and 2012 ($000's omitted):

	2013	2012
Seabrook investment	$ 1,699	$ 1,699
Purchased power contract restructuring	1,731	1,731
Employee transition costs	127	547
Pension and retiree medical	1,218	1,719
Stranded cost full reconciliation mechanism deferrals	(1,086)	(3,642)
Other stranded cost related regulatory assets and liabilities	80	(719)
Other distribution related regulatory assets and liabilities	1,850	1,910
Total Net Regulatory Amortization	$ 5,619	$ 3,245

Note 8. Common and Preferred Stock

Common Stock - BHE Holdings owns all of the Company's outstanding common shares. The common stock has general voting rights of one vote per twelve shares owned.

Preferred Stock - The currently outstanding preferred stock has general voting rights of one vote per share. With regard to payment of dividends or assets available in the event of liquidation, preferred stock ranks prior to common stock.

Note 9. Lending Agreements

Under the provisions of a General and Refunding Mortgage Indenture and Deed of Trust, substantially all of the Company's plant and property has been mortgaged as collateral for the Company's mortgage bonds.

In December 2002, the Company received proceeds from the private placement issuance of a $20 million senior unsecured note. The note had a term of 10 years, a fixed interest rate of 6.09% and payments of interest on a semi-annual basis. The $20 million in borrowing was repaid at maturity in December 2012.

In August 2003, the Company received proceeds from the private placement issuance of $30 million in senior unsecured notes. The notes have an original term of 15 years, a fixed interest rate of 5.31% and payments of interest on a semi-annual basis. In December 2003, the Company received $20 million in proceeds from an additional issuance of senior unsecured notes under this same private placement. The notes have an original term of 15 years, with interest payable semi-annually at a fixed interest rate of 5.31%. The notes were issued at a discount, resulting in an effective interest rate of 5.76%. The discount of approximately $652,000 was deferred, and is being amortized over the life of the debt. These notes have annual sinking fund payments of $4.546 million.

Note 9. Lending Agreements, Continued

In September 2007, the Company issued $50 million of senior unsecured notes, with $30 million maturing in seven years at a fixed rate of 5.65% and $20 million maturing in ten years at a fixed rate of 5.87%. In connection with the debt issuance, the Company executed and settled a derivative financial instrument associated with hedging the interest rate risk. Upon settlement of the hedging instrument in September 2007, the Company realized a loss of $1.1 million, of this amount, approximately $14,000 was determined to be the amount associated with the hedge's ineffectiveness and was charged to long-term debt interest expense in 2007. The remaining loss of $1.1 million was charged to Accumulated Other Comprehensive Loss ("AOCL") and is being reclassified into earnings over the same period in which the interest expense on the $50 million long-term debt is recognized. The all-in combined coupon rate on the debt issuance (including the costs of the hedging instrument) amounted to approximately 6%.

In January 2012, Bangor Hydro completed the issuance of an unsecured $70 million senior note, bearing interest at a rate of 3.61%, payable semi-annually, and maturing on January 31, 2022.

Maturities of the general and refunding mortgage bonds and other long-term debt for each of the next five years and thereafter are as follows ($000's omitted): $34,546 in 2014, $4,546 in 2015, $4,546 in 2016, $24,545 in 2017, $4,545 in 2018 and $120,000 thereafter.

Revolving Credit Facility Agreement - In June 2010, the Company entered into an Amended and Restated Credit Agreement ("Agreement") with a group of three financial institutions. This Agreement provides for an $80 million unsecured revolving credit facility for a term of 39 months that expired on September 30, 2013. As the Company had the intent to renew this Agreement under similar terms upon its maturity, amounts outstanding of $15.4 million were classified as current portion of long-term debt on the Consolidated Balance Sheets as of December 31, 2012. The Company renewed this revolving credit facility on September 30, 2013 for a period of 12 months, expiring on September 30, 2014. Borrowings of $27.33 million are classified as borrowings under revolving credit facility on the Consolidated Balance Sheets as of December 31, 2013. Interest on the revolving credit facility is recorded in Other Interest Expense in the Consolidated Income Statement.

Certain information related to the Company's borrowings under the Agreement is as follows ($000's omitted):

	2013	2012
Total borrowings available under revolving credit facility agreements at end of year	$ 80,000	$ 80,000
Letter of credit outstanding securing obligations under supplemental pension plan (See Note 11)	2,241	2,241
Letter of credit outstanding securing obligations under an agreement between the Company and a third party	1,750	1,750
Borrowings outstanding at end of year	27,327	15,400
Maximum borrowing capacity available at end of year	$ 48,682	$ 60,609
Effective interest rate on borrowings outstanding at end of year	1.7%	1.9%
Average daily outstanding borrowings at end of year	$ 22,720	$ 6,577
Weighted average annual interest rate, including fees	3.0%	7.1%
Highest level of borrowings outstanding at any month-end during the year	$ 29,933	$ 43,000

In connection with its debt agreements, the Company must comply with certain financial covenants related to the Company's debt ratio, fixed charge coverage, and net worth. The Company complied with all covenants associated with its lending agreements in 2013 and 2012.

Note 10. Income Taxes

The individual components of other accumulated deferred income taxes at December 31, 2013 and 2012, are as follows ($000's omitted):

	2013	2012
Deferred Income Tax Liabilities:		
Excess book over tax basis of electric plant in service	$ 176,631	$ 163,160
Investment in Seabrook nuclear project	1,895	2,749
Other regulatory assets	7,641	6,208
Investment in jointly-owned facilities	310	329
	$ 186,476	$ 172,446
Deferred Income Tax Assets:		
Accrued pension and postretirement benefit costs	$ 20,423	$ 38,733
Other Regulatory liabilities	6,513	7,649
Other	1,723	321
	$ 28,659	$ 46,703
Total other accumulated deferred income taxes	$ 157,817	$ 125,743

The individual components of federal and state income taxes reflected in the Consolidated Statements of Income for 2013 and 2012 are stated in the table below ($000's omitted):

Year Ended December 31,	2013	2012
Current Income Tax Provision:		
Federal	$ 3,242	$ 2,396
State	2,162	2,902
Deferred Income Tax Provision:		
Federal	11,679	12,214
State	2,141	1,071
Investment Tax Credits, Net	(23)	(53)
Total Provision	$ 19,202	$ 18,530
Less: Allocated to Other Income (Expense)	132	(272)
Provision for Income Taxes	$ 19,069	$ 18,802

The Company's effective income tax rate differed from the combined federal and state statutory rate of 40.8% due to the following ($000's omitted):

	2013		2012	
	Amount	%	Amount	%
Federal income tax	$ 18,231	35.0%	$ 17,909	35.0%
State income tax (net of Federal benefit)	2,797	5.4%	2,665	5.2%
Allowance for equity funds used during construction	(1,013)	-1.9%	(1,688)	-3.3%
Other differences	(813)	-1.6%	(356)	-0.7%
Total Provision	19,202	36.8%	18,530	36.2%
Less: allocated to other income (expense)	132	0.3%	(272)	-0.5%
Provision for income taxes	$ 19,069	36.6%	$ 18,802	36.7%

The Company follows the provisions of ASC 740, Income Taxes ("ASC 740"), in calculating its tax reserves. As a result of its analysis of its tax positions, the Company has concluded that it has not taken any tax positions which would be classified as uncertain under ASC 740. Accordingly, no reserves have been recorded. It is possible that certain unrecognized tax benefits may occur within the next twelve months due to tax examination changes, settlement activities, expirations of statues of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities. However, the Company does not expect any significant changes within the next 12 months.

Note 10. Income Taxes, continued

The Company's income taxes are incorporated into the consolidated income tax returns of BHE Holdings' parent company, Emera U.S. Holdings, Inc. ("EUSHI"). EUSHI files income tax returns in the U.S. and the state of Maine. Examination of EUSHI's U.S. income tax returns by the Internal Revenue Service ("IRS") for the years 2005 to 2007 was completed in 2009. The tax years 2010 through 2012 are subject to audit by the IRS and the Maine State Revenue Service.

Regulatory Liability - In 2011 and 2012, the Company performed a study of its deferred income tax balances. As a result of this study, it was determined that, as of December 31, 2012, the Company's deferred income taxes utilized for rate-setting purposes were overstated by approximately $7.1 million. This amount has been recorded as a regulatory liability and a reduction of deferred income taxes as of December 31, 2012 on the Company's consolidated balance sheets. The Company began refunding a portion of this regulatory liability in stranded cost rates that were effective on July 1, 2013. The remaining regulatory liability will be incorporated into future rate proceedings with the Company's regulators.

Note 11. Pension and Post-Retirement Benefits

Pension Benefits - The Company has a non-contributory defined benefit pension plan covering substantially all of its employees. Effective February 1, 2006, this plan was frozen to all new employees of the Company. Individuals employed prior to this date continue to accrue benefits in accordance with this plan. Benefits under the plan are generally based on the employee's years of service and compensation during the years preceding retirement. The Company's general policy is to contribute to the plan the amount necessary to meet the minimum funding rules as established in the Pension Protection Act of 2006, as amended by the Worker, Retiree, and Employer Recovery Act of 2008. The Company also has an unfunded non-contributory supplemental non-qualified pension plan that provides additional retirement benefits to certain former senior executives. Benefits under this supplemental plan are based on the employee's years of service and compensation level.

The Company follows the provisions of ASC 715, Compensation Retirement Benefits ("ASC 715"), in accounting for its defined benefit pension plan. The following details the funded status of the plans, components of pension expense for 2013 and 2012, and the major assumptions used to determine these amounts and information on pension plan assets:

Funded Status of Plan ($000's omitted)	**2013**	**2012**
Change in Projected Benefit Obligation		
Balance as of January 1	$ 113,161	$ 100,718
Service cost	2,346	1,936
Interest cost	4,447	4,546
Benefits paid	(3,889)	(3,602)
Actuarial (gain)/losses	(11,959)	9,563
Balance as of December 31	$ 104,106	$ 113,161

Funded Status of Plan ($000's omitted)	**2013**	**2012**
Change in Plan Assets		
Balance as of January 1	$ 68,465	$ 58,387
Employer contributions	16,641	5,487
Benefits paid and administrative expenses	(3,888)	(3,602)
Actual return	12,302	8,193
Balance as of December 31	$ 93,520	$ 68,465
Accrued Pension as of December 31	$ (10,586)	$ (44,696)

Note 11. Pension and Post-Retirement Benefits, continued

Total pension expense included the following components ($000's omitted):

	2013	2012
Service cost-benefits earned during the period	$ 2,346	$ 1,936
Interest cost on projected benefit obligation	4,447	4,546
Expected return on plan assets	(5,750)	(5,143)
Amortization of unrecognized prior service cost	204	204
Amortization of unrecognized net loss	4,110	3,043
Total pension expense	$ 5,357	$ 4,586

The discount rate and rate of increase in future compensation levels used to determine pension obligations, effective January 1, 2014, are 4.83% and 3.75%, respectively, and were used to calculate the plans' funded status at December 31, 2013. Significant assumptions used to determine the pension expense for each year were as follows:

	2013	2012
Discount rate	4.00%	4.60%
Rate of increase in future compensation levels	3.75%	3.75%
Expected long-term rate of return on plan assets	7.5%	8.0%

The asset allocation for the pension plan assets as of December 31, 2013 and 2012, and the target allocation for 2014, by asset category, are as follows:

	Target	Percentage of Plan Assets	
Asset Category	Allocation	2013	2012
Equity Securities	65%	67%	65%
Debt Securities	35%	33%	35%
Total	100%	100%	100%

The expected long-term rate of return on these plan assets was 7.5% and 8% for 2013 and 2012 respectively. The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset classes in the plan's investment portfolio.

The general principles guiding investment of pension plan assets are those embodied in the Employee Retirement Income Security Act of 1974 ("ERISA"). These principles include discharging the Company's investment responsibilities for the exclusive benefit of plan participants and in accordance with the "prudent expert" standards and other ERISA rules and regulations.

The Company has developed an investment strategy for its pension plans. The investment strategy is to emphasize total return; that is, the aggregate return from capital appreciation and interest income. The primary objective of the investment management for the plans' assets is the emphasis on consistent growth, specifically, growth in a manner that protects the plans' assets from excessive volatility in market value from year to year. The investment policy takes into consideration the benefit obligations, including timing of distributions. The Company does not permit the use of derivative instruments in its investment strategy.

The primary objective for the plans is to provide long-term capital appreciation primarily through investment in equity and debt securities. The Company's target asset allocation is consistent with the weighted-average allocation at December 31, 2013. The Company selects professional money managers whose investment policies are consistent with the Company's investment strategy and monitors their performance against appropriate benchmarks. The Company primarily invests in debt and equity securities which are valued based on quoted market prices in active markets for identical assets, or Level 1 inputs under ASC 820, Fair Value Measurements and Disclosures ("ASC 820") (Note 13).

The target asset allocation is fixed income securities - 35%, U.S. equity securities - 45%, and non-U.S. equity securities - 20%. The following minimum asset mix ranges apply (based on market): Minimum fixed income (bonds and cash) 25%, minimum U.S. equity 40%, and minimum non-U.S. equity 15%.

Note 11. Pension and Post-Retirement Benefits, continued

The accumulated benefit obligation for the defined benefit pension plan was $90.15 million and $96.83 million as of December 31, 2013 and 2012, respectively. The accumulated benefit obligation for the unfunded supplemental pension plan with accumulated benefit obligations in excess of plan assets was $2.38 million as of December 31, 2013 and $2.53 million as of December 31, 2012, respectively. The Company maintains a $2.24 million letter of credit to secure obligations under this unfunded supplemental pension plan (See Note 9). This letter of credit, which is renewed annually, expires in October 2014.

Information about expected cash flows for the pension plan is as follows ($000's omitted):

Employer Contributions 2014 (expected)	$	5,400
Expected Benefit Payments:		
2014	$	3,945
2015	$	4,259
2016	$	4,518
2017	$	4,675
2018	$	4,937
2019-2023	$	29,436

Post-retirement Medical and Other Benefits - In addition to pension benefits, the Company provides certain health care and life insurance benefits to its retired employees. Employees hired prior to February 1, 2006 are provided retiree benefits if they reach normal retirement age while working for the Company. Employees hired after this date are not eligible for these benefits.

The Company negotiated an agreement with the International Brotherhood of Electrical Workers ("IBEW") in 1993 which established a Voluntary Employee Benefit Association Trust Fund ("VEBA") that was funded with money equal to the cost savings associated with various medical plan design changes derived from the negotiation process. In 2001, the Company deposited $881,000 in this VEBA. The ultimate use of these funds is subject to future negotiations between the Company and the IBEW. The VEBA's assets, amounting to $1.003 million and $1.010 million at December 31, 2013 and 2012, respectively, are comprised of United States Treasury money market funds.

Net periodic post-retirement benefit cost for 2013 and 2012 included the following components ($000's omitted):

	2013	2012
Service cost of benefits earned	$ 1,005	$ 949
Interest cost on accumulated post-retirement benefit obligation	2,030	2,245
Expected return on plan assets	-	-
Amortization of unrecognized prior service credit	(1,769)	(1,769)
Amortization of unrecognized net loss	1,743	1,918
Net periodic post-retirement benefit cost	$ 3,009	$ 3,343

The discount rate and near-term and long-term health care cost trend rates used to determine post-retirement benefit obligations, effective January 1, 2014, and the Plan's funded status at December 31, 2013, were 4.88%, 8% pre age 65 and 5% age 65 and older, and 5.0%, respectively. Significant assumptions used to determine the net periodic post-retirement benefit cost for each year were as follows:

	2013	2012
Discount rate	4.00%	4.60%
Health care cost trend rate - Near-term	7.75%	8.50%
Health care cost trend rate - Long-term	5.00%	5.00%
Rate of return on plan assets	0.00%	0.00%

Note 11. Pension and Post-Retirement Benefits, continued

It is assumed that the near-term health care cost trend rate of 7.75% will gradually decrease to 5.0% by the year 2017.

Funded Status of Plan ($000's omitted)	**2013**	**2012**
Change in Accumulated Post-retirement Benefit Obligation		
Balance as of January 1	$ 52,000	$ 49,585
Service cost	1,005	949
Interest cost	2,030	2,245
Retiree medical contributions	96	66
Claims paid	(1,299)	(1,676)
Actuarial losses and (gains)	(13,366)	831
Balance as of December 31	$ 40,466	$ 52,000
Change in Plan Assets		
Balance as of January 1	$ 1,011	$ 1,017
Employer contributions	1,202	1,610
Retiree contributions	96	66
Claims/benefit payments and administrative fees	(1,299)	(1,676)
Actual return, net of trust fees	(7)	(6)
Balance as of December 31	$ 1,003	$ 1,011
Accrued post-retirement benefit cost as of December 31	$ (39,463)	$ (50,989)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effect ($000's omitted):

	1% Increase	1% Decrease
Effect on total service and interest cost components	$ 615	$ (485)
Effect on post-retirement benefit obligation	6,534	(5,301)

Information about expected cash flows associated with benefit payments for the other post-retirement benefit plan is as follows ($000's omitted):

	Expected Benefit Payments
2014	$ 1,517
2015	1,663
2016	1,716
2017	1,839
2018	1,974
2019-2023	11,940

The Company changed its medical coverage for Medicare eligible retirees to a fully-insured plan in 2009, and as a result, the Company is no longer receiving Medicare Part D prescription drug subsidies.

The estimates of the Company's accrued pension and post-retirement benefit costs involve the utilization of significant assumptions. Changes in any one of these assumptions could impact the liabilities in the near term.

Note 11. Pension and Post-Retirement Benefits, continued

As of December 31, 2013 and 2012, the amounts in AOCL that had not been recognized as components of net periodic benefit cost are as follows ($000's omitted):

2013	Pension	Retiree Medical	Total
Net loss	$ 26,732	$ 7,766	$ 34,498
Net prior service cost (credit)	(105)	(7,035)	(7,140)
Deferred Income taxes	(10,865)	(298)	(11,163)
Total	$ 15,762	$ 433	$ 16,195

2012	Pension	Retiree Medical	Total
Net loss	$ 49,353	$ 22,867	$ 72,220
Net prior service cost (credit)	99	(8,803)	(8,704)
Deferred Income taxes	(20,178)	(5,738)	(25,916)
Total	$ 29,274	$ 8,326	$ 37,600

The amounts of net loss and net prior service credit that arose previously and that are expected to be recognized as components of net periodic benefit cost in 2014 are as follows ($000's omitted):

Net loss	$ 2,768
Net prior service credit	(1,790)
Total	$ 978

Regulatory Asset - In 2001, as a result of purchase accounting, all unrecognized actuarial gains and losses, prior service cost, and the net transition asset/liability associated with the pension and post-retirement medical benefit plans were eliminated as of the merger with Emera. As a result of regulatory accounting, a regulatory asset of $25 million, equal to these unrecognized amounts, was established at the merger date. The Company is amortizing this balance over the same period at which the corresponding gains and losses were being amortized when they were a component of pension and post-retirement benefit expense. Amortization expense amounted to approximately $1.2 million in 2013 and $1.7 million in 2012. The unamortized balance of this regulatory asset amounted to $2.4 million and $3.7 million as of December 31, 2013 and 2012, respectively, and is recorded as a component of "Other Regulatory Assets" on the Consolidated Balance Sheets.

Defined Contribution Plan - The Company also provides a defined contribution 401(k) savings plan for substantially all of its employees. The Company's matching of employee voluntary contributions amounted to approximately $591,000 in 2013 and $531,000 in 2012.

Note 12. Asset Retirement Obligations

Asset retirement obligations are recognized when incurred and represent the fair value, using the Company's credit-adjusted risk-free rate, of the Company's estimated future cash flows necessary to discharge legal obligations related to the disposal of certain underground fuel storage tanks. Estimated future cash flows are based on the Company's prior experience, estimated useful lives and regulatory requirements. Actual results may differ from those estimates.

The change in asset retirement obligations is as follows ($000's omitted):

	2013	2012
Asset retirement obligation - January 1	$ 28	$ 27
Accretion expense in the current period	1	1
Liabilities settled	-	-
Asset retirement obligation - December 31	$ 29	$ 28

Note 12. Asset Retirement Obligations, continued

The key assumptions used to determine the asset retirement obligations are as follows:

Asset	Credit-adjusted risk-free rate	Estimated undiscounted future obligation ($000s)	Expected settlement date
Other	7.4% - 8.6%	$0.03	1-5 years
Total		$0.03	

Note 13. Fair Value Measurements

The financial assets and liabilities included on the balance sheet that are not measured at fair value at December 31 consisted of the following:

	2013		2012	
	Amount	Fair Value	Amount	Fair Value
General and refunding mortgage bonds	$ 50,000	$ 67,358	$ 50,000	$ 72,555
Senior unsecured notes (including current portion)	142,727	144,153	147,273	157,041
Total	$ 192,727	$ 211,511	$ 197,273	$ 229,596

The fair values of long-term debt instruments are estimated based on the quoted market price for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturity, without considering the effect of third party credit enhancements (Level 2 Valuation).

All other financial assets and liabilities such as cash and cash equivalents, accounts receivable, other assets, borrowings under the short term credit facility and accounts payable are carried at cost. The carrying value approximates fair value due to the short-term nature of these financial instruments.

Note 14. Commitments and Contingencies

Power Supply Commitments - The Company has long-term power supply contracts with several non-utility power producers. Under all these agreements, except one, the Company purchases the entire output from these production facilities. There are five hydroelectric facilities, of which four are relatively small, a 20 MW facility fueled by municipal waste, a 1 MW biomass generator, and a 60 MW wind farm. The larger contracts are discussed below. The total cost of power from these facilities is significantly higher than prevailing market prices. As required by regulation, the power purchased under these contracts is resold to third parties through a process administered by the MPUC. For a discussion of the impacts of the electric utility industry restructuring and the rate recovery associated with these power supply commitments see Note 6. The resale of the purchased power is recorded as a component of operating revenue in the Consolidated Statements of Income.

The power supply agreement with the large 13 MW hydroelectric facility started in 1988 and continues until May 2024. The power supply agreement with PERC, a 20 MW facility fueled by municipal solid waste, also started in 1988 and ends in February 2018.

In 2011, the Company entered into a 20-year power purchase contract with a wind farm to purchase 20% of the energy generated. In early 2012, the Company entered into a 20-year power purchase contract with a biomass generator to purchase 100% of the energy generated. As with the Company's other power purchase contracts, the MPUC has allowed the Company full recovery for the difference between costs incurred under the contract and revenues received from the resale of energy in its stranded cost rates.

Note 14. Commitments and Contingencies, continued

The following represents the actual purchased power expense for 2013 and 2012 associated with the Company's power supply, wind and biomass generator commitments (including savings from PERC net revenues), as well as the revenue associated with the resale of the power, and the projected annual expense and associated revenues for the period from 2014 to 2018 ($000's omitted):

		Purchased Power Commitments	Revenue from Resale of Power	Net Purchased Power Costs
Actual:				
	2012	$ 31,765	$ 14,496	$ 17,269
	2013	30,757	13,614	17,143
Projected:				
	2014	31,519	14,112	17,407
	2015	31,817	15,299	16,518
	2016	33,508	16,647	16,861
	2017	34,237	16,307	17,930
	2018	8,458	4,597	3,861

Operating Lease Obligations - The Company has entered into operating lease agreements for office space (expiring in 2020), land (expiring in 2048) and certain other equipment (expiring in 2013 through 2017). Future minimum annual lease payments under the leases are as follows ($000's omitted):

2014	$ 266
2015	433
2016	353
2017	347
2018	319
Thereafter	627

For each of the years ended December 31, 2013 and 2012, the Company recognized approximately $0.3 million in operating lease

Capital Project Commitments - As of December 31, 2013, the Company has entered into the following contractual obligations relating to the completion of current capital projects classified as construction work in progress (000's omitted):

2014	$ 30,455
2015	-
2016	8,900
Total	$ 39,355

Collective Bargaining Agreement - At December 31, 2013, the Company had 311 employees, of which approximately 48% were represented by a local union affiliated with the International Brotherhood of Electrical Workers ("AFL-CIO"). A new collective bargaining agreement was entered into in July 2010, and is effective for the period of July 1, 2010 to June 30, 2015.

Other - The Company may be, from time to time, subject to various investigations, claims, and legal proceedings covering various matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial position or operating results of the Company.

Note 15. Collaborative Arrangement

The Company is a party to a collaborative arrangement with National Grid Transmission Services Corporation to develop the Northeast Energy Link ("NEL") Project. The cost of development activities, including acquisition of land in the transmission corridor and acquisition of necessary governmental and regulatory permits and approvals, are shared equally between the Company and National Grid. The Company has deferred $2.9 million of costs associated with the NEL project as at December 31, 2013 (2012 - $2.8 million), reported in the Consolidated Balance Sheets in "Other deferred charges".

Note 16. Credit and Concentration Risk

Credit Risk - The Company is exposed to credit risk with respect to amounts receivable from customers. Credit risk is the potential loss from counterparty's non-performance under an agreement. The Company manages credit risk with policies and procedures for counterparty analysis, exposure measurement, and exposure monitoring and mitigation. Credit assessments are conducted on all new customers and counterparties and deposits are requested on any high risk accounts.

The Company assesses the potential for credit losses on a regular basis, and where appropriate, maintains provisions. With respect to counterparties, the Company has implemented procedures to monitor the creditworthiness and credit exposure of counterparties and to consider default probability in valuing the counterparty positions. The Company monitors counterparties' credit standing, including those that are experiencing financial problems, have significant swings in default probability rates, have credit rating changes by external rating agencies, or have changes in ownership. Net liability positions are adjusted based on the Company's current default probability. Net asset positions are adjusted based on the counterparty's current default probability. The Company assesses credit risk internally for counterparties that are not rated. The maximum exposure the Company has to credit risk is $32.5 million and $31.7 million as of December 31, 2013 and 2012, respectively, which represents accounts receivable net of deposits.

As at December 31, 2013, the Company had $8.5 million (2012 - $8.4 million) in financial assets considered to be past due. The fair value of these financial assets is $7.8 million in 2013 and 2012, the difference of which is included in the allowance for doubtful accounts. These assets primarily relate to accounts receivable from electric revenue.

Concentration Risk - The Company's concentrations of risk as at December 31 consisted of the following:

	2013	% of Total Exposure	2012	% of Total Exposure
Residential	$ 12,773	36%	$ 12,128	36%
Commercial	9,651	28%	9,345	27%
Industrial	2,408	7%	2,360	7%
Other	398	1%	399	1%
Total Customer Accounts & Unbilled Revenue Receivable	25,230	72%	24,232	71%
Other Accounts Receivable	9,848	28%	9,920	29%
Total	$ 35,078	100%	$ 34,152	100%

Note 17. Related Parties

Effective January 1, 2008, the Company entered into affiliated services agreements with Emera and Nova Scotia Power, Inc. ("NSP"), both of which are related parties. These agreements were approved by the MPUC, and the Company's new distribution rates effective January 1, 2008 included recovery of these costs. Under these agreements, certain Emera and NSP costs associated with Bangor Hydro are charged to the Company. These costs include information technology support, internal audit, treasury services, and corporate management. The expense recorded by the Company in connection with these agreements amounted to approximately $809,000 in 2013 and $731,000 in 2012. Of this amount, $489,000 is included in Accounts Payable as of December 31, 2013 and $77,000 as of December 31, 2012.

In December 2010, BHE Holdings acquired Maine and Maritimes Corporation, the parent company of Maine Public Service Company ("MPS"), the franchise electric transmission and distribution utility in northern Maine. In 2011, Bangor Hydro began providing certain management services to MPS under an affiliated service agreement approved by the MPUC in March 2011. The scope of allowable services was expanded in a further agreement approved by the MPUC in December 2011. The net proceeds received by Bangor Hydro from billing MPS for these services are recorded as reduction in operation and maintenance expense and amounted to approximately $1.6 million in 2013 and $834,000 in 2012, of which approximately $314,000 and $220,000 was receivable as of December 31,2013 and 2012, respectively.

On December 6, 2013, Bangor Hydro and MPS filed a joint request with the MPUC seeking an increase in distribution revenues of approximately $7 million. The regulatory proceeding processing this case will take place during 2014, and a final decision is expected in late Q3 or early Q4 2014, with new rates expected to go into effect on October 1, 2014. See Note 18 below.

Note 17. Related Parties, continued

As discussed in Note 14, the Company is a party to a 20-year contract for 20 percent of the energy generated from a 60 MW wind facility in Maine, as directed by the MPUC. The wind facility is 49% owned by a wholly-owned subsidiary of Emera. The investment by the Emera subsidiary in this facility took place on June 15, 2012. The net amount paid for the energy purchased in 2013 was $1.7 million and $664,000 in 2012 from the wind facility for the period subsequent to this investment.

Other assets includes notes receivable from employees in the amount of nil (2012-$219,000) as of December 31, 2013.

Note 18. Subsequent Events

Effective January 1, 2014, MPS merged into Bangor Hydro Electric Company, leaving Bangor Hydro Electric Company as the surviving entity. Bangor Hydro Electric Company then changed its corporate name to Emera Maine. Legal and other costs associated with the merger was $393,000 in 2013 and have been reported in Other Income, Net in the Consolidated Statements of Income.

The Company has evaluated events and material transactions for potential recognition or disclosure occurring between the end of the Company's most recent year end and the time on February 3, 2014 that the financial statements were issued.

MAINE & MARITIMES
CORPORATION

Annual Financial Report

For the Year Ended December 31, 2013

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REPORT OF INDEPENDENT AUDITORS

To the Stockholders and Directors
of Maine & Maritimes Corporation

We have audited the accompanying consolidated financial statements of Maine & Maritimes Corporation and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, capitalization, cash flows and common stock investment for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Maine & Maritimes Corporation and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 3, 2014

Maine & Maritimes Corporation
Consolidated Statements of Income
For the Years Ended December 31,
$000's Omitted

	2013	2012
Operating Revenues:		
Electric operating revenue	$ 30,465	$ 28,799
Other revenue	549	448
	$ 31,014	$ 29,247
Operating Expenses:		
Other operation and maintenance	11,149	11,654
Depreciation and amortization	4,228	3,783
Regulatory amortizations (Note 7)	5,270	5,102
Taxes		
Local and property and other	1,750	2,124
	$ 22,397	$ 22,663
Operating Income	$ 8,617	$ 6,584
Other Income (Expense):		
Allowance for equity funds used during construction	$ 430	$ 126
Other, net of applicable income taxes	(67)	37
Income Before Interest Expense	$ 8,980	$ 6,747
Interest Expense:		
Long-term debt	$ 1,099	$ 1,486
Other	334	209
Allowance for borrowed funds used during construction and stranded cost carrying charges	(353)	(337)
	$ 1,080	$ 1,358
Net Income before Income Taxes	$ 7,900	$ 5,389
Provision for income taxes (Note 9)	2,868	1,834
Net Income Attributable to Common Shareholder	$ 5,032	$ 3,555

The accompanying notes are an integral part of these consolidated financial statements.

Maine & Maritimes Corporation
Consolidated Statements of Comprehensive Income
For the Years Ended December 31,
$000's Omitted

	2013	2012
Net Income	$ 5,032	$ 3,555
Other Comprehensive Income (Loss), net of tax (Note 3):		
Changes in value of foreign exchange translation loss (1)	(2)	(1)
Net gain (loss) on interest rate hedge (2)	1,834	(274)
Other Comprehensive Income (Loss), net of tax	1,832	(275)
Comprehensive Income Attributable to Common Shareholder	$ 6,864	$ 3,280

(1) Deferred tax was nil in 2013 and 2012.
(2) Net of deferred taxes of $2.6 million in 2013 and $0.2 million in 2012.

The accompanying notes are an integral part of these consolidated financial statements.

Maine & Maritimes Corporation
Consolidated Balance Sheets
As of December 31,
$000's Omitted

		2013		2012
Assets				
Investment in Utility Plant: (Notes 1 and 4)				
Electric plant in service, at original cost	$	139,869	$	134,988
Less Accumulated depreciation and amortization		63,672		61,230
	$	76,197	$	73,758
Construction work in progress		12,491		5,399
	$	88,688	$	79,157
Investments in corporate joint ventures (Note 5):				
Maine Yankee Atomic Power Company	$	116	$	110
Maine Electric Power Company, Inc.		723		369
	$	89,527	$	79,636
Other Assets, at cost (Note 1)	$	362	$	213
Current Assets:				
Cash and cash equivalents	$	-	$	368
Accounts receivable, net of reserve of $143 for 2013 and $232 for 2012		6,900		6,017
Unbilled revenue receivable		1,395		1,155
Inventories, at average cost:				
Materials and supplies		1,533		2,451
Prepaid expenses		334		313
Total current assets	$	10,162	$	10,304
Regulatory Assets and Deferred Charges:				
Goodwill - Acquisition by Emera (Note 1)	$	31,144	$	31,144
Investment in Seabrook nuclear project (Note 7)		1,670		3,339
Regulatory assets - unfunded future income taxes (Note 7)		2,980		3,374
Regulatory assets - pension and post-retirement medical benefits (Note 7)		3,461		8,876
Maine Yankee decommissioning costs (Note 5)		1,061		616
Deferred fuel and purchased energy costs (Note 7)		1,861		2,970
Other regulatory assets (Notes 5, 6, 7 and 11)		2,348		1,760
Other deferred charges (Notes 1 and 14)		2,978		1,154
Total regulatory assets and deferred charges	$	47,503	$	53,233
Total Assets	$	147,554	$	143,386

The accompanying notes are an integral part of these consolidated financial statements.

Maine & Maritimes Corporation
Consolidated Balance Sheets
As of December 31,
$000's Omitted

		2013		2012
Stockholders' Investment and Liabilities				
Capitalization: (see accompanying statement)				
Common stock investment	$	80,050	$	75,261
Long-term debt (Note 8)		-		22,600
Total capitalization	$	80,050	$	97,861
Current Liabilities:				
Borrowings under revolving credit facilities (Note 8)	$	31,303	$	3,324
Accounts payable		4,423		3,967
Accrued charges-Other		1,423		1,341
Due to associated companies (Note 17)		544		220
Accrued interest		140		204
Customers' deposits		511		417
Current income taxes payable (Note 9)		2,182		90
Total current liabilities	$	40,526	$	9,563
Regulatory and Other Long-Term Liabilities:				
Other accumulated deferred income taxes (Note 9)	$	16,682	$	14,048
Maine Yankee decommissioning liability (Note 5)		1,061		616
Other regulatory liabilities (Notes 7 and 9)		3,175		2,461
Directors' fees payable (Note 12)		1,278		1,460
Accrued pension and post-retirement benefit costs (Note 10)		4,116		10,235
Fair value of interest rate swap (Note 11)		-		6,529
Other long-term liabilities (Notes 5)		666		613
Total regulatory and other long-term liabilities	$	26,978	$	35,962
Total Stockholders' Investment and Liabilities	$	147,554	$	143,386

The accompanying notes are an integral part of these consolidated financial statements.

Maine & Maritimes Corporation
Consolidated Statements of Capitalization
As of December 31,
$000's Omitted

	2013	2012
Common Stock Investment		
Common stock, $7 par value per share	$ 11,792	$ 11,792
Authorized shares - 5,000,000		
Outstanding shares - 1,684,624		
Amounts paid in excess of stated value	64,015	64,015
Accumulated other comprehensive income (loss)	54	(1,778)
Retained earnings	4,189	1,232
Total common stock investment	$ 80,050	$ 75,261
Long-Term Debt (Note 8)		
Maine Public Utility Financing Bank, Public Utility Financing Bonds:		
Refunding Series 1996: Due 2021-Variable Interest Rate, Payable Monthly (0.48% as of December 31, 2012)	$ -	$ 13,600
Series 2000: Due 2025 -Variable Interest Rate, Payable Monthly (0.48% as of December 31, 2012)	-	9,000
Total long-term debt	$ -	$ 22,600
Total Capitalization	$ 80,050	$ 97,861

The accompanying notes are an integral part of these consolidated financial statements.

Maine & Maritimes Corporation
Consolidated Statements of Cash Flows
For the Years Ended December 31,
$000's Omitted

	2013	2012
Cash Flows from Operating Activities:		
Net income	$ 5,032	$ 3,555
Adjustments to net income for non-cash items:		
Depreciation and amortization	4,228	3,783
Amortization of Seabrook nuclear project (Note 7)	1,670	1,670
Other amortizations and regulatory deferrals (Note 7)	2,834	2,322
Allowance for equity funds used during construction	(430)	(126)
Deferred income tax provision and amortization of investment tax credits	1,283	(647)
Changes in assets and liabilities:		
Accounts receivable, net and unbilled revenue	(1,124)	43
Accounts payable	724	356
Accrued interest	(64)	77
Current income taxes	2,092	(42)
Accrued pension and postretirement benefit costs	(704)	(405)
Other current assets and liabilities, net	991	(1,395)
Changes in fair value of cash flow hedge instruments	(6,529)	-
Other, net	503	(942)
Net Increase in Cash from Operating Activities:	$ 10,506	$ 8,249
Cash Flows from Investing Activities:		
Construction expenditures	$ (13,457)	$ (9,019)
Investment in corporate joint venture	(375)	-
Proceeds from equity investee dividends	7	7
Allowance for borrowed funds used during construction and stranded cost carrying charges	(353)	(337)
Net (Decrease) in Cash from Investing Activities	$ (14,178)	$ (9,349)
Cash Flows from Financing Activities:		
Dividends on common stock	(2,075)	(2,400)
Payments on long-term debt	(22,600)	-
Borrowing - short-term debt	25,600	-
Revolving credit facility, net	2,379	2,624
Net Increase in Cash from Financing Activities	$ 3,304	$ 224
Net (Decrease) in Cash and Cash Equivalents	$ (368)	$ (876)
Cash and Cash Equivalents at Beginning of Period	368	1,244
Cash and Cash Equivalents at End of Period	$ -	$ 368
Cash Paid (Received) During the Period for:		
Interest (net of amount capitalized)	$ 1,060	$ 1,181
Income taxes	(114)	655

The accompanying notes are an integral part of these consolidated financial statements.

Maine & Maritimes Corporation
Consolidated Statements of Common Stock Investment
$000's Omitted

	Common Stock	Amounts Paid in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total Common Stock Investment
Balance December 31, 2011	$ 11,792	$ 64,015	$ 77	$ (1,503)	$ 74,381
Net income	-	-	3,555	-	3,555
Other comprehensive loss net of taxes				(275)	(275)
Cash dividends declared on:					
Common stock	-	-	(2,400)	-	(2,400)
Balance December 31, 2012	$ 11,792	$ 64,015	$ 1,232	$ (1,778)	$ 75,261
Balance December 31, 2012	$ 11,792	$ 64,015	$ 1,232	$ (1,778)	$ 75,261
Net income	-	-	5,032	-	5,032
Other comprehensive income net of taxes				1,832	1,832
Cash dividends declared on:					
Common stock	-	-	(2,075)	-	(2,075)
Balance December 31, 2013	$ 11,792	$ 64,015	$ 4,189	$ 54	$ 80,050

The accompanying notes are an integral part of these consolidated financial statements.

Maine and Maritimes Corporation
Notes to the Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations - Maine & Maritimes Corporation (the "Company" or "MAM") is a wholly-owned subsidiary of Emera, Inc ("Emera") through BHE Holdings, Inc. ("BHE Holdings"). MAM is a holding company incorporated in the State of Maine, and is the parent company for the following wholly-owned subsidiaries and affiliates:

1. Maine Public Service Company ("MPS") and its wholly-owned inactive Canadian subsidiary Maine & New Brunswick Electrical Power Company, Ltd ("Me&NB"); and

2. MAM Utility Services Group ("MAM USG"), a wholly-owned United States subsidiary.

MPS is a regulated electric transmission and distribution utility serving all of Aroostook County and a portion of Penobscot County in northern Maine. Its service area covers approximately 3,600 square miles and serves approximately 36,000 customers. The utility is regulated by the Federal Energy Regulatory Commission ("FERC") and the Maine Public Utilities Commission ("MPUC").

The accounts of MPS are maintained in accordance with the Uniform System of Accounts prescribed by the regulatory bodies having jurisdiction and in accordance with accounting principles generally accepted in the United States.

Me&NB is an inactive Canadian subsidiary of MPS, which, prior to deregulation and generation divestiture, owned MPS's Canadian electric generation assets. Me&NB was incorporated in 1903 under the laws of the Province of New Brunswick, Canada.

MAM USG was incorporated in the State of Maine on September 27, 2007. The purpose of MAM USG is to provide utility-related services to clients on projects that MPS could not or would not be required to provide under State and Federal regulations. This includes transmission line and substation design and build services for generator projects outside the MPS service territory, utility asset maintenance contracts and contract work within MPS's territory that MPS is not required to provide. Currently, MAM USG is only engaged in limited activities associated with wind farm maintenance.

Basis of Consolidation - MAM owns all of the common stock of the above primary subsidiaries. Primary subsidiaries own all the common stock of their secondary subsidiaries. All significant intercompany balances and transactions between MAM and its subsidiaries have been eliminated in consolidation.

As a result of regulatory accounting, the Company accounts for its investments in the common stock of Maine Yankee Atomic Power Company ("Maine Yankee") and Maine Electric Power Company, Inc. ("MEPCO") under the equity method of accounting, and records its proportionate share of the net earnings of these companies as a component of other income (deductions). See Note 5 for additional information with respect to these investments.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Management evaluates the Company's estimates on an on-going basis based upon historical experience, current conditions and assumptions believed to be reasonable at the time the assumption is made, with any adjustments reported in earnings in the period in which they arise.

The most significant estimates are included in, but are not limited to: unbilled revenue, allowance for doubtful accounts, inventory, regulatory assets and liabilities, depreciation, amortization, income taxes (including deferred income taxes), pension and post-retirement benefits, goodwill impairment assessments and commitments and contingencies. Actual results may differ from these estimates.

Regulatory Matters - The Company is subject to the provisions of ASC 980-340, "Regulated Operations - Other Assets and Deferred Costs" ("ASC 980-340"). Regulatory accounting applies where rates are established by, or subject to approval by, an independent third party regulator; are designed to recover the costs of providing the regulated products or services; and it is reasonable to assume rates are set at levels such that the costs can be charged to and collected from customers. In accordance with rate and accounting orders issued by the MPUC and FERC, the Company has recorded regulatory assets and liabilities on its consolidated balance sheet.

Note 1. Nature of Operations and Summary of Significant Accounting Policies, continued

Regulatory assets represent incurred costs that have been deferred because it is probable that they will be recovered through future rates collected from customers. Management believes that existing regulatory assets are probable of recovery either because the Company received specific approval from the appropriate regulator, or due to regulatory precedent set for similar circumstances. If management no longer considers it probable that an asset will be recovered, the deferred costs are charged to income.

Regulatory liabilities represent obligations to make refunds to customers or to reduce future revenues for previous collections. If management no longer considers it probable that a liability will be settled, the related amount is recognized in income.

For regulatory assets and liabilities that are amortized, the amortization is as approved by the appropriate regulator and are amortized over varying lives through charges to earnings. These regulatory assets and liabilities are included in "Regulatory Assets and Deferred Charges" and "Regulatory and Other Long-term Liabilities", certain of which are described in more detail in Notes 6 and 7.

MPS anticipates the stranded cost component of these assets will be recovered by December 31, 2014, based on the most recent stranded cost rate filing, MPUC Docket No. 2011-317. MPS expects to amortize approximately $5.7 million of regulatory assets in 2014 net of carrying charges and the amortization of regulatory liabilities.

Electric Operating Revenue - MPS is a regulated utility, operating its distribution activity under the jurisdiction of the MPUC and transmission activity under the jurisdiction of the FERC. Operating revenues are recognized when electricity is delivered to customers or when products are delivered and services are rendered. Revenues are recognized on an accrual basis and include billed and unbilled revenues. Revenues related to the sale of electricity are recognized at rates approved by the respective regulator and recorded based on meter readings and estimates, which occur on a systematic basis throughout a month. At the end of each month, the electricity delivered to customers, but not billed, is estimated and the corresponding unbilled revenue is recognized.

Electric sales in the Company's territory are seasonal, and the Company's results of operations reflect this seasonal nature. The highest usage occurs during the five heating season months, from November through March, due to heating-related requirements and shorter daylight hours. The rate year is divided into two periods, with higher rates in place in the winter months to encourage conservation.

Transmission rates are adjusted annually, and were most recently changed on June 1, 2013, for wholesale customers and July 1, 2013, for retail customers. Distribution rates did not change during 2012 or 2013.

Stranded cost rates, for the rate effective period January 1, 2012, through December 31, 2014, were approved by the MPUC under Docket No. 2011-317 on December 6, 2011. These rates represent an approximately 50% decrease from the prior stranded cost rates. The Order in this Docket also reduced the remaining recovery period for stranded costs from five years to three years, and allowed for constant rates during that time.

Other Revenue - other revenues are recognized when services are performed or goods are delivered.

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts - Customer receivables are recorded at the invoiced amount and do not bear interest. Standard payment terms for electricity sales are approximately 30 days. A late payment fee may be assessed on account balances after the due date.

The Company is exposed to credit risk with respect to amounts receivable from customers. Credit risk assessments are conducted on all new customers and deposits are requested on any high risk accounts. The Company also maintains provisions for potential credit losses, which are assessed on a regular basis. Management estimates uncollectible accounts receivable after considering historical loss experience and the characteristics of existing accounts. Provisions for losses on receivables are expensed to maintain the allowance at a level considered adequate to cover expected losses. Receivables are written off against the allowance when they are deemed uncollectible.

Note 1. Nature of Operations and Summary of Significant Accounting Policies, continued

The Company bills customers for the energy supplied by competitive energy and standard offer providers. Competitive energy providers are paid only after the funds are collected from customers. The Company records accounts receivable for the amounts billed to competitive energy customers and a corresponding accounts payable for the amounts due the energy supplier. No revenue is recognized as the Company is acting as an agent. For the standard offer providers, the Company is obligated to pay the providers for amounts billed on their behalf, reduced by a contractually agreed upon percentage retained by the Company to offset collection risks associated with the standard offer receivables.

Allowance for Funds Used During Construction ("AFUDC") - In accordance with regulatory requirements of the MPUC, the Company capitalizes as AFUDC financing costs related to portions of its construction work in progress, at a rate equal to its weighted cost of capital, into utility plant with offsetting credits to other income and interest expense. This cost is not an item of current cash income, cash is realized under the rate-making process over the service life of the related property through future revenues resulting from a higher rate base and recovery of higher depreciation expense. In addition, carrying costs on certain regulatory assets and liabilities were also capitalized and included in AFUDC in the Consolidated Statements of Income. AFUDC is calculated using a weighted average cost of capital, as per the method approved by the MPUC, and is compounded semi-annually. The average AFUDC rate computed by the Company was 9% in 2013 and 2012.

Electric Plant in Service and Intangible Assets - Costs of additions, replacements and renewals of items considered to be units of property are charged to the utility plant accounts, and any items retired are removed from such accounts. The original costs of units of property retired and removal costs, less salvage, are charged to accumulated depreciation with no gain or loss reflected in income. The Company follows the practice of charging to maintenance the cost of repairs, replacements and renewals of minor items considered to be less than a unit of property. MPS's property, with minor exceptions, is subject to first and second mortgage liens.

Intangible assets, which are a component of electric plant in service, consist primarily of land rights of $2.1 million in 2013 and $2.5 million in 2012 and computer software of $0.3 million in 2013 and $0.4 million in 2012.

Depreciation and Amortization - Most of the utility plant depreciation is provided on a composite basis using the straight-line method, while computer equipment and vehicles are depreciated on a single-unit basis. Both types of rates are approved by the MPUC and the FERC, and were most recently updated with the 2006 distribution and transmission rate cases. The composite depreciation rate, expressed as a percentage of average depreciable plant in service, was 2.26% and 2.69% for 2013 and 2012, respectively.

Amortization of intangible assets is determined by the straight-line method, based on the estimated service lives of the depreciable intangible assets in each category. The service lives of intangible assets are determined based on formal depreciation studies and require appropriate regulatory approval. The estimated useful life for the Company's land rights is 50 to 143 years and 3 to 10 years for computer software. The estimated aggregate amortization expense for each of the next five years is as follows: $251,000 in 2014, $227,000 in 2015, $72,000 in 2016, $64,000 in 2017 and $64,000 in 2018.

Capitalization Policy - Capital assets of the Company include labor, inventories, AFUDC and other non-labor costs directly attributable to the capital activity. In addition, in order to ensure the full cost approach, overhead costs that contribute to the capital program are allocated to capital projects. These costs include corporate costs such as finance, information technology, executive and other support functions, and employee benefits, insurance, inventory costs, and fleet operating and maintenance costs. The Company calculates an application rate and only eligible operating expenditures are used in the calculation. The Company applies overhead costs based on direct labor costs. The application rate varies depending on the type of capital expenditure. In addition, the Company applies inventory overhead based on inventory issued to the project, and applies general and administrative overhead based upon non-labor charges.

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

Inventory - Inventory is stated at average cost, and consists primarily of assets used in the construction and maintenance of utility property, including poles and wire.

Note 1. Nature of Operations and Summary of Significant Accounting Policies, continued

Asset Impairment

Goodwill - Goodwill represents the excess of Emera's purchase price of the Company over the net amount of the fair values assigned to its identifiable assets and liabilities and is not subject to amortization. Emera's reporting units containing goodwill perform annual goodwill impairment tests during the fourth quarter of each year, and interim impairment tests are performed when impairment indicators are present. The carrying amount of the Company's goodwill is considered not recoverable if the carrying amount of the reporting unit as a whole exceeds the reporting unit's fair value. An impairment charge is recorded for any excess of the carrying value of the goodwill over the implied fair value.

Long-lived assets **-** Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company bases its evaluation of other long-lived assets on the presence of impairment indicators such as the future economic benefit of the assets, any historical or future profitability measurements, and other external market conditions or factors.

Assets Held and Used **-** The carrying amount of assets held and used is considered not recoverable if it exceeds the undiscounted sum of cash flows expected to result from the use and eventual disposition of the asset. If the carrying value is not recoverable, the impairment loss is measured as the excess of the asset's carrying value over its fair value.

Equity Method Investments **-** The carrying value of investments accounted for under the equity method are assessed for impairment by comparing the fair values of these investments to their carrying values, if a fair value assessment was completed, or by reviewing for the presence of impairment indicators. If an impairment exists and it is determined to be other-than-temporary, a charge is recognized equal to the amount the carrying value exceeds the investment's fair value.

There were no material asset impairments for the years ended December 31, 2013 and 2012.

Income Taxes - The Company recognizes deferred income tax assets and liabilities for the future tax consequences of events that have been included in the financial statements or income tax returns. Deferred income tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the balance sheet and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. Under MPUC ratemaking regulations, for timing differences associated with MPUC jurisdictional electric plant assets, no State of Maine deferred income tax expense/benefit are recognized, and the tax effects of these timing differences are flowed-through to income tax expense/benefit currently. The Company recognizes the effect of income tax positions only when it is more likely than not that they will be realized. If management subsequently determines that it is likely that some or all of a deferred income tax asset will not be realized, then a valuation allowance is recorded to report the balance at the amount expected to be realized.

Investment tax credits are recorded as a reduction to income tax expense in the current or future periods to the extent that realization of such benefit is more likely than not. Investment tax credits earned by the Company on regulated assets are deferred and amortized over the estimated service lives of the related properties, as required by United States tax laws and MPUC regulatory practices.

The Company recognizes regulatory assets or liabilities where the deferred income taxes are expected to be recovered from or returned to customers in future rates.

The Company classifies interest and penalties associated with unrecognized tax benefits as interest and non-operating expense, respectively. More details are provided in Note 9.

Variable Interest Entities - The Company performs ongoing analysis to assess whether it holds any variable interest entities ("VIEs"). To identify potential VIEs, management reviews contracts under leases, long-term purchase power agreements, and jointly-owned facilities. VIEs of which the Company is deemed the primary beneficiary must be consolidated. The primary beneficiary of a VIE has both the power to direct the activities of the entity that most significantly impact its economic performance and the obligation to absorb losses of the entity that could potentially be significant to the entity. In circumstances where the Company is not deemed the primary beneficiary, the VIE is not recorded in the Company's Consolidated Financial Statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies, continued

Pension and Other Post-Retirement Benefit Plans - MPS has pension and other post-retirement benefit plans, principally health care benefits, covering substantially all of its employees and retirees. Management makes certain assumptions relating to the long-term rate of return on plan assets, discount rates used to measure future obligations and expenses, salary scale inflation rates, health care cost trends, mortality and other assumptions. The Company believes that the accounting estimates related to our pension and post-retirement plans are critical accounting estimates because they are highly susceptible to change from period to period based on the performance of plan assets, actuarial valuations, market conditions and contracted benefit changes. The selection of assumptions is based on historical trends and known economic and market conditions at the time of the valuation. However, actual results may differ substantially from the estimates that were based on the critical assumptions. For additional information on the Company's benefit plans, see Note 10 to the Consolidated Financial Statements, "Pension and Post-Retirement Benefits."

Debt Financing Costs - The Company capitalizes the external costs of obtaining debt financing and includes them in "Other deferred charges" on the Consolidated Balance Sheet. Financing costs pertaining to debt issues are amortized over the life of the related debt and are included in other interest expense.

Principal Risks and Uncertainties- Sound risk management is an essential discipline for running the business efficiently and pursuing the Company's strategy successfully. MPS has a business-wide risk management process, monitored by the Board of Directors, to ensure a consistent and coherent approach.

Interest Rate Risk- The Company's major financial market risk exposure is changing interest rates. Changing interest rates will affect interest paid on variable rate debt. The Company manages interest rate risk through a combination of both fixed and variable rate debt instruments. The Company did not hold any derivative financial instruments as of December 31, 2013.

Credit Risk-The Company is exposed to credit risk with respect to amounts receivable from customers. Credit risk assessments are conducted on all new customers and deposits are requested on any high risk accounts. The Company also maintains provisions for potential credit losses, which are assessed on a regular basis. The maximum exposure the Company has to credit risk is $8.0 million as of December 31, 2013 and $6.8 million in 2012, which represents accounts receivable, net of deposits.

Liquidity Risk-Liquidity risk encompasses the risk that the Company cannot meet its financial obligations. The Company's main sources of liquidity are its cash flows from operations and its short- and long-term debt. The Company manages its liquidity by holding adequate volumes of liquid assets and maintaining revolving credit facilities in addition to the cash flow generated by its operating businesses.

Environmental Legislation- The Company is subject to regulation by federal, state and municipal authorities with regard to environmental matters primarily related to its utility operations. Changes in environmental legislation could adversely affect utility operations. The Comany is committed to operating in a matter that is respectful and protective of the environment, and in full compliance with legal requirements and Company policy. MPS has implemented this policy through development and application of environmental management systems.

Labor Risk - Approximately 55% of the MPS labor force are members of the Local 1837 Unit 11 of the International Brotherhood of Electrical Workers ("IBEW") and are covered under a collective bargaining agreement. On September 30, 2013, the IBEW 1837 Unit 11 Union approved a new collective bargaining agreement for the term of October 1, 2013 through June 30, 2015. Therefore MPS may be subject to the detrimental effects of a strike or other labor action. MPS seeks to manage this risk through ongoing discussions with the union. The Company has contingency plans in place in the event of a labor disruption.

Regulatory and Political Risk**-** MPS faces risk with respect to the recovery of costs and investments in a timely manner. As a regulated utility, MPS must obtain regulatory approval to change general electricity rates. The recovery of costs and investments is subject to the approval of the MPUC or FERC, through the adjustment of rates, which normally requires a public hearing process. In addition, the regulatory framework under which MPS operates can be impacted by significant shifts in government policy and changes in governments. During public hearing processes, consultants and customer representatives scrutinize the Company's costs, actions and plans, and the MPUC or FERC determines whether to allow recovery and to adjust rates based upon MPS's evidence and any contrary evidence from other hearing participants. The Company manages this regulatory risk through transparent regulatory disclosure, ongoing stakeholder and government consultation and multi-party engagement on aspects such as utility operations, rate filings and capital plans. The Company employs a collaborative regulatory approach through technical conferences and, where appropriate, negotiated settlements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies, continued

Fair Value Measurement - The Company is required to determine the fair value of all derivatives, and uses a market approach to do so. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly arms-length transaction between market participants at the measurement date. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information including the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. The Company uses a fair value hierarchy, based on the relative objectivity of the inputs used to measure fair value, with Level 1 representing the highest.

The three levels of the fair value hierarchy are defined as follows:

Level 1 Valuations - Where possible, the Company bases the fair valuation of its financial assets and liabilities on quoted prices in active markets ("quoted prices") for identical assets and liabilities.

Level 2 Valuations - Where quoted prices for identical assets and liabilities are not available, the valuation of certain contracts must be based on quoted prices for similar assets and liabilities with an adjustment related to location differences. Also, certain derivatives are valued using quotes from over-the-counter clearing houses.

Level 3 Valuations - Where the information required for a Level 1 or Level 2 valuation is not available, derivatives must be valued using unobservable or internally-developed inputs.

The primary reasons for a Level 3 classification are as follows:
• While valuations were based on quoted prices, significant assumptions were necessary to reflect seasonal or monthly shaping and locational basis differentials.
• The term of certain transactions extends beyond the period when quoted prices are available, and accordingly, assumptions were made to extrapolate prices from the last quoted period through the end of the transaction term.
• The valuations of certain transactions were based on internal models, although quoted prices were utilized in the valuations.

Derivative assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Derivative Financial Instruments - MPS held interest rate swaps on two variable-rate long-term debt issues that qualified as derivatives. Interest rate swaps involve the exchange of cash and the exchange of a variable-rate payment for a fixed-rate payment. The Company recognized derivatives as either assets or liabilities on the Consolidated Balance Sheets and measured those instruments at fair value. In September 2013, the Company received regulatory approval from the MPUC that allowed the Company to refinance the two variable-rate long-term debt issues with short term debt. Premature termination of these bonds required the termination of the two interest rate swap agreements. The MPUC order also allowed the Company to create a regulatory asset to defer the ineffective portion of the change in fair value of the cash flow hedge, previously reported in Accumulated Other Comprehensive Loss "AOCL", at the time of the termination, to be amortized into net income over a 10 year period. This regulatory asset was $1.1 million as of December 31, 2013.

Restricted Investments - At December 31, 2013, the Company had $105,000 of restricted investments, consisting primarily of deposits held for bidders in the MPUC's long-term standard offer bid process and funds held for its provisional ISO-NE membership. At December 31, 2012, the Company had $105,000 of these restricted investments. These investments are presented in "Other Assets, cost" on the Consolidated Balance sheet.

Foreign Exchange - MAM translates income statement activity for its Canadian subsidiary at the average rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the period.

Comparative information - Certain 2012 amounts have also been reclassified to conform to the Company's 2013 financial statement presentation.

Note 1. Nature of Operations and Summary of Significant Accounting Policies, continued

Future Accounting Pronouncements

Income Taxes, ASU No. 2013-11 - In July 2013, the Financial Accounting Standards Board ("FASB") issued an ASU amending guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. The purpose of this amendment is to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. ASU No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2013. The Company is currently in compliance with this standard and therefore, does not expect the adoption of this standard will have any impact on the financial statements.

Note 2. Change in Accounting Policy

In Q1 2013, the Company adopted Accounting Standards Update ("ASU") Number ("No.") 2013-02. This ASU did not change the current requirements for reporting net income or other comprehensive income. The amendments require an entity to present, either parenthetically on the face of the financial statements or in the notes, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. An entity would not show the income statement line item affected for certain components, which are not required to be reclassified in their entirety to net income. New disclosures have been added to reflect this change in presentation; however, the amendment had no effect on the financial results of the Company.

In Q1 2013, the Company adopted ASU No. 2012-04. This ASU amended Accounting Standard Codification ("ASC") 820 for technical corrections and improvements and conforming amendments related to fair value measurements (ASU 820). The amendments represented clarifications and corrections to unintended application of guidance and minor improvements to the ASCs and had no effect on the financial results of the Company.

In Q1 2013, the Company adopted ASU No. 2011-11. This ASU amended ASC 815 Derivatives and Hedging, requiring companies to disclose gross and net information for derivative instruments. The Company is currently in compliance with this standard and therefore, the adoption of this standard did not have any impact on the financial statements.

Note 3. Accumulated Other Comprehensive Income (Loss)

Accumulated balances, net of tax, related to each component of Other Comprehensive Income (Loss) consist of the following ($000's omitted):

	Interest Rate Swaps	Foreign Exchange Translation	Unrealized Loss on Investments Available for Sale	Accumulated Other Comprehensive (Loss) Income
Balance as of December 31, 2011	$ (1,560)	$ 57	-	$ (1,503)
Comprehensive (Loss)	(274)	(1)	-	(275)
Balance as of December 31, 2012	(1,834)	56	-	(1,778)
Comprehensive Income (Loss)	1,834	(2)	-	1,832
Balance at December 31, 2013	-	$ 54	-	$ 54

Significant reclassifications out of accumulated comprehensive loss are as follows ($000's omitted):

	Amounts reclassified from AOCL	Affected Line item in the Consolidated Balance Sheet
Losses on Interest Rate Swaps:		
Total before deferred income taxes	$ 4,446	
Deferred income tax	2,612	
Total net of tax	$ 1,834	Other regulatory assets (see Note 1-Derivative Financial Instruments)

Note 4. Electric Plant in Service

Regulated electric plant in service are comprised of the following: (000's omitted)

	2013		
	Cost	Accumulated Depreciation	Net Book Value
Transmission	$ 25,909	$ 10,289	$ 15,620
Distribution	90,633	39,827	50,806
General	17,493	10,482	7,011
Intangibles	5,834	3,074	2,760
Total Plant in Service	$ 139,869	$ 63,672	$ 76,197

	2012		
	Cost	Accumulated Depreciation	Net Book Value
Transmission	$ 25,357	$ 9,714	$ 15,643
Distribution	86,171	38,501	47,670
General	17,847	10,171	7,676
Intangibles	5,613	2,844	2,769
Total Plant in Service	$ 134,988	$ 61,230	$ 73,758

Note 5. Jointly-Owned Facilities

Maine Yankee - The Company owns 5% of the common stock of Maine Yankee, which owned and, prior to its permanent closure in 1997, operated an 880-megawatt (MW) nuclear generating plant in Wiscasset, Maine. Pursuant to a contract with Maine Yankee, the Company is obligated to pay its pro rata share of Maine Yankee's decommissioning costs.

Maine Yankee's most recent estimate of the total costs of decommissioning for the period from 2013 to 2014 is approximately $24.7 million (undiscounted). The Company's share of the estimated cost at December 31, 2013 is approximately $1.1 million and $0.6 million at December 31, 2012 and is recorded as a regulatory asset and decommissioning liability. The regulatory asset was recorded for the full amount of the decommissioning costs due to the state's industry restructuring legislation allowing the Company future recovery of nuclear decommissioning costs as a component of stranded costs (see Note 6). Total decommissioning expense was approximately $316,000 and $293,000 in 2013 and 2012, respectively, and is recorded as a component of regulatory amortization expense. Any variance between the cost estimated in the most recent stranded cost case and the actual costs for the period are deferred in a regulatory asset or liability, which is also recoverable (or returned to customers) in future rate proceedings. The Company's equity in net income amounted to $5,000 in 2013 and 2012 and is recorded as a component of other income.

In early 2013, Maine Yankee received from the U.S. Government approximately $81.7 million associated with litigation with the U.S. Department of Energy on issues with spent nuclear fuel storage. Under a plan approved by FERC, Maine Yankee is returning approximately $74.3 million to the Maine Yankee owners over a three-year period starting with the first payment in 2013. Maine Public Service, as a 5% owner of Maine Yankee common stock, is receiving its pro-rata share of these proceeds. Also in connection with these proceeds, legislation was passed in the State of Maine, whereby a portion of the funds received from Maine Yankee are required to be remitted to the Efficiency Maine Trust (EMT) to be utilized for energy efficiency programs. The remaining funds are being retained by Maine Public for the benefit of its ratepayers, with such rate mechanism. In October 2013, Maine Public received approximately $1.38 million from Maine Yankee as the first installment of these proceeds, and of this amount, approximately $381,000 was recorded in a regulatory liability account to be remitted to EMT in 2014. The remaining $1.003 million of proceeds were recorded in a regulatory liability account and will be addressed in future regulatory proceedings at the MPUC to determine the mechanism for returning these funds to ratepayers.

MEPCO - The Company owns 7.49% of the common stock of MEPCO. MEPCO owns and operates electric transmission facilities from Wiscasset, Maine, to the Maine-New Brunswick border. The Company's equity in net (loss) income of MEPCO amounted to ($15,000) in 2013 and $71,000 in 2012, respectively, and is recorded as a component of other income. In June 2013, the Company made an additional investment of $375,000 in MEPCO to fund additional capital projects.

Note 6. Rate Regulation

Electric rates for the Company's customers are divided into four components, which are discussed below, (i) distribution, (ii) stranded costs, (iii) transmission, and (iv) energy service. The rates charged to customers for transmission, distribution, and stranded costs are established in distinct regulatory proceedings. The Company's revenues are primarily generated by both energy (kWh) delivery charges and demand (kW) delivery charges for the distribution, transmission, and stranded cost portions of the business. Due to deregulation of electric utility generation in the state of Maine, the Company presently does not participate in the generation or supply of electricity.

Distribution Service - Distribution revenues represent approximately 59% of the Company's total electric operating revenue. The MPUC, under a traditional cost of service regulatory structure, issued an Order in June 2006 approving an approximate 4% increase in distribution rates effective July 15, 2006. The allowed return on equity ("ROE") used in setting the new distribution rates is 10.2%, with a 50% common equity ratio.

Stranded Cost Service - Stranded cost revenues represent approximately 17% of the Company's total electric operating revenue. Pursuant to the Maine restructuring law in the 1990's, and effective March 1, 2000, electric utilities are entitled to recover all prudently incurred stranded costs that cannot reasonably be mitigated.

On September 14, 2010, MPS filed its stranded cost revenue requirement and rates for the three-year rate effective period beginning January 1, 2012, with the MPUC under Docket No. 2011-317. The MPUC issued its Order on December 6, 2011. Under this Order, the remainder of the $12.2 million of stranded costs are scheduled for recovery under level rates for three years, at approximately 50% of the levelized rates that were in effect for the two-year rate effective period that ended December 31, 2011. Amortization of the deferred fuel balance is adjusted each year to achieve these levelized rates. The Order includes a reduction in the allowed return on equity, from 8.6% in 2011 to 7.2%, and a 50% common equity ratio.

In connection with the Company's stranded cost rate proceeding with the MPUC, the major regulatory assets and liabilities being recovered from/returned to customers as stranded costs include:

-Maine Yankee decommissioning costs (see Note 5)
-Investment in Seabrook nuclear project (see Note 7)
-Deferred fuel and purchased energy costs (see Note 7)
-Special discounts and sales volume reconciliation deferrals (see Note 7)

Transmission Service - Transmission revenues currently represent 24% of the Company's total electric operating revenues. Transmission rates are set by the FERC annually on June 1. In May, 2012, MPS filed its updated rates under the 2012 Open Access Transmission Tariff ("OATT") formula for both wholesale and retail customers. On June 1, 2012, MPS's local transmission rates increased by approximately 9% for wholesale customers, and then decreased by 17% for wholesale customers and by 5% for retail customers on July 1, 2012. On May 1, 2013, MPS filed its updated rates under the 2013 OATT formula for both wholesale and retail customers. The revenue increases were approximately 21% for wholesale customers, effective June 1, 2013, and 8.5% for retail customers, effective July 1, 2013. On November 14, 2013, a settlement agreement was filed with a revenue decrease of approximately 3% for wholesale customers, effective November 1, 2013, and retail customers to receive a benefit of approximately $94,000 with interest in the Annual Update rate year beginning June 1, 2014.

Energy Service - The Company does not currently supply electric energy to customers. Pursuant to Maine restructuring law, energy service is provided to the Company's customers either by a competitive supplier of their choice or by a standard-offer service provider who acts as a provider of last resort for those customers unable to select a competitive supplier or uninterested in doing so. The Company acts as a billing and collection agent for the standard offer providers and for competitive energy suppliers.

Note 7. Regulatory Assets and Liabilities

The Company is subject to the provisions of ASC 980-340, "Regulated Operations - Other Assets and Deferred Costs" ("ASC 980-340"). This topic allows for the establishment of regulatory assets for costs accumulated for certain items other than the usual and customary capital assets, and allows the deferral of the income statement impact of those costs if they are expected to be recovered in future rates. As of December 31, 2013 and 2012, the Company had regulatory assets, net of regulatory liabilities, of approximately $10.2 million and $18.5 million, respectively. The Company continues to meet the requirements of ASC 980-340 since the Company's rates are intended to recover the cost of service plus a rate of return on the Company's investment, as well as providing specific recovery of costs deferred in prior periods.

Note 7. Regulatory Assets and Liabilities, continued

The legislation enacted in Maine associated with industry restructuring specifically addressed the issue of cost recovery of regulatory assets stranded as a result of industry restructuring. Specifically, the legislation requires the MPUC, when retail access begins, to provide a "reasonable opportunity" for the recovery of stranded costs through the rates of the transmission and distribution company, comparable to the utility's opportunity to recover stranded costs before the implementation of retail access under the legislation. MPUC rate orders subsequent to a March 1, 2000 restructuring date did not result in the Company writing off any significant stranded costs, but if the Company had not been allowed full recovery of its stranded costs, it would be required to write-off any disallowed costs.

As provided for in ASC 980-340, the Company will continue to record regulatory assets in a manner consistent with the topic as long as future recovery is probable, since the Maine legislation provides the opportunity to recover regulatory assets, including stranded costs, through the rates of the Transmission and Distribution company. The Company anticipates, based on current generally accepted accounting principles that ASC 980-340 will continue to apply to the regulated T&D segments of its business.

If the Company failed to meet the requirements of ASC 980-340, due to legislative or regulatory initiatives, the Company would be required to apply ASC 980-20, "Discontinuation of Rate-Regulated Accounting ("ASC 980-20"). If legislative or regulatory changes and/or competition result in electric rates which do not fully recover the Company's costs, a write-down of regulatory assets would be required. The Company does not anticipate any write-down of assets at this time.

Major components of Regulatory Assets are as follows:

Investment in Seabrook Nuclear Project - MPS was a participant in the Seabrook nuclear project in Seabrook, New Hampshire. In 1986, MPS sold its 1.46% ownership interest in this project with a cost of approximately $92.1 million for $21.4 million. Both the MPUC and FERC allowed recovery of MPS's remaining investment in Seabrook Units 1 and 2, adjusted by disallowed costs and sale proceeds, or $43.1 million. The costs are being amortized over thirty years, with recovery complete in 2014.

Deferred Fuel and Purchased Energy Costs - Beginning March 1, 2002, and until the Wheelabrator-Sherman power purchase contract terminated in December 2006, the excess of the cost over the sales price of Wheelabrator-Sherman fuel was deferred. Since January 1, 2007, this regulatory asset is amortizing and being recovered in stranded cost rates. The deferred asset was $1.9 million and $3.0 million as of December 31, 2013, and 2012, respectively. This regulatory asset will be fully recovered in 2014.

Special Discounts and Sales Volume Reconciliations - The MPUC has issued several orders allowing discounted rates for certain large customers. These discounts are recoverable from other customers. The amount of the discount is estimated for the stranded cost filing; however, the actual discount given is dependent on a number of factors, including the customer's actual usage. Therefore, the difference between the estimated discount and the actual discount given is deferred as a regulatory asset or liability. The special discounts reconciliation was a liability of $65,000 as of December 31, 2013 and an asset of $75,000 at December 31, 2012, and is reported within "Other Regulatory Liabilities" and "Other Regulatory Assets" on the Consolidated Balance Sheets.

The stranded cost rates are also based on an estimate of the customer volume for the rate effective period. Actual volume is either higher or lower than estimated. The difference between the estimated volume and the actual volume is deferred in a regulatory asset or liability. At December 31, 2013 and 2012, the sales volume reconciliation was an asset of $431,000 and $670,000, respectively, reported within "Other Regulatory Assets" on the Consolidated Balance Sheets.

Post-Retirement Medical and Pension Benefits - In accordance with purchase accounting rules, MPS recognized the unamortized actuarial gains and losses coincident with the merger with the acquisition by BHE Holdings. These totaled $4.52 million, and were recognized on the Consolidated Balance Sheets as “Regulatory Assets – Post-Retirement Medical and Pension Benefits” at December 31, 2010. MPS is required to hold ratepayers harmless from the merger. Therefore, MPS believes these costs are recoverable from ratepayers on the same basis as they would have been had the merger not occurred. These costs are being amortized into pension and post-retirement medical expense over approximately thirteen years. This regulatory asset was $3.5 million and $3.8 million as of December 31, 2013 and 2012, respectively.

Note 7. Regulatory Assets and Liabilities, continued

Additionally, as a result of an Accounting Order from the MPUC, MPS deferred as a regulatory asset the difference between the projected benefit obligation of its pension and post-retirement medical plans and the accumulated benefit obligation. This regulatory asset was $7,000 and $5.1 million as of December 31, 2013 and 2012, respectively and is included on the Consolidated Balance Sheets as "Regulatory Assets-Post-Retirement Medical and Pension Benefits". Absent this Accounting Order, this amount would have been charged against "Accumulated Other Comprehensive Loss." This asset is being amortized into expense over the average remaining service life of plan participants, or approximately thirteen years.

Unfunded Future Income Taxes - In accordance with regulatory accounting, the Company is required to flow-through to customers the benefits/expenses of certain book/tax temporary differences including State of Maine excess income tax depreciation, allowance for equity funds used during construction and the excess deferred income taxes. Under ASC 740, Income Taxes, ("ASC 740") the Company must record the balance sheet impacts for the temporary differences flowed-through to customers as regulatory assets/liabilities and deferred income tax liabilities. The Company has recorded a regulatory asset of $3.0 million as of December 31, 2013, and an offsetting increase in deferred income tax liabilities. As of December 31, 2012, the Company recorded regulatory asset of $3.4 million, and an offsetting increase in deferred income taxes.

Other - The Company also has various other distribution and stranded cost (see Notes 1 and 6) regulatory assets and liabilities recorded on its Consolidated Balance Sheets where the Company's regulated rates are designed to recover/return these deferred costs/revenues from/to customers, including a return on the unamortized balance.

Regulatory amortization represents current amortizations and regulatory deferrals allowed in the Company's distribution and stranded cost rates as allowed by the MPUC in prior rate orders. The following summarizes regulatory amortization expense/(deferrals) for 2013 and 2012 ($000's omitted):

	2013	2012
Maine Yankee Decommissioning Costs	$ 792	$ 601
Investment in Seabrook Nuclear Project	1,670	1,670
Deferred Fuel and Purchased Energy Costs	1,239	1,268
Sales Volume Reconciliation	306	306
Special Discounts Reconciliation	65	65
Other	27	-
Total Net Stranded Cost Amortization	$ 4,099	$ 3,910
Post Retirement Medical and Pension	538	633
Distribution related regulatory assets and liabilities	633	559
Total Net Regulatory Amortization	$ 5,270	$ 5,102

Note 8. Lending Agreements

On October 19, 2000, the Maine Public Utilities Financing Bank ("MPUFB") issued $9 million of its tax-exempt bonds due October 1, 2025 on behalf of MPS. The proceeds were placed in trust to be drawn down for the reimbursement of issuance costs and for the construction of qualifying distribution property. On October 17, 2003, MPS received the final distribution from the trust. MPS had a $9.5 million letter of credit with a financial institution for the benefit of the bondholders at a rate of 1.75%. In September 2013, the Company paid off the $9 million tax-exempt bond to the MPUFB with the proceeds from a new short-term non-revolving senior credit facility (see below). Coincident with the repayment of the bond, the letter of credit with the financial institution was also cancelled. For 2012, the effective interest rate of the 2000 Series, including the effective fixed swap rate of 4.53%, issuance costs and credit enhancement fees since issuance, was 6.72%.

A similarly structured series of Bonds was issued on behalf of MPS by the MPUFB in 1996, with $13.6 million outstanding due in 2021. MPS also had a $14.4 million letter of credit with a financial institution for the benefit of the bondholders at a rate of 1.75%. In September 2013, the Company paid off the $13.6 million tax-exempt bond to the MPUFB with the proceeds from the aforementioned new credit facility. Coincident with the repayment of the bond, the letter of credit with the financial institution was also cancelled. For 2012, the effective interest rate of the 1996 series, including the effective fixed swap rate of 4.42%, issuance costs and credit enhancement fees, was 6.59%.

Note 8. Lending Agreements, continued

Short-Term Non-Revolving Senior Credit Facility Agreement - In September 2013, the Company entered into a short-term non-revolving senior credit facility agreement (Agreement) with a financial institution. This Agreement provided for a $25.6 million unsecured non-revolving credit facility that expires on September 30, 2014. The Senior Credit Facility was used to repay the $22.6 million in outstanding MPUFB bonds, as well as a portion of the cost to terminate the interest rate swaps.

Revolving Credit Facility Agreement - In June 2010, the Company entered into a revolving credit facility agreement (Agreement) with a financial institution. This Agreement provides for an $10 million unsecured revolving credit facility for a term of 18 months that expired on December 31, 2012. On December 31, 2012, the Company entered into an amended agreement with this financial institution that extended the maturity of the revolving credit facility to September 30, 2013. On September 30, 2013, the Company entered into an amended agreement with this financial institution that extended the maturity of the revolving credit facility to the earlier of September 30, 2014 or the effective date of the merger between MPS and Bangor Hydro Electric Company (See Note 19).

Certain information related to the Company's borrowings under the Agreement is as follows ($000's omitted):

	2013	2012
Total borrowings available under revolving credit facility agreements at end of year	$ 10,000	$ 10,000
Borrowings outstanding at end of year	5,702	3,324
Maximum borrowing capacity available at end of year	$ 4,298	$ 6,676
Effective interest rate on borrowings outstanding at end of year	1.9%	3.3%
Average daily outstanding borrowings at end of year	$ 3,278	$ 1,004
Weighted average annual interest rate, including fees	5.6%	4.6%
Highest level of borrowings outstanding at any month-end during the year	$ 5,702	$ 3,324

In connection with its debt agreements, the Company must comply with certain financial covenants related to the Company's debt ratio, fixed charge coverage, and net worth. The Company complied with all covenants associated with its lending agreements in 2013 and 2012.

Note 9. Income Taxes

The following summarizes accumulated deferred income tax (assets) and liabilities established on temporary differences as of December 31, 2013 and 2012 ($000's omitted):

	2013	2012
Investment in Seabrook nuclear project	$ 955	$ 1,817
Excess book over tax basis of electric plant in service	16,276	18,088
Other regulatory assets	(113)	596
Other regulatory liabilities	(618)	(1,115)
Deferred fuel and purchased energy costs	759	1,176
Pension and post-retirement medical benefits	107	(635)
Accumulated other comprehensive loss	-	(2,612)
Deferred directors' compensation	(521)	(426)
Other	(164)	(2,841)
Total Other Accumulated Deferred Income Taxes	$ 16,682	$ 14,048

Note 9. Income Taxes, continued

A summary of Federal, Canadian and State income taxes charged (credited) to income is presented below. For ratemaking purposes, income tax provisions (benefits) allocated to Operating Income reflect taxes applicable to revenues and expenses allowable for ratemaking purposes on MPS regulated activities and unregulated activities for MAM and MAM USG. The tax effect of items not included in rate base or normal operating activities is allocated as Other Income (Expense). ($000's omitted)

Year Ended December 31,	2013	2012
Current Income Tax Provision:		
Federal	$ 1,731	$ 1,572
State	493	648
Deferred Income Tax (Benefit):		
Federal	$ 423	$ (115)
State	221	(268)
Investment Tax credits, net	-	(1)
Total Provision for Income Taxes	$ 2,868	$ 1,836
Less: Allocated to Other Income	11	2
Provision for Income Taxes	$ 2,857	$ 1,834

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

	2013	2012
Statutory Federal Income Tax Rate	35.0%	35.0%
State Income Taxes	5.90	4.6
Amortization of Excess Deferred Income Taxes	(7.10)	(11.4)
Depreciation Flow-Through on Property	(1.20)	(0.8)
Other	3.80	6.7
Effective Rate	36.4%	34.1%

The Company has not accrued U.S. income taxes on the undistributed earnings of Me&NB, as the withholding taxes due on the distribution of any remaining amount would be principally offset by foreign tax credits. No dividends were received from Me&NB in 2013 or 2012.

The Company follows the provisions of ASC 740, Income Taxes ("ASC 740"), in calculating its tax reserves. As a result of its analysis of its tax positions, the Company has concluded that it has not taken any tax positions which would be classified as uncertain under ASC 740. Accordingly, no reserves have been recorded. It is possible that certain unrecognized tax benefits may occur within the next twelve months due to tax examination changes, settlement activities, expirations of statues of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities. However, the Company does not expect any significant changes within the next 12 months.

The statutes of limitations for audits by Federal, Maine, New Hampshire, Massachusetts and Canadian tax authorities have expired for all tax years ending December 31, 2009, or earlier. Effective December 21, 2010, the Company's income taxes are incorporated into the consolidated income tax returns of BHE Holdings' parent company, Emera U.S. Holdings, Inc. ("EUSHI"). EUSHI files income tax returns in the U.S. and the State of Maine. Examination of EUSHI's U.S. income tax returns by the Internal Revenue Service ("IRS") for the years 2005 to 2007 was completed in 2009. The tax years 2010 through 2012 are subject to audit by the IRS and by Maine Revenue Service.

In 2011, the Company performed a study of deferred income tax balances. As a result of this study, it was determined that the Company's deferred income taxes utilized for rate-setting purposes were overstated by approximately $1.8 million. This amount was recorded as a regulatory liability and a reduction of deferred income taxes as of December 31, 2012 on the Company's Consolidated Balance Sheets. In 2012 and 2013, in connection with MPS's transmission rate formula filing with FERC, $0.6 million of this regulatory liability was to be returned to transmission customers through a reduction in deferred income tax expense. At December 31, 2013, the regulatory liability balance amounts to $0.6 million.

Note 10. Pension and Post-Retirement Benefits

The Company provides certain pension, post-retirement and welfare benefit programs to its employees. The Company offers welfare benefit plans to all employees, consisting of health care, life insurance, long-term disability, and accidental disability insurance. The Company also offers retirement savings programs to most employees in the form of 401(k) plans in the United States, which allows voluntary contributions by the employee and may contain a contribution by the Company.

Pension Benefits - The Company has a non-contributory defined benefit pension plan covering substantially all of MPS employees. Effective January 1, 2006, this plan was frozen to all new employees of the Company. On December 31, 2006, future salary and service accruals for current participants in the plan ceased. The Company agreed to additional employer contributions to the Retirement Savings Plan to compensate employees, in part or in full, depending on their number of years of service, for this lost benefit. Benefits under the plan are generally based on the employee's years of service and compensation during the years preceding the freezing of salary and service accruals.

The Company's general policy is to contribute to the plan the amount necessary to meet the minimum funding rules as established in the Pension Protection Act of 2006, as amended by the Worker, Retiree, and Employer Recovery Act of 2008. The Company also has an unfunded non-contributory supplemental non-qualified pension plan that provides additional retirement benefits to certain former MAM employees. Benefits under this supplemental plan are based on the employee's years of service and compensation level.

The Company follows the provisions of ASC 715, Compensation Retirement Benefits ("ASC 715"), in accounting for its defined benefit pension plan. The following details the funded status of the plans, components of pension expense for 2013 and 2012, and the major assumptions used to determine these amounts and information on pension plan assets:

Funded Status of Plan ($000's omitted)	**2013**	**2012**
Change in Projected Benefit Obligation		
Balance as of January 1	$ 23,950	$ 22,157
Service Cost and Expected Expenses	166	-
Interest Cost	886	970
Benefits Paid	(1,508)	(1,224)
Actuarial (Gain)/Loss	(1,875)	2,047
Balance as of December 31	$ 21,619	$ 23,950
Change in Plan Assets		
Balance as of January 1	$ 16,704	$ 15,395
Actual Return on Plan Assets	2,476	1,601
Employer Contributions	1,157	932
Benefits Paid	(1,296)	(1,224)
Balance as of December 31	$ 19,041	$ 16,704
Accrued Pension as of December 31	$ (2,578)	$ (7,246)

Total pension expense (benefit) included the following components ($000's omitted):

	2013	**2012**
Service Cost	$ 166	$ -
Interest Cost	886	970
Expected Return on Plan Assets	(1,113)	(1,265)
Amortization of unrecognized net loss	407	169
Total pension benefit	$ 346	$ (126)

Note 10. Pension and Post-Retirement Benefits, continued

Significant assumptions used to determine the pension expense for each year were as follows:

	2013	2012
Used to determine Projected Benefit Obligation at December 31:		
Discount Rate	4.59%	3.80%
Rate of Future Compensation Increases	N/A	N/A
Used to determine pension expense for years ended December 31:		
Discount Rate	3.80%	4.50%
Rate of Future Compensation Increases	N/A	N/A

The asset allocation for the pension plan assets as of December 31, 2013 and 2012, and the target allocation for 2014, by asset category, are as follows:

	Target	Percentage of Plan Assets	
	Allocation	2013	2012
Equity Securities	65-75%	67%	65%
Debt Securities	25-35%	33%	35%
Other	0%	0%	0%
Total	100%	100%	100%

The expected long-term rate of return on these plan assets was 7.5% for 2013 and 8.5% for 2012. The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset classes in the plan's investment portfolio.

The general principles guiding investment of pension plan assets are those embodied in the Employee Retirement Income Security Act of 1974 ("ERISA"). These principles include discharging the Company's investment responsibilities for the exclusive benefit of plan participants and in accordance with the "prudent expert" standards and other ERISA rules and regulations.

The Company has developed an investment strategy for its pension plan. The investment strategy is to emphasize total return; that is, the aggregate return from capital appreciation and interest income. The primary objective of the investment management for the plans' assets is the emphasis on consistent growth, specifically, growth in a manner that protects the plans' assets from excessive volatility in market value from year to year. The investment policy takes into consideration the benefit obligations, including timing of distributions. The Company does not permit the use of derivative instruments in its investment strategy.

The primary objective for the plan is to provide long-term capital appreciation primarily through investment in equity and debt securities. The Company's target asset allocation is consistent with the weighted-average allocation at December 31, 2013. The Company selects professional money managers whose investment policies are consistent with the Company's investment strategy and monitors their performance against appropriate benchmarks. The Company primarily invests in debt and equity securities which are valued based on quoted market prices in active markets for identical assets, or Level 1 inputs under ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820") (Note 12).

Information about expected cash flows for the pension plan is as follows ($000's omitted):

Employer Contributions 2014 (expected)	$	573
Estimated Future Benefit Payments		
2014	$	1,286
2015	$	1,277
2016	$	1,322
2017	$	1,354
2018	$	1,358
Years 2019 - 2023	$	7,187

Note 10. Pension and Post-Retirement Benefits, continued

Post-Retirement Medical and Other Benefits - In addition to pension benefits, the Company provides certain health care benefits to eligible employees. The plan also covers retiree medical coverage for certain employees of MPS, the regulated utility. Employees hired prior to October 1, 2005 are provided retiree benefits if they reach normal retirement age while working for the Company. Employees hired after this date are not eligible for these benefits.

Net periodic post-retirement benefit cost for 2013 and 2012 included the following components ($000's omitted):

	2013	2012
Service cost of benefits earned	$ 125	$ 131
Interest cost on accumulated post-retirement benefit obligation	202	234
Expected return on assets	(188)	(193)
Amortization of unrecognized prior service credit	(16)	(16)
Net periodic post-retirement benefit cost	$ 123	$ 156

The key actuarial assumptions used in determining the retiree medical plan values were:

	2013	2012
Used to Determine Benefit Obligation at December 31,		
Discount Rate	4.85%	3.80%
Health Care Cost Trend Rate Assumed for Next Year:		
Pre Age 65 Retirees	8.00%	7.75%
Age 65 and Older Retirees	5.00%	7.75%
Ultimate Health Care Cost Trend Rate	5.00%	5.00%
Year That the Rate Reaches the Ultimate Trend Rate	2020	2017
Used to Determine Net Periodic Pension Cost for Years Ended December 31,		
Discount Rate	3.80%	4.50%
Expected Long-Term Rate of Return on Plan Assets	7.50%	8.50%
Health Care Cost Trend Rate Assumed for Next Year	7.75%	8.50%
Ultimate Health Care Cost Trend Rate	5.00%	5.00%
Year That the Rate Reaches the Ultimate Trend Rate	2017	2017

The following table presents information on the Retiree Medical Plan’s Post-Retirement Benefit Obligation, fair value of plan assets and the Plan’s funded status:

Funded Status of Plan ($000's omitted)		
Change in Accumulated Post-Retirement Benefit Obligation	2013	2012
Balance as of January 1,	$ 5,402	$ 5,307
Service Cost	125	131
Interest Cost	202	234
Retiree Medical Contributions	45	52
Claims Paid	(226)	(248)
Actuarial (Gains)	(1,214)	(74)
Balance as of December 31,	$ 4,334	$ 5,402
Change in Plan Assets		
Balance as of January 1	$ 2,514	$ 2,272
Actual Return on Plan Assets	402	307
Employer Contributions	159	131
Retiree Contributions	45	52
Claims/benefit payments and administrative fees	(226)	(248)
Balance as of December 31,	$ 2,894	$ 2,514
Accrued post-retirement benefit cost as of December 31,	$ (1,440)	$ (2,888)

Note 10. Pension and Post-Retirement Benefits, continued

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effect ($000's omitted):

	1% Increase	1% Decrease
Effect on total service and interest cost components	$ 69	$ (54)
Effect on post-retirement benefit obligation	636	(520)

Information about expected cash flows associated with benefit payments for the other post-retirement benefit plan is as follows ($000's omitted):

	Expected Benefit Payments
2014	$ 175
2015	181
2016	189
2017	209
2018	227
2019-2023	1,360

The weighted-average investment asset allocations of the Retiree Medical Plan at December 31 are as follows:

	2013 Target Allocation	Percentage of Plan Assets at **2013**	Percentage of Plan Assets at **2012**
Equity Securities	65-75%	65%	63%
Debt Securities	25-35%	30%	33%
Other	0%	5%	4%
Total	100%	100%	100%

The Company's investment objective is to achieve long-term growth of capital, with exposure to risk set at an appropriate level. The Company seeks to achieve this objective through the utilization of a diversified asset mix consisting of equities (domestic and international) and taxable fixed income securities. The account is managed on a fully discretionary basis to obtain the highest total rate of return in keeping with a moderate level of risk.

The target rate of return for the portfolio is 7.5%, with the goal of exceeding returns of the S&P 500 on the equity investments and the Lehman Brothers Aggregate Bond Index on the fixed income investments. Management determined the expected portfolio return of 7.5% based on its review of published studies from independent third parties, historical rates of return for investments mixes similar to those from the MPS plan, discussion with the Company’s actuary, as well as the plan’s asset manager.

The Company maintains a 401(h) sub-account of the Pension Trust for non-union retiree medical payments and a Voluntary Employee Benefit Association (“VEBA”) trust fund, an independent external trust fund for union retiree medical payments. These payments provide funding for future post-retirement health care costs at such time as customers are paying for these costs in their rates. Union retiree contributions were remitted to the VEBA trust fund each year. No contributions were made to the 401(h) account during 2012 or 2013 by the Company.

The estimates of the Company's accrued pension and post-retirement benefit costs involve the utilization of significant assumptions. Changes in any one of these assumptions could impact the liabilities in the near term.

Retirement Savings Plan - The Company has adopted a defined contribution plan (under Section 401(k) of the Internal Revenue Code) covering substantially all of the Company’s employees. Participants may elect to defer from 1% to 25% of current compensation, and the Company contributes such amounts to the plan. The Company also matches contributions, with a maximum matching contribution of 2% of current compensation. Effective October 1, 2009, new MPS employees receive a matching contribution of 6% of gross wages, to compensate for their ineligibility in the pension plan.

The Company’s matching contributions to the plan were approximately $76,000 and $130,000 in 2013 and 2012, respectively.

Note 10. Pension and Post-Retirement Benefits, continued

In conjunction with the December 31, 2006, pension freeze, the Company agreed to additional employer contributions to the Retirement Savings Plan to compensate existing pension participant employees in part or in full, depending on their number of years of service, for the lost benefit. This additional non-elective contribution ranges from 5% to 25% of base earnings, excluding overtime, stand-by pay and bonuses, and is immediately fully vested. This contribution was $525,000 for 2013 and $566,000 for 2012.

Note 11. Fair Value Disclosures

The Company used interest rate swaps to manage its interest rate risk. At December 31, 2012, MPS had two long-term debt issues outstanding with variable interest rates (see Note 8). Pursuant to its rate order in MPUC Docket 2003-85, MPS agreed to fix its interest rates and the MPUC allowed recovery of the fixed interest costs in rates. On September 9, 2003, MPS executed swap agreements for these variable-rate issues, locking in the rates over the remaining terms of the issues. For the two series of tax-exempt bonds issued by the MPUFB, the effective fixed interest rates for the 1996 Series due 2021 and the 2000 Series due 2025 were 4.42% and 4.53%, respectively, as of December 31, 2012. Coincident with the repayment of the MPUFB tax-free bonds in 2013 (Note 8), the Company terminated the interest rate swaps through a $4.59 million payment to a financial institution equal to the fair market value of these interest rate swaps in September 2013.

The estimated fair values of the Company's interest rate derivative contracts as of December 31, 2013 and 2012 are as follows ($000's omitted):

	At December 31,	
	2013	2012
Other Long-Term Liabilities	**Level 2**	**Level 2**
Cash Flow Hedges		
Interest rate swaps on 1996 Series Notes	$ -	$ 3,575
Interest rate swaps on 2000 Series Notes	-	2,954
Total	$ -	$ 6,529
Total Unrealized Loss Recognized in AOCL - effective portion, net of tax	$ -	$ 274

For the year ended December 31, 2013, the difference between the fixed rates and the underlying variable rates on the issues of approximately $750,000 (2012-$986,000) was charged to interest expense, along with the interest expense incurred on the corresponding debt issues.

The weighted-average rates paid and received for interest rate swaps outstanding during 2013 were:

	Weighted-Average	
	Interest Received (Variable Rate on Debt)	**Interest Paid (Fixed Rate on Swaps)**
Interest rate swaps on 1996 Series Notes	0.24%	4.42%
Interest rate swaps on 2000 Series Notes	0.24%	4.53%

Note 11. Fair Value Disclosures, continued

Changes in the fair market value of the interest rate swaps were recorded in Other Comprehensive Income in accordance with the allowed regulatory treatment, and did not impact the Company's net income or revenues.

All other financial assets and liabilities such as cash and cash equivalents, accounts receivable, other assets, borrowings under the short-term credit facilities and accounts payable are carried at cost. The carrying value approximates fair value due to the short-term nature of these financial instruments.

Note 12. Directors' Compensation

The compensation program for the MAM Board of Directors prior to the acquisition of MAM by BHE Holdings, Inc., included an option for the director to defer some or all of his or her fees, rather than taking those fees in cash each quarter.

The liability is payable upon termination of services of the director. The plan allowed for a lump sum distribution or a monthly payment over ten years. All directors elected the ten-year payment option. Effective with their resignations upon the closing of the merger transaction on December 21, 2010, the deferral options were terminated. There were the equivalent of 39,904 shares deferred, which were marked to the market price of $45 per share on the date of closing, for a liability of $1.80 million. There was also $32,000 deferred under the Treasury Note deferral option. Under the terms of the plan, the deferred phantom shares automatically converted to investment in the Treasury Note deferral option, and monthly payments of approximately $18,000 commenced on January 3, 2011 and will continue through December 2020.

Note 13. Collaborative Arrangements

The Company has withdrawn from a joint venture with a third party to develop the Maine Power Connection ("MPC") Project. The terms of the arrangement were established in a joint development agreement ("JDA"), executed on October 1, 2008. Under the JDA the cost of development activities, including acquisition of land in the transmission corridor and acquisition of necessary governmental and regulatory permits and approvals, are shared between MPS and the other party, with MPS paying 10% of such costs, and the other party 90%. The other party has indicated its intent to acquire MPS's interest in the MPC project, and as a result MPS will recover its investment in the project. MPS has deferred $862,000 of costs associated with the MPC project as of December 31, 2013, reported in the Consolidated Balance Sheets within "Other Deferred Charges".

Note 14. Commitments, Contingencies, and Regulatory Matters

Financial Information System Hosting Agreement - In December 2003, the Company entered into a ten-year agreement with Delinea Corporation (now OneNeck IT Services) to host and provide technical and functional support for the integrated Oracle Financial Information System. The contract, which expired at the end of November 2013, had an annual cost of $365,000 in 2013 and $418,000 in 2012, and it included base hosting fees, an adjustment for inflation, and travel expenses for on-site support services.

Capital Project Commitments - As of December 31, 2013, the Company had $650,000 of contractual obligations relating to the completion of current capital projects classified as construction work in progress.

Other - The Company may be, from time to time, subject to various investigations, claims, and legal proceedings covering various matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial position or operating results of the Company.

Note 15. Capital Leases

In 2006 and 2007, MPS negotiated capital lease arrangements for certain of its vehicle and computer equipment purchases, totaling $590,000 for vehicles and power-operated equipment, and $230,000 for computer equipment. During 2013, nil (2012-$32,000) of rent expense was recognized for these assets. As of December 31, 2013, the remaining liability for these capital lease arrangements was zero (December 31, 2012-$0). At the end of the lease terms, the vehicles and power-operated equipment were purchased for a bargain purchase option of $1.

Note 16. Restrictions on Transactions between MAM and MPS

Under MPUC Docket 2003-676, approving the reorganization of MPS and the formation of Maine & Maritimes Corporation, the parties stipulated to the following conditions related to the availability of capital resources for MAM via its relationship with MPS:

- MPS will not make any loan to, or guarantee or assume any obligation of, MAM or any of its affiliates without prior MPUC approval.

- The MPUC will not place additional restrictions, in advance, on the dividend policy of MPS. The Board of Directors of MPS will continue to set dividend policy for MPS with due regard for the financial performance, needs and health of MPS and the maintenance of a safe, efficient and reasonable capital structure. Commencing on July 1, 2003, if at any time MPS's common dividend payout ratio (dividends per share divided by earnings per share) exceeds 1.0 (i.e. 100%) on a two-year rolling average basis, MPS will notify the MPUC in writing within thirty (30) days of the end of the calendar quarter (the initial two year period shall be April 1, 2001 through March 31, 2003). This limitation does not apply to the stranded cost free cash flows. The required notification should explain the circumstances (extraordinary or not) of this event and the financial condition of MPS. Moreover, the MPUC reserved the right in the future, should financial circumstances warrant, to impose limitations on the dividend policy of MPS. As of December 31, 2013, this limitation has not been exceeded; therefore, such notification to the MPUC has not been required.

- Securities issuances by MPS will be done independently of MAM and subject to such MPUC approvals as required. The proceeds of any securities issued by MPS will be used exclusively by MPS for its business.

- MAM's total non-utility investment, excluding accumulated unregulated retained earnings, will not exceed fifty million dollars ($50,000,000) and such amount will exclude retained earnings from Energy Atlantic (now inactive), provided that MPS may at any time seek an enlargement of this limitation for good cause shown.

- Without prior MPUC approval, MAM will not sell, pledge or otherwise transfer any common stock of MPS.

- To protect and maintain the financial integrity of the regulated utility, MPS and MAM agreed to maintain the common equity ratio of MPS at a level of not less than forty eight percent (48%) of the total capital at all times, provided that the MPUC may establish, for good cause shown, a lower ratio in connection with its authorization of a future debt issuance proposed by MPS. Total capital is defined as the sum of the following components: common equity, preferred equity, long-term debt, current maturities long-term debt, long-term capital leases, current maturities long-term capital leases, and short-term debt.

Note 17. Credit and Concentration Risk

Credit Risk - The Company is exposed to credit risk with respect to amounts receivable from customers. Credit risk is the potential loss from counterparty's non-performance under an agreement. The Company manages credit risk with policies and procedures for counterparty analysis, exposure measurement, and exposure monitoring and mitigation. Credit assessments are conducted on all new customers and counterparties and deposits are requested on any high risk accounts.

The Company assesses the potential for credit losses on a regular basis, and where appropriate, maintains provisions. With respect to counterparties, the Company has implemented procedures to monitor the creditworthiness and credit exposure of counterparties and to consider default probability in valuing the counterparty positions. The Company monitors counterparties' credit standing, including those that are experiencing financial problems, have significant swings in default probability rates, have credit rating changes by external rating agencies, or have changes in ownership. Net liability positions are adjusted based on the Company's current default probability. Net asset positions are adjusted based on the counterparty's current default probability. The Company assesses credit risk internally for counterparties that are not rated. The maximum exposure the Company has to credit risk is $8.0 million and $6.8 million as of December 31, 2013 and 2012, respectively, which represents accounts receivable net of deposits.

Note 17. Credit and Concentration Risk, continued

As at December 31, 2013 and 2012, the Company had $1.3 million (2012 - $2.5 million) in financial assets considered to be past due. The fair value of these financial assets is $1.2 million (2012 - $2.3 million), the difference of which is included in the allowance for doubtful accounts. These assets primarily relate to accounts receivable from electric revenue.

Concentration Risk - The Company's concentrations of risk as at December 31 consisted of the following:

	2013	% of Total Exposure	2012	% of Total Exposure
Residential	$ 3,402	45%	$ 3,218	46%
Commercial	3,251	43%	2,598	37%
Industrial	151	2%	512	7%
Other	598	8%	553	8%
Total Customer Accounts & Unbilled Revenue Receivable	7,402	98%	6,881	98%
Other Accounts Receivable	893	2%	291	2%
Total	$ 8,295	100%	$ 7,172	100%

Note 18. Related Parties

In 2011, Bangor Hydro Electric Company (Bangor Hydro), a wholly-owed subsidiary of BHE Holdings, Inc., began providing certain management services to MPS under an affiliated service agreement approved by the MPUC in March 2011. The scope of allowable services was expanded in a further agreement approved by the MPUC in December 2011. The net payments by MPS to Bangor Hydro for these services are recorded as Regulated Operation and Maintenance expense and amounted to approximately $1.2 million in 2013 and $834,000 in 2012, of which approximately $544,000 and $220,000 was payable as of December 31,2013 and 2012, respectively.

On December 6, 2013, Bangor Hydro and MPS filed a joint request with the MPUC seeking an increase in distribution revenues of approximately $7 million. The regulatory proceeding processing this case will take place during 2014, and a final decision is expected in late Q3 or early Q4 2014, with new rates expected to go into effect on October 1, 2014.

MPS receives transmission wheeling revenues from a wind generation facility in its service territory. The wind facility is 49% owned by a wholly-owned subsidiary of Emera. The investment by the Emera subsidiary in this facility took place on June 15, 2012. The net amount of transmission wheeling revenues received from the wind facility in 2013 was $884,000 and $386,000 for 2012 for the period subsequent to this investment.

Note 19. Subsequent Events

Effective January 1, 2014, Maine & Maritimes Corporation, MAM Utility Services Group, Energy Atlantic, and Maine & New Brunswick Electrical Power Co., Ltd., dissolved their corporate existence. Also effective January 1, 2014, MPS merged into Bangor Hydro Electric Company, leaving Bangor Hydro Electric Company as the surviving entity. Bangor Hydro Electric Company then changed its corporate name to Emera Maine.

The Company has evaluated events and material transactions for potential recognition or disclosure occurring between the end of the Company's most recent year end and the time on February 3, 2014 that the financial statements were issued.