

**Central Maine Power Company
and Subsidiaries
Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009**

**Central Maine Power Company
and Subsidiaries**

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Report of Independent Auditors

To the Shareholder and Board of Directors
of Central Maine Power Company and Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income, of cash flows and of changes in equity present fairly, in all material respects, the financial position of Central Maine Power Company and its subsidiaries (collectively, the "Company") at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 28, 2011

**Central Maine Power Company and Subsidiaries
Consolidated Statements of Income**

Year Ended December 31, (Thousands)	2010	2009
Operating Revenues		
Sales and services	\$562,753	\$524,969
Operating Expenses		
Electricity purchased	71,416	102,173
Other operating expenses	228,613	218,154
Maintenance	55,174	62,182
Depreciation and amortization	43,538	41,703
Other taxes	17,269	15,678
Total Operating Expenses	416,010	439,890
Operating Income	146,743	85,079
Other (Income)	(4,509)	(3,150)
Other Deductions	590	878
Interest Charges, Net	32,677	30,355
Income Before Income Taxes	117,985	56,996
Income Taxes	48,705	12,571
Net Income	69,280	44,425
Less: Net Income Attributable to Noncontrolling Interest	313	449
Net Income Attributable to CMP	68,967	43,976
Preferred Stock Dividends	672	672
Earnings Available for CMP Common Stock	\$68,295	\$43,304

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

**Central Maine Power Company and Subsidiaries
Consolidated Statements of Comprehensive Income**

Year ended December 31, (Thousands)	2010	2009
Net Income	\$69,280	\$44,425
Other Comprehensive Income, Net of Tax	1,250	8,319
Comprehensive Income	70,530	52,744
Less: Comprehensive Income Attributable to Noncontrolling Interest	313	449
Comprehensive Income Attributable to CMP	\$70,217	\$52,295

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

**Central Maine Power Company and Subsidiaries
Consolidated Balance Sheets**

December 31, (Thousands)	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	\$23,025	\$12,005
Accounts receivable and unbilled revenues, net	131,293	126,882
Accounts receivable from affiliates	1,196	452
Materials and supplies, at average cost	10,221	9,451
Deferred income taxes	6,191	4,740
Prepayments and other current assets	15,045	16,713
Total Current Assets	186,971	170,243
Utility Plant, at Original Cost		
Electric	1,783,554	1,757,941
Less accumulated depreciation	601,285	586,474
Net Utility Plant in Service	1,182,269	1,171,467
Construction work in progress	238,759	73,519
Total Utility Plant	1,421,028	1,244,986
Other Property and Investments	11,784	13,477
Regulatory and Other Assets		
Regulatory assets		
Nuclear plant obligations	27,886	35,581
Unfunded future income taxes	215,325	205,343
Other postretirement employee benefits	12,428	15,678
Pension and other postretirement benefits	172,624	167,402
Other	47,160	30,557
Total regulatory assets	475,423	454,561
Other assets		
Goodwill	324,938	324,938
Other	17,585	14,211
Total other assets	342,523	339,149
Total Regulatory and Other Assets	817,946	793,710
Total Assets	\$2,437,729	\$2,222,416

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

Central Maine Power Company and Subsidiaries
Consolidated Balance Sheets

December 31, (Thousands)	2010	2009
Liabilities		
Current Liabilities		
Current portion of long-term debt	\$27,767	\$2,734
Notes payable	-	5,250
Accounts payable and accrued liabilities	96,501	46,225
Accounts payable, construction	37,176	-
Accounts payable to affiliates	9,938	7,789
Accounts payable, electricity purchased	5,352	14,054
Interest accrued	6,796	6,770
Taxes accrued	13,948	6,779
Other	56,756	62,365
Total Current Liabilities	254,234	151,966
Regulatory and Other Liabilities		
Regulatory liabilities		
Accrued removal obligations	106,208	107,746
Deferred income taxes	135,308	126,680
Pension benefits	22,845	30,290
Other	10,203	10,601
Total regulatory liabilities	274,564	275,317
Other liabilities		
Deferred income taxes	220,783	174,004
Nuclear plant obligations	21,130	28,472
Pension and other postretirement benefits	211,058	215,951
Other	29,003	28,541
Total other liabilities	481,974	446,968
Total Regulatory and Other Liabilities	756,538	722,285
Long-term debt	459,862	487,608
Total Liabilities	1,470,634	1,361,859
Commitments and Contingencies		
Preferred Stock		
Preferred stock	2,661	13,571
CMP Common Stock Equity		
Common stock (\$5 par value, 80,000 shares authorized and 31,211 shares outstanding at December 31, 2010 and 2009)	156,057	156,057
Capital in excess of par value	564,867	514,867
Retained earnings	255,187	186,892
Accumulated other comprehensive (loss)	(12,507)	(13,757)
Total CMP Common Stock Equity	963,604	844,059
Noncontrolling Interest	830	2,927
Total Equity	964,434	846,986
Total Liabilities and Equity	\$2,437,729	\$2,222,416

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

Central Maine Power Company and Subsidiaries
Consolidated Statements of Cash Flows

Year Ended December 31, (Thousands)	2010	2009
Operating Activities		
Net income	\$69,280	\$44,425
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	42,763	45,643
Amortization of regulatory and other assets and liabilities	7,191	5,685
Deferred income taxes and investment tax credits, net	43,104	11,003
Pension expense	23,149	9,456
Changes in current operating assets and liabilities		
Accounts receivable and unbilled revenues, net	(5,155)	21,413
Materials and supplies	(770)	630
Prepayments and other current assets	(963)	(1,930)
Accounts payable and accrued liabilities	43,724	(21,413)
Taxes accrued	9,155	8,138
Other current liabilities	(6,560)	2,685
Pension and other postretirement benefits contributions	(28,770)	(7,075)
Changes in other assets		
Preliminary survey costs, Maine Power Reliability Program	-	(31,156)
Other	29,867	(6,973)
Changes in other liabilities	(1,137)	17,782
Net Cash Provided by Operating Activities	224,878	98,313
Investing Activities		
Utility plant additions	(272,884)	(92,605)
Grants received from governmental entities	24,768	-
Investments, net	6,175	525
Net Cash Used in Investing Activities	(241,941)	(92,080)
Financing Activities		
Long-term note issuances	-	149,850
Long-term note repayments	(2,674)	(40,127)
Treasury derivative settlement	-	(19,898)
Notes payable three months or less, net	(5,250)	(93,950)
Equity contribution from parent	50,000	-
Purchase of preferred stock	(10,911)	-
Dividends paid on preferred stock	(672)	(672)
Dividends paid to noncontrolling interest	(2,410)	(27)
Net Cash Provided by (Used in) Financing Activities	28,083	(4,824)
Net Increase in Cash and Cash Equivalents	11,020	1,409
Cash and Cash Equivalents, Beginning of Year	12,005	10,596
Cash and Cash Equivalents, End of Year	\$23,025	\$12,005

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

**Central Maine Power Company and Subsidiaries
Consolidated Statements of Changes in Equity**

	CMP Shareholder						Noncon- trolling Interest	Compre- hensive Income	Total
	Common Stock Outstanding \$5 Par Value Shares	Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive (Loss)				
(Thousands)									
Balance, January 1, 2009	31,211	\$156,057	\$514,867	\$143,588	\$(22,076)	\$2,505		\$794,941	
Net income				43,976		449		\$44,425	
Other comprehensive income, net of tax					8,319			8,319	
Comprehensive income								\$52,744	
Dividends declared, preferred stock				(672)				(672)	
Dividends paid to noncontrolling interest						(27)		(27)	
Balance, December 31, 2009	31,211	156,057	514,867	186,892	(13,757)	2,927		846,986	
Net income				68,967		313		\$69,280	
Other comprehensive income, net of tax					1,250			1,250	
Comprehensive income								\$70,530	
Equity contribution from parent			50,000					50,000	
Dividends declared, preferred stock				(672)				(672)	
Dividends paid to noncontrolling interest						(2,410)		(2,410)	
Balance, December 31, 2010	31,211	\$156,057	\$564,867	\$255,187	\$(12,507)	\$830		\$964,434	

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

Notes to Consolidated Financial Statements

Central Maine Power Company and Subsidiaries

Note 1. Significant Accounting Policies

Background: Central Maine Power Company and subsidiaries (CMP, the company, we, our, us) conduct regulated electricity transmission and distribution operations in Maine serving approximately 600,000 customers in a service territory of approximately 11,000 square miles with a population of approximately one million people. The service territory is located in the southern and central areas of Maine and contains most of Maine's industrial and commercial centers, including the city of Portland and the Lewiston-Auburn, Augusta-Waterville, Saco-Biddeford and Bath-Brunswick areas.

CMP is the principal operating utility of CMP Group, Inc. (CMP Group), a wholly-owned subsidiary of Iberdrola USA, Inc. (Iberdrola USA). We operate under the authority of the Maine Public Utility Commission (MPUC) in Maine and are also subject to regulation by the Federal Energy Regulatory Commission (FERC).

Iberdrola USA is a wholly-owned subsidiary of Iberdrola, S.A. (Iberdrola), a corporation organized under the laws of the Kingdom of Spain. On December 1, 2009, Iberdrola USA changed its legal and operating name to Iberdrola USA, Inc. from Energy East Corporation.

We have evaluated events or transactions that occurred after December 31, 2010, for inclusion in these financial statements through March 28, 2011, which is the date these financial statements were available to be issued.

As part of an effort to reduce costs and increase efficiency, we undertook various measures to reduce workforce levels in 2010. We reduced workforce levels by 39 employees through an involuntary separation at a cost of approximately \$0.6 million, which we paid in cash and charged to other operating expenses. We also offered voluntary early retirement programs (VERPs) to qualifying nonunion and union employees. The 125 employees who accepted the VERPs will receive forms of enhanced pension benefits. In addition, we offered a voluntary severance program (VSP) to certain employees, resulting in a reduction of 36 employees. In 2010 we recorded costs totaling approximately \$11 million for the VERPs, which will be paid from our pension plans, and approximately \$1 million for the VSP.

Accounts receivable: Accounts receivable at December 31 include unbilled revenues of \$17 million for 2010 and 2009, and are shown net of an allowance for doubtful accounts at December 31 of \$5 million for 2010 and \$3 million for 2009. Accounts receivable do not bear interest, although late fees may be assessed. Bad debt expense was \$6 million in 2010 and \$5 million in 2009.

Unbilled revenues represent estimates of receivables for energy provided but not yet billed. The estimates are determined based on various assumptions, such as current month energy load requirements, billing rates by customer classification and delivery loss factors. Changes in those assumptions could significantly affect the estimates of unbilled revenues.

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable, determined based on experience and other economic data. Each month we review our allowance for doubtful accounts and past due accounts over 90 days and/or above a specified amount, and review all other balances on a pooled basis by age and type of receivable. When we believe that a receivable will not be recovered, we charge off the account balance against the allowance. Changes in assumptions about input factors and customer receivables, which are inherently uncertain and susceptible to change from period to period, could significantly affect the allowance for doubtful accounts estimates.

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During 2010 we recorded an increase in the allowance for doubtful accounts of \$1 million because we no longer consider customer security deposits when we determine the amount of our allowance for doubtful accounts.

Asset retirement obligations: We record the fair value of the liability for an asset retirement obligation (ARO) and/or a conditional ARO in the period in which it is incurred and capitalize the cost by increasing the carrying amount of the related long-lived asset. We adjust the liability to its present value periodically over time, and depreciate the capitalized cost over the useful life of the related asset. Upon settlement we will either settle the obligation at its recorded amount or incur a gain or a loss. We defer any timing differences between rate recovery and depreciation expense as either a regulatory asset or a regulatory liability.

The term conditional ARO refers to an entity's legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. If an entity has sufficient information to reasonably estimate the fair value of the liability for a conditional ARO, it must recognize that liability at the time the liability is incurred.

Our ARO at December 31, including our conditional ARO, was less than \$1 million for 2010 and 2009. The ARO consists primarily of obligations related to removal or retirement of: asbestos and PCB-contaminated equipment. The long-lived assets associated with our AROs are distribution property and other property.

We have AROs for which we have not recognized a liability because the fair value cannot be reasonably estimated due to indeterminate settlement dates, including the removal of property upon termination of an easement, right-of-way or franchise.

Accrued removal obligations: We meet the requirements concerning accounting for regulated operations, and recognize a regulatory liability, for financial reporting purposes only, for the difference between removal costs collected in rates and actual costs incurred. We classify those amounts as accrued removal obligations.

Consolidated statements of cash flows: We consider all highly liquid investments with a maturity date of three months or less when acquired to be cash equivalents and those investments are included in cash and cash equivalents.

Supplemental Disclosure of Cash Flows Information	2010	2009
(Thousands)		
Cash paid during the year ended December 31:		
Interest, net of amounts capitalized	\$29,166	\$28,132
Income taxes, net of cash received	\$2,216	\$7,077

Interest capitalized was less than \$0.5 million in 2010 and 2009. We have decreased utility plant additions by \$37 million for amounts payable as of December 31, 2010.

Preliminary survey costs: Consolidated preliminary survey costs included in Other assets at December 31 totaled approximately \$10 million for 2010 and \$7 million for 2009. Preliminary survey costs represent expenditures incurred for the purpose of determining the feasibility of utility projects under contemplation. When construction begins on such projects, the amounts are moved to Construction work in progress, and then eventually to Utility plant when

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Central Maine Power Company and Subsidiaries

construction is completed and the asset is placed in service. If a project is abandoned, the costs incurred for that project are charged to an appropriate expense account, and included in future rates.

Depreciation and amortization: We determine depreciation expense using the straight-line method, based on the average service lives of groups of depreciable property, which include estimated cost of removal. The weighted-average service lives of certain classifications of property are: transmission property – 43 years, distribution property – 44 years and other property – 32 years. Our depreciation accruals were equivalent to 2.6% of average depreciable property for 2010 and 2009.

We charge repairs and minor replacements to operating expense, and capitalize renewals and betterments, including certain indirect costs. We charge the original cost of utility plant retired or otherwise disposed of to accumulated depreciation.

Goodwill: We are required to perform an annual goodwill impairment test at the same time each year and, accordingly, we perform our annual impairment testing of goodwill during the third quarter of each year. We update the test between annual tests if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. The analysis of a potential impairment of goodwill requires a two step process. Step one of the impairment test involves comparing the fair value of a reporting unit with its carrying value, including goodwill. If the carrying value of a reporting unit exceeds the reporting unit's fair value, step two must be performed to determine the value, if any, of goodwill impairment loss. If the carrying value is less than the fair value, further testing for goodwill impairment is not performed.

Step two of the goodwill impairment test involves comparing the implied fair value of the reporting unit's goodwill against the carrying value of the goodwill. In step two, determining the implied fair value of goodwill requires the valuation of a reporting unit's identifiable tangible and intangible assets and liabilities as if the reporting unit had been acquired in a business combination on the testing date. The difference between the fair value of the entire reporting unit as determined in step one and the net fair value of all identifiable assets and liabilities represents the implied fair value of goodwill. The goodwill impairment charge, if any, would be the difference between the carrying amount of goodwill and the implied fair value of goodwill upon the completion of step two.

In performing the annual goodwill impairment test, for purposes of the step one analysis, Iberdrola USA bases the determination of the fair value of its reporting units on the income approach, which estimates fair value based on discounted future cash flows. Based on the completion of step one of the annual impairment analysis, management determined that the fair value of CMP was greater than its carrying value. (See Note 2.)

We may be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to our performance. Those market events could include a decline in the forecasted results in our business plan, significant adverse rate case results, changes in capital investment budgets or changes in interest rates that could permanently impair the fair value of a reporting unit. Recognition of impairments of a significant portion of goodwill would negatively affect our reported results of operations and total capitalization, the effect of which could be material and could make it more difficult to maintain our credit ratings, secure financing on attractive terms, maintain compliance with debt covenants and meet expectations of our regulators.

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Government grants: Authoritative accounting principles generally accepted in the United States of America do not address accounting for government grants. For that reason, we account for government grants related to depreciable assets in accordance with the prescribed FERC accounting for contributions in aid of construction, that is, the grant amount is credited to the cost of the related property, plant and equipment. In accounting for government grants related to operating and maintenance costs, we recognize amounts receivable as compensation for expenses already incurred in profit or loss in the period in which it becomes receivable. (See Note 7.)

New accounting standards adopted: We have adopted new accounting standards issued by the Financial Accounting Standards Board (FASB) as explained below.

Fair value measurements: The FASB has issued a number of new standards related to fair value measurements. In April 2009 the FASB issued two new standards related to fair value measurements, which we began applying effective April 1, 2009:

- One of the new standards provides guidance for determining fair value when the volume and level of activity for an asset or liability have significantly decreased and for identifying transactions that are not orderly. It provides additional guidance to entities for estimating fair value in accordance with existing requirements when the volume and level of activity for an asset or a liability has significantly decreased. Even in those circumstances, and without considering the valuation technique(s) used, the intention of fair value measurement does not change. The new standard also provides guidance for identifying circumstances that indicate a transaction is not orderly. In addition, it amends the disclosures in connection with fair value measurements to require disclosure in interim and annual periods about the inputs and valuation techniques used to measure fair value as well as a discussion of any changes in them during the period; and to require disclosures concerning debt and equity securities according to major security types.
- The other new standard provides amended guidance concerning the recognition and presentation of other-than-temporary impairments. It amends the guidance in U.S. generally accepted accounting principles for other-than-temporary impairment of debt securities (but not equity securities) to make it more operational and to improve the financial statement presentation and disclosure of other-than-temporary impairments on debt and equity securities.

In August 2009 the FASB issued an accounting standards update to provide amended guidance concerning the fair value measurement of liabilities. The key provisions of the amendments include clarification about valuation techniques that are to be used in circumstances in which a quoted price in an active market for the identical liability is not available and that a reporting entity is not to include a separate input or adjustments to other inputs to reflect the existence of a restriction that prevents the transfer of a liability. The amended guidance is effective for an entity's first reporting period (including interim periods) beginning after issuance of the update. We initially began applying the guidance effective October 1, 2009.

In January 2010 the FASB issued amendments to improve disclosures about fair value measurements. New disclosures that are or will be required include: 1) details of transfers in and out of Level 1 and Level 2 of the fair value measurement hierarchy, and 2) gross presentation of roll forward activity within Level 3 – separate presentation of information about purchases, sales, issuances and settlements. Entities will also have to provide fair value measurement disclosures for each class of assets and liabilities, as well as disclosures about inputs and valuation techniques for both recurring and nonrecurring Level 2 and Level 3 fair

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value measurements. The amendments are effective for interim and annual reporting periods beginning after December 15, 2009, except that the disclosures about Level 3 roll forward activity are effective for fiscal years beginning after December 15, 2010, and interim periods within those fiscal years.

Our adoption of the new standards related to fair value measurements had no effect on our financial position, results of operation or cash flows. Our adoption of the amendments concerning Level 3 roll forward activity effective for fiscal years beginning on or after January 1, 2011, and interim periods within those fiscal years, will not affect our results of operation, financial position or cash flows.

Variable interest entities: In June 2009 the FASB issued amendments to its revised interpretation concerning consolidation of variable interest entities (VIEs). The amendments clarify, but do not significantly change, the criteria for determining whether an entity meets the definition of a VIE, and change existing consolidation guidance so that qualifying special purpose entities are no longer exempt from consolidation. The amendments require an enterprise to perform ongoing assessments as to whether an entity is a VIE and whether the enterprise is the primary beneficiary of a VIE. Previously such assessments were required only when specified events occurred. The amended standard will alter how an enterprise determines when an entity that is not sufficiently capitalized or not controlled through voting should be consolidated. An enterprise will also be required to perform a qualitative analysis to determine whether it should provide consolidated reporting of an entity based upon the entity's purpose and design and the enterprise's ability to direct the entity's actions. The amended standard also requires enhanced disclosures to provide more transparent information about an enterprise's involvement in a VIE, and any significant changes in its risk exposure due to that involvement. The amendments are effective at the start of a company's first fiscal year beginning after November 15, 2009, including interim periods. Our adoption of the amendments effective January 1, 2010, did not affect our results of operation, financial position or cash flows.

Other (Income) and Other Deductions:

Year Ended December 31,	2010	2009
(Thousands)		
Interest and dividend income	\$(209)	\$(668)
Allowance for funds used during construction	(823)	(145)
Earnings from equity investments	(101)	(141)
Carrying costs on regulatory assets	(2,433)	(2,196)
Gain on sale of preferred stock	(764)	-
Miscellaneous	(179)	-
Total other (income)	\$(4,509)	\$(3,150)
Miscellaneous	\$590	\$878
Total other deductions	\$590	\$878

Principles of consolidation: These financial statements consolidate our majority-owned subsidiaries after eliminating intercompany transactions.

Regulatory assets and regulatory liabilities: We currently meet the requirements concerning accounting for regulated operations for our electric operations in Maine; however, we cannot predict what effect the competitive market or future actions of regulatory entities would have on our ability to continue to do so. If we were to no longer meet the requirements concerning accounting for regulated operations for all or a separable part of our operations, we may have to record certain regulatory assets and regulatory liabilities as an expense or as revenue, or include them in accumulated other comprehensive income.

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Pursuant to the requirements concerning accounting for regulated operations we capitalize, as regulatory assets, incurred and accrued costs that are probable of recovery in future electric rates. Substantially all regulatory assets for which funds have been expended are either included in rate base or are accruing carrying costs. We also record, as regulatory liabilities, obligations to refund previously collected revenue or to spend revenue collected from customers on future costs.

Unfunded future income taxes and deferred income taxes are amortized as the related temporary differences reverse. Unamortized loss on debt reacquisitions is amortized over the lives of the related debt issues. Nuclear plant obligations, demand side management program costs, other regulatory assets and other regulatory liabilities are amortized over various periods in accordance with our current rate plan. Amortization of total regulatory assets net of amortization of total regulatory liabilities was \$4 million in 2010 and 2009.

In 2009 we recorded reserves totaling \$5.5 million on existing regulatory assets to reflect management's assessment of risk and increased uncertainty about the ultimate recovery of deferred storm costs that had not been resolved with our regulator. The resulting charge increased other operating expenses for the period. This amount has been settled and recorded in 2010.

Other regulatory assets and other regulatory liabilities consisted of:

December 31, (Thousands)	2010	2009
Unamortized loss on debt reacquisition	\$3,800	\$4,511
Revenue levelization	519	8,501
Demand-side management	394	911
Deferred storm costs	21,279	8,370
Rate reconciliation mechanism	4,627	3,995
Mandated costs	4,374	-
Meter infrastructure costs	5,916	1,079
Other	6,251	3,190
Total other regulatory assets	\$47,160	\$30,557
Revenue reconciliation mechanism	\$1,470	\$1,294
Reliability improvement program	-	778
Complaint ratio	2,500	5,000
Environmental	4,725	2,943
Other	1,508	586
Total other regulatory liabilities	\$10,203	\$10,601

Related party transactions: Iberdrola USA Management Corporation provides various administrative and management services to Iberdrola USA's operating utilities, including CMP, pursuant to service agreements. The cost of those services is allocated in accordance with methodologies set forth in the service agreements. The cost allocation methodologies vary depending on the type of service provided. Management believes such allocations are reasonable. The cost for services provided to CMP by Iberdrola USA Management Corporation was approximately \$25 million for 2010 and approximately \$22 million for 2009.

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Central Maine Power Company and Subsidiaries

Revenue recognition: We recognize revenues upon delivery of energy and energy-related products and services to our customers.

Pursuant to a Maine state law, we are prohibited from selling power to our retail customers. We do not enter into purchase or sales arrangements for power with ISO New England, Inc., the New England Power Pool, or any other independent system operator or similar entity. We sell all of our power entitlements under our nonutility generator (NUG) and other purchase power contracts to unrelated third parties under bilateral contracts.

In addition we accrue revenue pursuant to the various regulatory provisions to record regulatory assets for revenues that will be collected in the future.

Taxes: We compute our income tax provision on a separate return method. The determination and allocation of our income tax provision and its components are outlined and agreed to in our tax sharing agreements with Iberdrola USA.

Deferred income taxes reflect the effect of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and the amount recognized for tax purposes. We amortize investment tax credits over the estimated lives of the related assets.

We account for sales tax collected from customers and remitted to taxing authorities on a net basis.

We classify all interest and penalties related to uncertain tax positions as income tax expense.

Use of estimates and assumptions: The preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but not limited to: (1) allowance for doubtful accounts and unbilled revenues; (2) asset impairments, including goodwill; (3) depreciable lives of assets; (4) income tax valuation allowances; (5) uncertain tax positions; (6) reserves for professional, workers' compensation, and comprehensive general insurance liability risks; (7) contingency and litigation reserves; and (8) environmental remediation liability. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations, as considered necessary. Actual results could differ from those estimates.

Note 2. Goodwill

We do not amortize goodwill, but test it for impairment at least annually. Impairment testing includes various assumptions, primarily the discount rate, which is based on an estimate of our marginal, weighted-average cost of capital, and forecasted cash flows. We test the reasonableness of the conclusions of our impairment testing using a range of discount rates and a range of assumptions for long-term cash flows. We had no impairment of goodwill in 2010 or 2009 as a result of our annual impairment testing, which we perform in the third quarter each year. No impairment was indicated within any of the ranges of assumptions analyzed. There were

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no events or circumstances subsequent to our annual impairment testing that required us to update the test.

The carrying amount of goodwill was \$325 million at December 31, 2010 and 2009. Goodwill has not been adjusted to reflect Iberdrola's purchase of Energy East and its subsidiaries, including CMP.

Note 3. Income Taxes

Year Ended December 31, (Thousands)	2010	2009
Current		
Federal	\$513	\$(1,268)
State	5,088	2,835
Current taxes charged to expense	5,601	1,567
Deferred		
Federal	39,549	9,329
State	4,270	2,410
Deferred taxes charged to expense	43,819	11,739
Investment tax credit adjustments	(715)	(735)
Total	\$48,705	\$12,571

The increase in current income tax expense in 2010 as compared to 2009 is driven primarily by an increase in pretax income offset by tax depreciation. The significant increase in deferred income tax expense in 2010 as compared to 2009 is driven primarily by the corresponding effect of tax depreciation.

Our tax expense differed from the expense at the statutory rate of 35% due to the following:

Year Ended December 31, (Thousands)	2010	2009
Tax expense at statutory rate	\$41,186	\$19,792
Depreciation and amortization not normalized	412	1,115
Investment tax credit amortization	(715)	(735)
Medicare subsidy	3,403	(839)
Tax return and audit adjustments	(5)	(13,348)
State taxes, net of federal benefit	6,083	3,409
Other, net	(1,659)	3,177
Total	\$48,705	\$12,571

Income taxes were \$7.5 million more in 2010 than they would have been at the federal statutory rate of 35% and \$7.2 million less in 2009. The 2010 effective tax rate was higher than the statutory rate primarily due to recurring flow-through items, including an increase in Medicare subsidy and book tax depreciation differences. The decrease in the effective tax rate in 2009 is primarily due to recurring flow-through items, including Medicare subsidy offset by book tax depreciation differences and the effect of the tax deduction related to previously capitalized repairs taken on the 2008 tax return filed in 2009. The variance in tax return and audit adjustments in 2010 as compared to 2009 is primarily driven by the flow-through effect of the tax deduction related to previously capitalized repairs taken on the 2008 tax return filed in 2009. The variance in state taxes, net in 2010 as compared to 2009 is primarily driven by the increase in pretax income.

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Central Maine Power Company and Subsidiaries

Our consolidated deferred tax assets and liabilities consisted of:

December 31, (Thousands)	2010	2009
Current Deferred Income Tax Assets	\$6,191	\$4,740
Noncurrent Deferred Income Tax Liabilities (Assets)		
Property related	\$278,608	\$254,291
Unfunded future income taxes	75,910	74,021
Accumulated deferred investment tax credits	2,644	3,359
Pension	21,221	(115)
Medicare subsidy deferral	(1,092)	-
Other postretirement benefits	(28,349)	(29,893)
Derivative assets	(8,621)	(9,483)
Other	15,770	8,504
Total Noncurrent Deferred Income Tax Liabilities	356,091	300,684
Less amounts classified as regulatory liabilities		
Deferred income taxes	135,308	126,680
Noncurrent Deferred Income Tax Liabilities	\$220,783	\$174,004
Deferred tax assets	\$44,253	\$44,231
Deferred tax liabilities	394,153	340,175
Net Accumulated Deferred Income Tax Liabilities	\$349,900	\$295,944

We have no federal or state tax credit or loss carryforwards, and no valuation allowances.

Reconciliation of Gross Income Tax Reserves (Thousands)	2010	2009
Balance as of January 1	\$4,999	-
Increases for tax positions related to prior years	-	\$4,999
Balance as of December 31	\$4,999	\$4,999

The total gross unrecognized tax benefits as of December 31, 2010, were \$5.3 million, including gross income tax reserves of \$5.0 million and interest of \$0.3 million. Including interest, \$4.8 million of the total gross unrecognized tax benefits would affect the effective tax rate, if recognized.

We have been audited through 2005 for federal income taxes. The statute of limitations in all state jurisdictions has expired for all years through 2006. Our federal returns for 2006 through 2009 are currently under review. We anticipate that the reviews will be completed in 2011. We cannot predict the ultimate outcome of the reviews.

As a result of the passage of The Small Business Jobs Act in September 2010 and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 in December 2010, certain capital additions qualify for 50% bonus depreciation and 100% expensing, respectively, for tax purposes. Iberdrola USA and its affiliates have elected to apply the 50% bonus and 100% expensing to the additions it has determined qualify for this accelerated tax depreciation. There is no earnings impact related to this election as the accelerated tax depreciation creates a temporary difference that requires the establishment of a deferred tax liability.

Elimination of tax deduction related to Medicare Part D Subsidy: The Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2010 (H.R. 4872) were signed into U.S. law in late March 2010. We receive a federal subsidy because we sponsor retiree health benefit plans that provide a benefit that is at least actuarially

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equivalent to the benefits under Medicare Part D. The subsidy is known as the Retiree Drug Subsidy (RDS or the subsidy). The RDS payments we receive are not currently taxed. A provision in the PPACA changes the tax treatment of the RDS, requiring the amount of the subsidy received to be offset against the amount of retiree health care payments that would be eligible for a tax deduction. As a result, the subsidy received would reduce an employer's tax deduction for the costs of retiree health care. Our subsidy receipts will effectively become taxable in tax years that begin after December 31, 2012.

In accordance with U.S. GAAP concerning accounting for income taxes, a reporting entity is required to immediately recognize the effect of a change in tax law in continuing operations in the income statement in the period that includes the enactment date. We recorded the effect of the change related to the RDS in the quarter ended March 31, 2010, due to the fact that we accounted for the future tax benefit on an accrual basis. In accounting for the effect of the change for U.S. GAAP reporting, an employer that captured the tax benefit of future subsidies on an accrual basis would now be required to reduce the accumulated deferred tax asset on its balance sheet related to the accrued estimated deductible retiree health care payments to reflect the fact that the future deduction will now be reduced by the collection of the accrued subsidy.

CMP recorded a \$5.6 million income tax expense as a result of the tax law change and is seeking recovery of approximately \$3.5 million of that amount pursuant to the mandated cost provision of its current rate plan.

Note 4. Long-term Debt

At December 31, 2010 and 2009, our consolidated long-term debt was:

	Interest Rates	Maturity	2010	Amount (Thousands) 2009
First mortgage bonds	5.70%	2019	\$150,000	\$150,000
Pollution control notes, fixed	5.375%	2014	19,500	19,500
Various medium-term notes	5.10% to 7.00%	2011 to 2037	293,200	293,200
Chester: promissory note	7.05% to 10.48%	2020	11,640	12,823
Total long-term debt			474,340	475,523
Obligations under capital leases			13,444	15,010
Unamortized discount on debt			(155)	(191)
			487,629	490,342
Less debt due within one year, included in current liabilities			27,767	2,734
Total			\$459,862	\$487,608

One of our subsidiaries has debt totaling \$11.6 million secured by its assets. We have no intercompany collateralizations and have no guarantees to affiliates or subsidiaries. None of our debt obligations are guaranteed or secured by its parent or affiliates. We could seek additional sources of financing.

In May 2009 we issued \$150 million Series A first mortgage bonds bearing a coupon of 5.7% and with a maturity date of June 1, 2019. The proceeds of the issuance were used to reduce short-term debt and for general corporate purposes. We had entered into two derivative transactions – forward starting swaps – to hedge that financing transaction. We settled the hedges in May 2009 at a loss of \$19.9 million. The hedge loss is included in other comprehensive income and is being amortized to interest expense over the term of the related new debt that was issued.

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At December 31, 2010, long-term debt, including sinking fund obligations and capital lease payments (in thousands) that will become due during the next five years is:

2011	2012	2013	2014	2015
\$27,767	\$55,303	\$38,544	\$22,390	\$2,405

Note 5. Bank Loans and Other Borrowings

CMP is a joint borrower with the other Iberdrola USA operating utilities in a revolving credit facility (the joint facility) providing maximum borrowings of up to \$475 million in aggregate. Sublimits that total to the aggregate limit apply to each joint borrower and can be altered within the constraints imposed by maximum limits that apply to each joint borrower. CMP's maximum credit limit under the joint facility is \$200 million and was set at the maximum on December 31, 2010, and March 18, 2011. The joint facility expires in 2012 and requires a fee of 8 basis points annually on the current sublimit amount.

We also have an intercompany credit facility under a demand note agreement with Iberdrola USA that provides financing of up to \$100 million. Under the terms of the agreement, which expires in 2012, we pay the same rate as under Iberdrola USA's credit facility. We had no debt outstanding under the agreement at December 31, 2010, and March 18, 2011. Iberdrola USA obtains funding for its own short-term needs and for the temporary needs of its subsidiaries through a separate credit facility providing maximum borrowings of up to \$300 million. That credit facility expires in 2012 and requires a fee on undrawn borrowings of 6 basis points. As of December 31, 2010, Iberdrola USA had utilized \$133 million of the \$300 million available under its facility.

We use drawings on our credit facilities to finance working capital needs, to fund letters of credit, to temporarily finance certain refundings and for other corporate purposes. We had no short-term debt outstanding at December 31, 2010, and \$5 million outstanding under the joint facility at December 31, 2009. The weighted-average interest rate on borrowings was 0.51% at December 31, 2009. At March 18, 2011, we had borrowings under the joint facility of \$40 million bearing an interest rate of 0.53 %.

In our joint facility we covenant not to permit, without the consent of the lender, our ratio of consolidated indebtedness to consolidated total capitalization to exceed 0.65 to 1.00 at any time. For purposes of calculating the maximum ratio of consolidated indebtedness to consolidated total capitalization, the facility excludes from consolidated net worth the balance of Accumulated other comprehensive income (loss) as it appears on the consolidated balance sheet. The facility contains various other covenants, including a restriction on the amount of secured indebtedness each borrower may maintain. Continued unremedied failure to comply with those covenants for five business days after written notice of such failure from the lender constitutes an event of default and would result in acceleration of maturity for the party in default. Our ratio of consolidated indebtedness to consolidated total capitalization pursuant to the revolving credit facility was 0.33 to 1.00 at December 31, 2010. We are not in default as of December 31, 2010.

In its revolving credit facility Iberdrola USA covenants not to permit, without the consent of the lender, its ratio of consolidated indebtedness to consolidated total capitalization to exceed 0.65 to 1.00 at any time. For purposes of calculating the maximum ratio of consolidated indebtedness to consolidated total capitalization, the facility excludes from consolidated net worth the balance of Accumulated other comprehensive income (loss) as it appears on the consolidated balance

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sheet. The facility contains various other covenants, including a restriction on the amount of secured indebtedness Iberdrola USA may maintain. Continued unremedied failure to comply with those covenants for 15 days after written notice of such failure from the lender constitutes an event of default and would result in acceleration of maturity. Iberdrola USA's ratio of consolidated indebtedness to consolidated total capitalization pursuant to the revolving credit facility was 0.48 to 1.00 at December 31, 2010. Iberdrola USA was not in default as of December 31, 2010.

We believe we have sufficient liquidity available to meet our working capital and capital spending requirements. As of March 18, 2011, we have \$159 million available under the joint facility and \$100 million available under the intercompany credit facility.

Note 6. Preferred Stock

At December 31, 2010 and 2009, our consolidated preferred stock was:

Series	Par Value per Share	Redemption Price per Share	Shares Authorized and Outstanding ⁽¹⁾	Amount (Thousands)	
				2010	2009
6% Noncallable ⁽²⁾	\$100	-	5,713	\$571	\$571
4.60% ⁽³⁾	100	\$101.00	11,864	1,187	3,000
4.75%	100	101.00	9,028	903	5,000
5.25%	100	102.00	-	-	5,000
Total				\$2,661	\$13,571

⁽¹⁾ At December 31, 2010 CMP had 2,279,108 shares of \$100 par value preferred stock and 2,000,000 shares of \$25 par value callable preferred stock authorized but unissued.

⁽²⁾ CMP's 5,713 shares outstanding include 3,366 shares owned by CMP Group, which are eliminated in consolidation for Iberdrola USA, Inc.

⁽³⁾ CMP's 11,864 shares outstanding include 200 shares owned by CMP Group, which are eliminated in consolidation for Iberdrola USA, Inc.

On January 28, 2010, CMP Group, Inc. (CMP Group), the owner of all of the outstanding common stock of Central Maine Power Company (CMP) and a wholly owned subsidiary of Iberdrola USA, Inc., initiated a tender offer to purchase all of the following cumulative preferred stock of CMP: at par – 6% Noncallable; at a discount – 4.60%, 4.75% and 5.25%.

CMP Group accepted all preferred stock shares validly tendered, which amounted to approximately 82.81% of the shares outstanding.

On December 17, 2010, CMP Group sold 18,136 shares of 4.6%, 40,972 shares of 4.75% and 50,000 shares of 5.25% of the preferred stock it acquired to CMP. CMP restored each of those series of shares to authorized and unissued.

Voting rights: If preferred stock dividends on any series of preferred stock, other than the 6% Noncallable series, are in default in an amount equivalent to four full quarterly dividends, the holders of the preferred stock are entitled to elect a majority of the directors and their privilege continues until all dividends in default have been paid. The holders of preferred stock, other than the 6% Noncallable series, are not entitled to vote in respect of any other matters except those, if any, in respect of which voting rights cannot be denied or waived under some mandatory provision of law, and except that the charter contains provisions to the effect that such holders shall be entitled to vote on certain matters affecting the rights and preferences of the preferred stock.

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Holders of the 6% Noncallable series are entitled to one vote per share and have full voting rights on all matters.

Whenever holders of preferred stock shall be entitled to vote, they shall be entitled to cast one vote for each share of preferred stock held by them. Holders of our common stock are entitled to one-tenth of one vote per share on all matters.

Note 7. Commitments and Contingencies

Credit and Collections Investigation: On October 19, 2010, the MPUC issued a Notice of Investigation to initiate a comprehensive evaluation of CMP's credit and collections practices, policies and accounting treatment of bad debt expense. The notice indicates that the MPUC will address numerous specific matters, including the Company's treatment of customer partial payments and its policies and practices with respect to customer deposits. On March 14, 2011, the MPUC staff issued its initial views in the investigation in the form of a Bench Analysis. The staff Bench Analysis identifies a number of concerns with the Company's past practices and policies with respect to bad debt collection, the allocation of customer partial payments and the application of customer deposits. The Bench Analysis concludes that in light of these concerns the MPUC should require CMP to retroactively reclassify \$10.6 million of prior Standard Offer Service write-offs as delivery service write-offs. The effect could be a charge to pretax income of \$10.6 million. We disagree with the conclusions of the Bench analysis since they are not supported by factual analysis, constitute retroactive ratemaking and are not consistent with prior Commission rulings and therefore we have not established a reserve for any possible charges in this matter. The Company will respond to these initial findings in early May.

Capital spending: We have commitments in connection with our capital spending program. We plan to invest approximately \$2 billion in total in our energy delivery infrastructure during the next five years. We expect that approximately one-half of our capital spending will be paid for with internally generated funds, and the remainder with funds generated from debt financing. The program is subject to periodic review and revision. Our capital spending, in addition to the Maine Power Reliability Program (MPRP), will be primarily for the extension of energy delivery service, necessary improvements to existing facilities, and compliance with environmental requirements and governmental mandates.

On June 10, 2010, the Maine Public Utilities Commission granted approval for our MPRP. The MPRP, expected to be completed in 2015, is a \$1.4 billion project that will support the development of new renewable energy resources and help ensure long-term reliability for customers by increasing the capacity and efficiency of the New England transmission grid. The MPRP includes the construction of five new 345-kilovolt substations and related facilities linked by approximately 450 miles of new or rebuilt transmission lines. The project is the first upgrade of CMP's electricity grid in 40 years.

Our Advanced Metering Infrastructure (AMI) project, expected to be completed by the end of 2012, will provide our approximately 620,000 residential, commercial and industrial customers with information on electrical usage, allowing them to better manage energy use and cost. The new meters will also help CMP reduce costs, enhance system planning and pinpoint problems more quickly during outages. Reduced costs will result from operational efficiencies related to billing, account openings and closings, and credit and collections as well as instantaneous meter reading. The total estimated cost of the AMI project is \$166 million, and is being funded in part by a \$96 million grant from the U.S. Department of Energy (DOE), which was approved on April 26, 2010. We received \$24.8 million in grant funds in 2010 of which \$24.3 million was recorded as a reduction to plant costs with the remainder being credited to operating expenses.

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Nonutility generator power purchase contracts: We expensed approximately \$58 million for NUG power in 2010 and \$89 million in 2009. We estimate that our NUG power purchases will total \$61 million in 2011, \$54 million in 2012, \$52 million in 2013, \$52 million in 2014, and \$53 million in 2015.

Note 8. Environmental Liability

From time to time environmental laws, regulations and compliance programs may require changes in our operations and facilities and may increase the cost of electric service.

The United States Environmental Protection Agency and various state environmental agencies, as appropriate, have notified us that we are among the potentially responsible parties that may be liable for costs incurred to remediate certain hazardous substances at five waste sites. The five sites do not include sites where gas was manufactured in the past, which are discussed below. With respect to the five sites, four sites are included in Maine's Uncontrolled Sites Program, and two sites are also included on the National Priorities list.

Any liability may be joint and several for certain of those sites. We have recorded an estimated liability of \$622 thousand at December 31, 2010, related to the five sites. We have recorded an estimated liability of \$1.5 million at December 31, 2010, related to three additional sites where we believe it is probable that we will incur remediation and/or monitoring costs, although we have not been notified that we are among the potentially responsible parties. The ultimate cost to remediate the sites may be significantly more than the accrued amount. Factors affecting the estimated remediation amount include the remedial action plan selected, the extent of site contamination and the portion attributed to us.

We have a program to investigate and perform necessary remediation at our three sites where gas was manufactured in the past. All three sites are part of Maine's Voluntary Response Action Program and two of those sites are part of Maine's Uncontrolled Sites Program.

Our estimate for all costs related to investigation and remediation of the three sites is \$2.2 million at December 31, 2010. The estimate could change materially based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives and changes to current laws and regulations.

The liability to investigate and perform remediation, as necessary, at the known inactive gas manufacturing sites was \$2.2 million at December 31, 2010, and \$969 thousand at December 31, 2009. We recorded a corresponding regulatory asset, net of insurance recoveries, because we expect to recover the net costs in rates.

Our environmental liability accruals have been established on an undiscounted basis. We have received insurance settlements during the last two years, which we accounted for as reductions in our related regulatory asset.

Note 9. Accounting for Derivative Instruments and Hedging Activities

We are exposed to certain risks relating to our ongoing business operations. The primary risks we manage by using derivative instruments are interest rate risk and commodity price risk. In accordance with the accounting requirements concerning derivative instruments and hedging activities, we recognize all derivative instruments as either assets or liabilities at fair value on our balance sheet.

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The financial instruments we hold or issue are not for trading or speculative purposes.

Cash flow hedging: Our interest rate swap agreements and fleet fuel hedges are designated as cash flow hedging instruments. We record changes in the fair value of the cash flow hedging instruments in other comprehensive income (OCI), to the extent they are considered effective, and reclassify those gains or losses into earnings in the same period or periods during which the hedged transactions affect earnings. We record the ineffective portion of any change in fair value of cash flow hedges on our income statement as either Other (Income) or Other Deductions, as appropriate.

Our asset derivatives designated as hedging instruments, which are other commodity contracts (fleet fuel) with a fair value of \$1 thousand as of December 31, 2010, and \$64 thousand as of December 31, 2009, are included in current assets.

The effect of hedging instruments on OCI and income was:

Year Ended December 31,	Gain (Loss) Recognized in OCI on Derivatives	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Gain (Loss) Reclassified from Accumulated OCI into Income	Location of Gain (Loss) Recognized in Income on Derivatives	Gain (Loss) Recognized in Income on Derivatives
Derivatives in Cash Flow Hedging Relationships	Effective Portion ¹	Effective Portion ⁽¹⁾		Ineffective Portion and Amount Excluded from Effectiveness Testing	
<i>(Thousands)</i>					
2010					
Interest rate contracts	-	Interest expense	\$(2,175)	Interest expense	-
Commodity contracts:					
Other	\$74	Other direct costs	(11)		-
Total	\$74		\$(2,186)		-
2009					
Interest rate contracts	\$(30,887)	Interest expense	\$(1,168)	Interest expense	-
Commodity contracts:					
Other	(429)	Other direct costs	(1,022)		-
Total	\$(31,316)		\$(2,190)		-

(1) Changes in OCI are reported in after-tax dollars.

The amount in OCI related to previously settled interest rate hedging contracts, after tax and accumulated amortization, at December 31 is a net (loss) of \$(21.1) million for 2010 and \$(23.3) million for 2009.

At December 31, 2010, \$63 thousand in gains are reported in OCI because the forecasted transaction is considered to be probable. We expect that \$63 thousand of gains in OCI will be reclassified into earnings within the next 12 months.

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As of December 31, 2010, the maximum length of time over which we are hedging our exposure to the variability in future cash flows for forecasted transactions was 12 months. We estimate that no losses will be reclassified from accumulated other comprehensive income into earnings during 2011, as the underlying transactions occur.

Note 10. Fair Value of Financial Instruments and Fair Value Measurements

The carrying amounts and estimated fair values of our financial instruments are shown in the following table.

December 31,	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Thousands)				
First mortgage bonds	\$150,000	\$157,053	\$150,000	\$156,728
Pollution control notes, fixed	\$19,500	\$20,862	\$19,500	\$20,974
Various long-term debt	\$304,685	\$314,072	\$305,832	\$302,607

The carrying amounts for cash and cash equivalents, accounts receivable, notes payable and interest accrued approximate their estimated fair values.

We value all fixed rate long-term debt, whether unsecured or secured by a first mortgage lien, by assigning a market-based yield for each security and then deriving the price from the yield. Market-based yields are determined by observing secondary market trading levels for debt of similar maturity, rating, tax and structural characteristics.

Assets and liabilities measured at fair value on a recurring basis

Description	Total	Fair Value Measurements at December 31, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Thousands)				
2010				
Assets				
Noncurrent investments available for sale	\$427	\$427	-	-
Derivatives	1	-	-	\$1
Total	\$428	\$427	-	\$1
2009				
Assets				
Noncurrent investments available for sale	\$6,490	\$6,490	-	-
Derivatives	64	-	-	\$64
Total	\$6,554	\$6,490	-	\$64

We had no significant transfers to or from Level 1 and 2 during the year ended December 31, 2010. Our policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that causes a transfer, if any.

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Valuation techniques: We measure the fair value of our noncurrent investments available for sale using quoted market prices in active markets for identical assets and include the measurements in Level 1. The investments primarily consist of money market funds.

Instruments measured at fair value on a recurring basis using significant unobservable inputs

Year ended December 31, (Thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Derivatives, Net	
	2010	2009
Beginning balance	\$64	\$(32,488)
Total gains (losses) (realized/unrealized)		
Included in earnings	11	2,190
Included in other comprehensive income	(74)	10,464
Settlements	-	19,898
Ending balance	\$1	\$64

The amounts of realized and unrealized gains and losses included in earnings for the period (above), which are reported in the various categories indicated are:

	Other operating expense	Interest expense
(Thousands)		
Total gains (losses) included in earnings for year ended December 31,		
2010	\$11	-
2009	\$1,022	\$1,168

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Note 11. Accumulated Other Comprehensive (Loss) Income

	Balance January 1, 2009	2009 Change	Balance December 31, 2009	2010 Change	Balance December 31, 2010
(Thousands)					
Unrealized gains (losses) on derivatives qualified as hedges:					
Unrealized gains during period on derivatives qualified as hedges, net of income tax (expense) of \$(12,778) for 2009 and \$(423) for 2010		\$18,538		\$613	
Reclassification adjustment for losses (gains) included in net income, net of income tax (benefit) expense of \$(417) for 2009 and \$448 for 2010		605		(650)	
Net unrecognized (losses) gains on settled cash flow treasury hedges, net of income tax benefit (expense) of \$7,461 for 2009 and \$(888) for 2010		(10,824)		1,287	
Net unrealized (losses) gains on derivatives qualified as hedges	\$(22,076)	8,319	\$(13,757)	1,250	\$(12,507)
Accumulated Other Comprehensive (Loss) Income	\$(22,076)	\$8,319	\$(13,757)	\$1,250	\$(12,507)

No Accumulated Other Comprehensive (Loss) Income is attributable to the noncontrolling interest for any of the above periods.

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Note 12. Retirement Benefits

We have funded noncontributory defined benefit pension plans that cover substantially all of our employees. The plans provide defined benefits based on years of service and final average salary. We also have a postretirement health care benefits plan covering substantially all of our employees. The health care plan is contributory with participants' contributions adjusted annually.

Obligations and funded status:

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
(Thousands)				
Change in benefit obligation				
Benefit obligation at January 1	\$281,598	\$264,416	\$132,151	\$121,241
Service cost	5,707	5,212	1,279	1,774
Interest cost	16,286	16,056	6,471	7,234
Plan participants' contributions	-	-	717	436
Curtailment	1,134	-	-	-
Plan amendments	-	-	(21,446)	-
Special termination benefits	9,898	-	-	-
Actuarial loss	26,541	9,517	12,092	8,574
Benefits paid	(14,343)	(13,603)	(8,539)	(7,816)
Federal subsidy on benefits paid	-	-	702	708
Benefit obligation at December 31	\$326,821	\$281,598	\$123,427	\$132,151
Change in plan assets				
Fair value of plan assets at January 1	\$172,565	\$154,451	\$25,284	\$14,737
Actual return on plan assets	23,397	30,642	3,518	4,547
Employer contributions	25,770	1,075	3,000	6,000
Benefits paid	(14,343)	(13,603)	-	-
Fair value of plan assets at December 31	\$207,389	\$172,565	\$31,802	\$25,284
Funded status at December 31	\$(119,432)	\$(109,033)	\$(91,625)	\$(106,867)

Amounts recognized in the balance sheet December 31,	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
(Thousands)				
Noncurrent liabilities	\$(119,432)	\$(109,033)	\$(91,625)	\$(106,867)

We offered a VERP during 2010, resulting in one-time charges for special termination benefits, and a one-time curtailment loss for our Union Plan. (See Note 1.) As a result of negotiations, we made changes to the retiree medical plan for our union employees that include a cap on our contribution to the postretirement medical plans for employees who retire on or after July 1, 2013.

We have determined that we are allowed to defer as regulatory assets or regulatory liabilities items that would otherwise be recorded in accumulated other comprehensive income pursuant to the accounting requirements concerning defined benefit and other postretirement plans.

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Amounts recognized as regulatory assets or regulatory liabilities, consist of:

December 31, (Thousands)	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Net loss	\$150,113	\$136,864	\$40,839	\$31,578
Prior service cost (credit)	\$910	\$1,140	\$(19,239)	\$(2,360)

Our accumulated benefit obligation for all defined benefit pension plans at December 31 was \$296.5 million for 2010 and \$255.9 million for 2009.

Our postretirement benefits were partially funded at December 31, 2010 and 2009.

The projected benefit obligation and accumulated benefit obligation exceeded the fair value of pension plan assets for our plans as of December 31, 2010 and 2009. The following table shows the aggregate projected and accumulated benefit obligations and the fair value of plan assets for the relevant periods.

December 31, (Thousands)	2010	2009
Projected benefit obligation	\$326,821	\$281,598
Accumulated benefit obligation	\$296,466	\$255,851
Fair value of plan assets	\$207,389	\$172,565

Components of net periodic benefit cost and other amounts recognized in regulatory assets and regulatory liabilities:

Years ended December 31, (Thousands)	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Net periodic benefit cost				
Service cost	\$5,707	\$5,212	\$1,279	\$1,774
Interest cost	16,286	16,056	6,471	7,234
Expected return on plan assets	(17,988)	(18,319)	(1,963)	(1,405)
Special termination benefits	9,898	-	-	-
Curtailment	1,157	-	-	-
Amortization of prior service cost (benefit)	207	225	(4,567)	(1,053)
Amortization of net loss	7,882	6,282	1,457	1,258
Net periodic benefit cost	\$23,149	\$9,456	\$2,677	\$7,808
Other changes in plan assets and benefit obligations recognized in regulatory assets and regulatory liabilities				
Net (gain) loss	\$21,109	\$(2,805)	\$10,538	\$5,432
Prior service benefit	-	-	(21,446)	-
Amortization of net (loss)	(7,882)	(6,282)	(1,457)	(1,258)
Amortization of prior service (cost) credit	(207)	(225)	4,567	1,053
Total recognized in regulatory assets and regulatory liabilities	\$13,020	\$(9,312)	\$(7,798)	\$5,227
Total recognized in net periodic benefit cost and regulatory assets and regulatory liabilities	\$36,169	\$144	\$(5,121)	\$13,035

We include the net periodic benefit cost in other operating expenses. The net periodic benefit cost for postretirement benefits represents the amount expensed for providing health care benefits to retirees and their eligible dependents.

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Amounts expected to be amortized from regulatory assets or regulatory liabilities into net periodic benefit cost for the fiscal year ending

December 31, 2011	Pension Benefits	Postretirement Benefits
(Thousands)		
Estimated net loss	\$10,325	\$2,438
Estimated prior service cost (credit)	\$202	\$(5,880)

We expect that no pension benefit or postretirement benefit plan assets will be returned to us during the fiscal year ended December 31, 2011.

Weighted-average assumptions used to determine benefit obligations at December 31,	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Discount rate	5.00%	5.80%	5.00%	5.80%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

As of December 31, 2010, we decreased our discount rate from 5.80% to 5.00%. The discount rate is the rate at which the benefit obligations could presently be effectively settled. We determined the discount rate by developing a yield curve derived from a portfolio of high grade noncallable bonds that closely matches the duration of the expected cash flows of our benefit obligations.

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31,	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Discount rate	5.80%	6.10%	5.80%	6.10%
Expected long-term return on plan assets	8.75%	8.75%	-	-
Expected long-term return on plan assets - nontaxable trust	-	-	8.00%	8.00%
Expected long-term return on plan assets - taxable trust	-	-	4.80%	4.80%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

We developed our expected long-term rate of return on plan assets assumption based on a review of long-term historical returns for the major asset classes, the target asset allocations and the effect of rebalancing of plan assets discussed below. That analysis considered current capital market conditions and projected conditions. We amortize unrecognized actuarial gains and losses using the standard amortization methodology, under which amounts in excess of 10% of the greater of the projected benefit obligation or market-related value are amortized over the plan participants' average remaining service to retirement.

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Assumed health care cost trend rates to determine benefit obligations at December 31,	2010	2009
Health care cost trend rate assumed for next year	7.8%	8.0%
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	4.5%	4.5%
Year that the rate reaches the ultimate trend rate	2028	2028

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 effects:

	1% Increase	1% Decrease
(Thousands)		
Effect on total of service and interest cost	\$460	\$(391)
Effect on postretirement benefit obligation	\$5,403	\$(5,634)

Plan assets: Iberdrola USA's pension benefits plan assets are held in a master trust providing for a single trustee/custodian, a uniform investment manager lineup, and an efficient, cost-effective means of allocating expenses and investment performance to each plan under the master trust. Iberdrola USA's primary investment objective is to ensure that current and future benefits obligations are adequately funded and with volatility commensurate with its tolerance for risk. Preservation of capital and achievement of sufficient total return to fund accrued and future benefits obligations are of highest concern. Iberdrola USA's primary means for achieving capital preservation is through diversification of the trust's investments while avoiding significant concentrations of risk in any one area of the securities markets. Within each asset group, further diversification is achieved through utilizing multiple asset managers and systematic allocation to various asset classes; providing broad exposure to different segments of the equity, fixed-income and alternative investment markets.

Iberdrola USA's asset allocation policy is the most important consideration in achieving its objective of superior investment returns while minimizing risk. Iberdrola USA has established a target asset allocation policy within allowable ranges for its pension benefits plan assets of 56% equity securities, 30% fixed income and 14% for all other types of investments. The target allocations within allowable ranges are further diversified into 28% large cap domestic equities, 7% medium and small cap domestic equities, 5% emerging markets, and 16% international equity securities. Fixed income investment targets and ranges are segregated into long dated corporate securities 17%, annuity contracts 5%, and 25 year zero coupon bonds 8%. All fixed income investments are in domestic securities. Other, alternative investment targets are 4% for real estate, and 10% for absolute return and strategic markets. Systematic rebalancing within the target ranges, should any asset categories drift outside their specified ranges, increases the probability that the annualized return on the investments will be enhanced, while realizing lower overall risk.

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The fair values of the Iberdrola USA consolidated pension benefits plan assets at December 31, 2010 and 2009, by asset category are shown in the following table. CMP's share of the total consolidated assets is approximately 10% for 2010 and 8% for 2009.

Asset Category (Thousands)	Total	Fair Value Measurements at December 31, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2010				
Cash and cash equivalents	\$49,214	\$734	\$48,480	-
U.S. government securities	52,122	52,122	-	-
Common stocks	1,036,468	749,565	286,903	-
Registered investment companies	85,923	85,923	-	-
Corporate bonds	183,186	-	183,186	-
Preferred stocks	7,039	7,039	-	-
Common/collective trusts	351,408	-	76,476	\$274,932
Partnership/joint venture interests	96,624	-	-	96,624
Real estate investments	45,374	-	-	45,374
Other investments, principally annuity and fixed income	243,841	21,817	31,712	190,312
Total	\$2,151,199	\$917,200	\$626,757	\$607,242
2009				
Cash and cash equivalents	\$38,248	\$927	\$37,321	-
U.S. government securities	49,619	49,619	-	-
Common stocks	1,000,311	997,495	2,816	-
Registered investment companies	119,155	119,155	-	-
Corporate bonds	364,243	-	364,243	-
Preferred stocks	6,916	6,916	-	-
Common/collective trusts	358,201	-	62,557	\$295,644
Partnership/joint venture interests	93,269	-	-	93,269
Real estate investments	40,618	-	-	40,618
Other investments, principally annuity and fixed income	183,173	20,784	31,265	131,124
Total	\$2,253,753	\$1,194,896	\$498,202	\$560,655

Valuation techniques: Iberdrola USA values its pension benefits plan assets as follows:

- Cash and cash equivalents – Level 1: at cost, plus accrued interest, which approximates fair value. Level 2: proprietary cash associated with other investments, based on yields currently available on comparable securities of issuers with similar credit ratings.
- U.S. government securities, Common stocks and Registered investment companies - at the closing price reported in the active market in which the security is traded.
- Corporate bonds – based on yields currently available on comparable securities of issuers with similar credit ratings.
- Preferred stocks – at the closing price reported in the active market in which the individual investment is traded.
- Common/collective trusts and Partnership/joint ventures – using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is classified as Level 2 if the plan has the ability to redeem the investment with the investee at NAV per share at the measurement date. Redemption

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restrictions or adjustments to NAV based on unobservable inputs result in the fair value measurement being classified as Level 3 if those inputs are significant to the overall fair value measurement.

- Real estate investments – based on a discounted cash flow approach that includes the projected future rental receipts, expenses and residual values because the highest and best use of the real estate from a market participant view is as rental property.
- Other investments, principally annuity and fixed income - Level 1: at the closing price reported in the active market in which the individual investment is traded. Level 2: based on yields currently available on comparable securities of issuers with similar credit ratings. Level 3: when quoted prices are not available for identical or similar instruments, under a discounted cash flows approach that maximizes observable inputs such as current yields of similar instruments but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.

(Thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					Total
	Corporate Bonds	Common/ Collective Trusts	Partnership/ Joint Venture Interests	Real Estate Investments	Other Investments	
Balance, December 31, 2008	\$112	\$432,918	\$106,819	\$58,687	\$156,149	\$754,685
Actual return on plan assets:						
Relating to assets still held at the reporting date	-	2,557	2,565	-	-	5,122
Relating to assets sold during the year	-	112,364	3,869	(19,345)	-	96,888
Purchases, sales and settlements	(112)	(252,195)	(19,984)	1,276	(25,025)	(296,040)
Transfers into and/or out of Level 3	-	-	-	-	-	-
Balance, December 31, 2009	-	295,644	93,269	40,618	131,124	560,655
Actual return on plan assets:						
Relating to assets still held at the reporting date	-	4,678	-	-	110	4,788
Relating to assets sold during the year	-	41,218	3,207	4,163	510	49,098
Purchases, sales and settlements	-	(66,608)	148	593	58,568	(7,299)
Transfers into and/or out of Level 3	-	-	-	-	-	-
Balance, December 31, 2010	-	\$274,932	\$96,624	\$45,374	\$190,312	\$607,242

Iberdrola USA's postretirement benefits plan assets are held with two trustees in multiple voluntary employees' beneficiary association (VEBA) and 401(h) arrangements and are invested among and within various asset classes in order to achieve sufficient diversification in accordance with its risk tolerance. This is achieved for its postretirement benefits plan assets through the utilization of multiple institutional mutual and money market funds, providing exposure to different segments of the fixed income, equity and short-term cash markets. Approximately 12% of the postretirement benefits plan assets are invested in VEBA and 401(h) arrangements that are not subject to income taxes. The remainder is invested in arrangements subject to income taxes.

Iberdrola USA has established a target asset allocation policy within allowable ranges for its postretirement benefits plan assets of 56% equity securities, 37% fixed income and 7% for all other types of investments. The target allocations within allowable ranges are further diversified into 30% large cap domestic equities, 7% medium and small cap domestic equities, 13% international developed market and 6% emerging market equity securities. Fixed income investment targets and ranges are segregated into core fixed income at 30%, global high yield fixed income 4% and international developed market debt 3%. Other, alternative investment

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targets are 4% for real estate and 3% absolute return. Systematic rebalancing within target ranges, should any asset categories drift outside their specified ranges, increases the probability that the annualized return on the investments will be enhanced, while realizing lower overall risk.

The fair values of the Iberdrola USA consolidated other postretirement benefits plan assets at December 31, 2010 and 2009, by asset category are shown in the following table. CMP's share of the total consolidated assets is approximately 21% for 2010 and 17% for 2009.

Asset Category (Thousands)	Total	Fair Value Measurements at December 31, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2010				
Money market funds	\$7,907	\$7,907	-	-
Mutual funds, fixed	49,100	49,100	-	-
Mutual funds, equity	90,964	90,964	-	-
Other investments	27	27	-	-
Total	\$147,998	\$147,998	-	-
2009				
Money market funds	\$4,214	\$4,214	-	-
Mutual funds, fixed	51,061	51,061	-	-
Mutual funds, equity	82,089	82,089	-	-
Other investments	3,109	1,865	\$774	\$470
Total assets measured at fair value	\$140,473	\$139,229	\$774	\$470
Whole life insurance contract	5,836			
Total	\$146,309			

Valuation techniques: Iberdrola USA values its postretirement benefits plan assets as follows:

- Money market funds and Mutual funds, fixed and equity – based upon quoted market prices, which represent the NAV of the shares held.
- Other investments – these are primarily 401(h) investments that are an allocation of pension Master Trust investments.

The whole life insurance contract is presented at the contract value at December 31, 2009, which is not a fair value measurement.

Diversified equity securities did not include any Iberdrola common stock at December 31, 2010.

Cash Flows

Contributions: In accordance with our funding policy we make annual contributions of not less than the minimum required by applicable regulations. We expect to contribute \$37.3 million to our pension benefit plans and \$3 million to our other postretirement benefits plan in 2011.

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Estimated future benefit payments: Our expected benefit payments and expected Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) subsidy receipts, which reflect expected future service, as appropriate, are:

	Pension Benefits	Postretirement Benefits	Medicare Act Subsidy Receipts
(Thousands)			
2011	\$16,743	\$9,200	\$623
2012	\$16,509	\$9,601	\$887
2013	\$16,834	\$9,946	\$962
2014	\$17,122	\$10,267	\$1,034
2015	\$17,516	\$10,499	\$1,104
2016 - 2020	\$96,564	\$53,532	\$6,642