UNITED STATES OF AMERICA
BEFORE THE
NUCLEAR REGULATORY COMMISSION

THE UNITED ILLUMINATING COMPANY	)))	Docket Nos. 50-423 and 50-443 Facility Operating License Nos. NPF-49 and NPF-56

REQUEST FOR CONSENT TO CORPORATE REORGANIZATION

I. INTRODUCTION

The United Illuminating Company ("UI" or "Company") hereby requests the consent of the Nuclear Regulatory Commission (the "Commission"), pursuant to 10 CFR Section 50.80, to the indirect transfer of control of two licenses granted by the Commission: UI's possessory license for its 3.685 % ownership interest in the Millstone Unit 3 nuclear generating station ("Millstone") located in Waterford, Connecticut; and the Company's 17.5 % ownership interest in the Seabrook Unit 1 nuclear generating station ("Seabrook") located in Seabrook, New Hampshire.

UI is an investor-owned public utility company organized and operated under the laws of the State of Connecticut. UI is presently engaged principally in the production, purchase, transmission, distribution and sale of electricity at wholesale and at retail for residential, commercial and industrial purposes. It supplies electricity to approximately 314,000 retail customers in the southwestern part of Connecticut. In addition, UI provides transmission service to other utilities for the wheeling or delivery of electric power over the Company's transmission facilities.

UI's retail utility assets and operations are subject to regulation by the Connecticut Department of Public Utility Control ("CDPUC"). The CDPUC regulates, among other things, UI's retail electric service rates, accounting procedures, dispositions of property and plant, mergers and consolidations, the issuance of securities, standards of service, management efficiency, operation and construction, and the location of facilities.

UI is also a "public utility" as defined in Section 201(e) of the Federal Power Act, 16 U.S.C. § 824(e). As such, UI is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). UI purchases and sells electric energy at wholesale and transmits electric energy in interstate commerce under rate schedules on file with the FERC.

In response to electric industry restructuring legislation enacted by the State of Connecticut,[1] UI entered into a purchase and sale agreement on October 2, 1998, to sell UI's operating non-nuclear generation assets. The FERC approved the disposition of jurisdictional assets and certain agreements relating to this sale on February 24 and 26, 1999, respectively. The sale closed on April 16, 1999, and, therefore, UI no longer owns operating non-nuclear generation assets. UI retains minority interests in the Millstone Unit 3 and Seabrook Unit 1 nuclear generation stations.

In a corporate unbundling plan filed with the CDPUC on October 1, 1998, UI proposed, as an interim step pending the design and implementation of a plan to sell its minority interests in Millstone and Seabrook, to transfer these minority interests to separate divisions within UI. In a decision dated May 19, 1999, the CDPUC approved this corporate unbundling plan. The

[1] *See* "An Act Concerning Electric Restructuring," Conn. Public Act No. 98-28 (April 29, 1998) (the "Connecticut Restructuring Act")

proposed Reorganization will assure compliance with the Connecticut Restructuring Act and afford the reorganized businesses the managerial, structural and financial flexibility necessary to meet the challenges in the future competitive non-utility marketplace.

II. THE PROPOSED REORGANIZATION

Subject to obtaining various approvals, including the approval of this application, UI proposes to adopt a holding company structure.

The electric energy industry is changing and becoming increasingly competitive at both the wholesale and retail levels, due to a number of regulatory, economic and technological developments. A product of these developments is a trend toward the "unbundling" of electric utility businesses into different business segments. UI's proposed Reorganization will effect a clear organizational and functional separation of its regulated utility franchise business from the unregulated businesses of its subsidiaries. UI believes that the Reorganization represents the best corporate structure for operating in the emerging restructured marketplace, and that the Reorganization will result in greater managerial, structural and financial flexibility. The proposed Reorganization is an integral part of UI's overall restructuring plan that is emerging from proceedings before the CDPUC pursuant to the Connecticut Restructuring Act.

UI proposes to accomplish the Reorganization through a merger and share exchange, specifically a "reverse triangular merger," in accordance with the Connecticut Business Corporation Act ("CBCA"), *see* C.G.S.A. §§ 33-600 to 33-998, and pursuant to an Agreement and Plan of Merger and Share Exchange (the "Plan of Exchange"). A copy of the Plan of

Exchange is attached as Exhibit A. The Plan of Exchange was approved by order of the CDPUC on May 19, 1999, (Exhibit B). Pursuant to the Plan of Exchange, all of the outstanding shares of UI's common stock, no par value, (the "UI Common Stock") will be exchanged on a share-for-share basis for shares of common stock, without par value (the "Holdings Common Stock") in UIL Holdings Corporation ("Holdings"). Holdings was incorporated under the laws of Connecticut on March 22, 1999.

Specifically, a holding company structure will be accomplished, pursuant to the Plan of Exchange, through a reverse triangular merger that will result in UI becoming the wholly-owned subsidiary of Holdings. Currently, Holdings is UI's wholly-owned subsidiary, and UI holds all 100 shares of Holdings Common Stock. Holdings, in turn, has formed its own wholly-owned Connecticut corporation subsidiary named United Mergings, Inc. ("Mergings"). Mergings was incorporated under the laws of Connecticut on March 22, 1999, as a wholly-owned subsidiary of Holdings to facilitate the Plan of Exchange. When the Plan of Exchange is put into effect, the following events will occur to create the holding company structure:

- Mergings will merge with and into UI with UI being the surviving corporation.
- Each outstanding share of Mergings Common Stock will be automatically converted into one share of UI Common Stock;
- Each outstanding share of UI Common Stock (excluding shares with respect to which dissenter's rights have been properly exercised) will be automatically converted into one share of Holdings Common Stock; and
- Each share of the 100 shares of Holdings Common Stock owned by UI (as

Holdings' former parent corporation) will automatically be canceled.

After the exchange of shares, (the "Share Exchange"), each person who owned UI Common Stock immediately prior to the Share Exchange will own a corresponding number of shares of the outstanding Holdings Common Stock. UI currently has a wholly-owned subsidiary -- United Resources, Inc. -- which has four wholly-owned subsidiaries engaged in non-regulated businesses. One of these owns three further subsidiaries engaged in non-regulated businesses. Holdings will own all the outstanding shares of UI Common Stock. Upon the effectiveness of the Share Exchange, UI will transfer to Holdings its ownership interest in United Resources, Inc. This transfer will complete the corporate restructuring by separating Holdings' regulated and unregulated businesses. Holdings will also own all or part of the outstanding shares of common stock of any subsidiaries it may form after the Share Exchange. Charts showing the corporate structure and ownership of the business entities involved in UI's Reorganization, both before and after the Reorganization, are presented in Attachment A to this application.

UI's Board of Directors has unanimously approved the restructuring pursuant to the Plan of Exchange. UI's shareholders are expected to vote on the Plan of Exchange at a special meeting, to be held in New Haven, Connecticut, on March 17, 2000. If the owners of two-thirds of all of the shares entitled to vote approve the Plan of Exchange, the Commission approves this Application and certain other conditions (including obtaining FERC approval) are satisfied, the Share Exchange will become effective upon the filing of a Certificate of Merger and Exchange with the Connecticut Secretary of the State, or as otherwise specified in the Certificate of Merger and Exchange. UI intends to implement the Share Exchange as soon as practical after receiving

shareholder approval and all required regulatory approvals. Upon completion of the Share Exchange, the Holdings Common Stock will be listed on the New York Stock Exchange. At that time, the UI Common Stock will be delisted and will no longer be registered pursuant to Section 12 of the Securities Exchange Act, 15 U.S.C. § 781.

III. EFFECT OF PROPOSED REORGANIZATION ON UI'S FINANCIAL CONDITION

The proposed Reorganization would have no adverse effect on UI's financial health, and in particular would not impair the availability to UI of funds needed to carry out its activities and responsibilities under the Millstone and Seabrook possessory licenses. A copy of UI's Annual Report on Form 10-K to the Securities Exchange Commission, as amended, is attached hereto as Exhibit C. It demonstrates that the Company has reasonable assurance of obtaining necessary funds for ongoing operations.[2]

After the proposed Reorganization, UI would remain subject to the jurisdiction of the CDPUC with respect to rates for retail electric service and other matters including the Company's costs of implementing the proposed Reorganization. Any changes in UI's arrangements for bulk power sales on the wholesale market, or in its rates for transmission of electric energy in interstate commerce, would remain subject to review and approval by the FERC.

The proposed corporate Reorganization would have no effect on UI's capital structure, or its cost of obtaining financing. The adoption of the holding company structure will not alter the source of UI's funds for conducting its utility operations. UI's share of the Millstone and

[2] *See* Form 10-K/A-3 (Exhibit C) at pg. 13.

Seabrook costs, including prudently incurred investments and decommissioning costs, will continue to be derived from customer payments for utility services subject to regulated rates, in the same manner as before the reorganization.

In sum, the proposed Reorganization is expected to bring about no change in the sources of UI's funds for continued plant operations, capital investments, and eventual plant decommissioning. Nor is it expected to alter the regulatory processes establishing rates and other terms and conditions of service from which revenues are derived. Accordingly, UI believes that the proposed restructuring will not adversely affect its financial resources for the conduct of future activities under the Millstone and Seabrook possessory licenses issued by the Commission.

IV. EFFECT OF PROPOSED REORGANIZATION ON MANAGEMENT AND OPERATION OF NUCLEAR FACILITIES

As previously noted, UI is a possessory licensee and is not the NRC licensed operator of Millstone and Seabrook. The operating licensees, Northeast Utilities and North Atlantic Energy Service Corporation, will continue to be responsible for the day-to-day operations of Millstone and Seabrook and for the technical qualifications required by the operating licenses, respectively.

The holding company structure will retain UI as a discrete and separate entity. No responsibility for nuclear operations within UI will be changed by the proposed Reorganization. Officer responsibilities at the holding company level will be primarily administrative and financial in nature and will not involve operational matters relating to Millstone and Seabrook

After the holding company formation, UI will continue actively to participate in the oversight and non-operational decision making with respect to Millstone and Seabrook.

V. EFFECT OF PROPOSED REORGANIZATION ON DOMESTIC OWNERSHIP AND CONTROL OF UI

At the time the Reorganization becomes effective, Holdings will become the sole holder of UI Common Stock, and the current holders of UI Common Stock (other than shareholders who have exercised their dissenters' rights) will become holders of Holdings Common Stock on a share-for-share basis. Therefore, immediately following the Reorganization, the Holdings Common Stock will be owned by the previous holders of UI Common Stock in substantially the same proportions in which they held UI Common Stock. Based upon currently available information, shares of UI Common Stock held in foreign accounts represent less than one-tenth percent (0.1 %) of the total outstanding shares of UI.

Based on the foregoing, the Reorganization will not result in UI being owned, controlled or dominated by foreign interests.

VI. EFFECT OF PROPOSED REORGANIZATION ON COMPETITION

The adoption of the holding company structure clearly will have no adverse effect on competition. As a threshold matter, an "effect on competition" presupposes some change in the *relative* ownership or control of generation assets, transmission assets or other inputs that could be used as barriers to entry or to affect price. Thus, the Commission examines the changes in market concentration to determine whether a merger will cause an unacceptable effect of

competition. Here, however, no change in the *relative* ownership or control of jurisdictional assets or inputs will occur. UI will own or control exactly the same generation, transmission and other utility assets after the holding company formation as before, while Holdings will own UI Common Stock. Thus, as the Commission has found in approving other similar reorganizations, formation of this proposed holding company and the resultant change in control over UI and its present subsidiaries will not adversely affect competition. Moreover, the holding company structure will facilitate the establishment of separate business organizations to engage in competitive, energy-related but unregulated business activities. In this respect, the proposed holding company structure only can have a positive effect on competition in the electric power industry.

VII. SUBSEQUENT TRANSFERS OF UI'S ASSETS

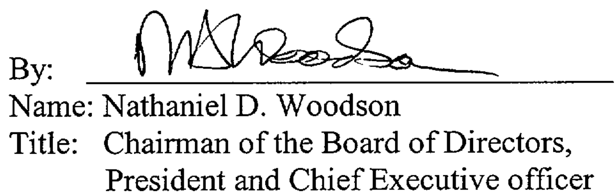
UI agrees to provide the Director of the Office of Nuclear Reactor Regulation a copy of any application, at the time it is filed, to transfer (excluding grants of security interests or liens) from UI to its proposed parent, Holdings, or to any other affiliated company, facilities for the production, transmission, or distribution of electric energy having a depreciated book value exceeding ten percent (10%) of UI's consolidated net utility plant as recorded on UI's books of account.

VIII. CONCLUSION

UI believes that the information contained in this Application and its Exhibits is sufficient for the Commission to grant its consent to the Reorganization. As shown above, the Reorganization will not adversely affect UI's qualifications as the possessory licensee for Millstone and Seabrook and also is consistent with applicable provisions of law and with the Commission's regulations.

Respectfully submitted,

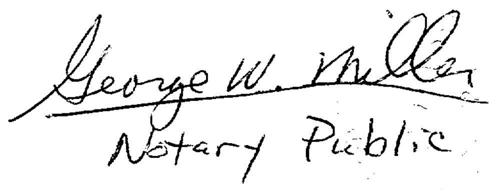
THE UNITED ILLUMINATING COMPANY

By: 

Name: Nathaniel D. Woodson
Title: Chairman of the Board of Directors, President and Chief Executive officer

Dated: February 17, 2000
New Haven, Connecticut

My Commission Expires Sept. 30, 2002



Notary Public

AFFIRMATION

I, Nathaniel D. Woodson, do hereby affirm that (1) I am the Chairman of the Board of Directors, President and Chief Executive Officer of The United Illuminating Company, (2) I am duly authorized to execute and file this certification on behalf of The United Illuminating Company, and (3) the statements set forth in the attached application are true and correct to the best of my information, knowledge and belief.

[signature]
Nathaniel D. Woodson

STATE OF CONNECTICUT)
) TO WIT
COUNTY OF NEW HAVEN)

I hereby certify that on the ______ day of February, 2000, before me, the subscriber, a Notary Public of the State of Connecticut, personally appeared Nathaniel D. Woodson, being duly sworn, and states that he is Chairman of the Board of Directors, President, and Chief Executive Officer of The United Illuminating Company; that he provides the foregoing application for the purposes therein set forth; that the statements made are true and correct to the best of his knowledge, information, and belief; and that he was authorized to provide the application on behalf of said Corporation.

WITNESS my Hand and Notarial Seal:

George W. Muller
Notary Public

My Commission Expires:
Sept. 30, 2002

ORGANIZATION CHARTS FOR THE UNITED ILLUMINATING COMPANY

Page 1 The Existing Organization

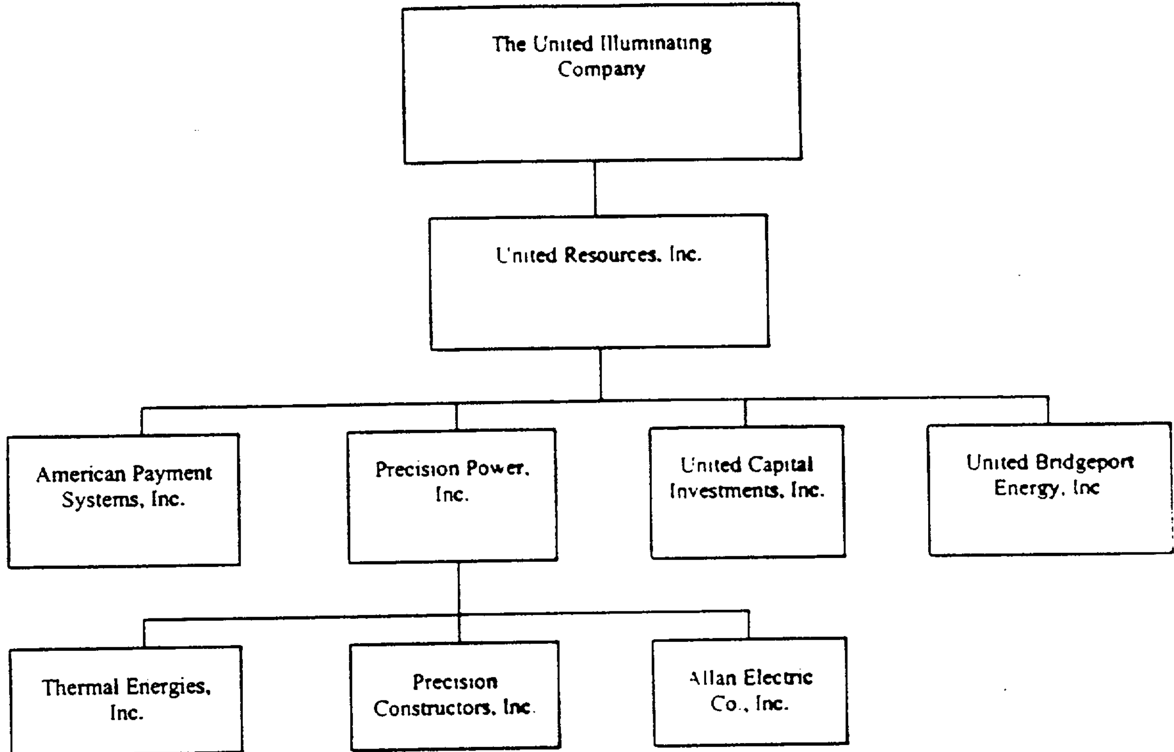
Page 2 The Reorganized Unit Organization

ATTACHMENT A

Organizational Charts

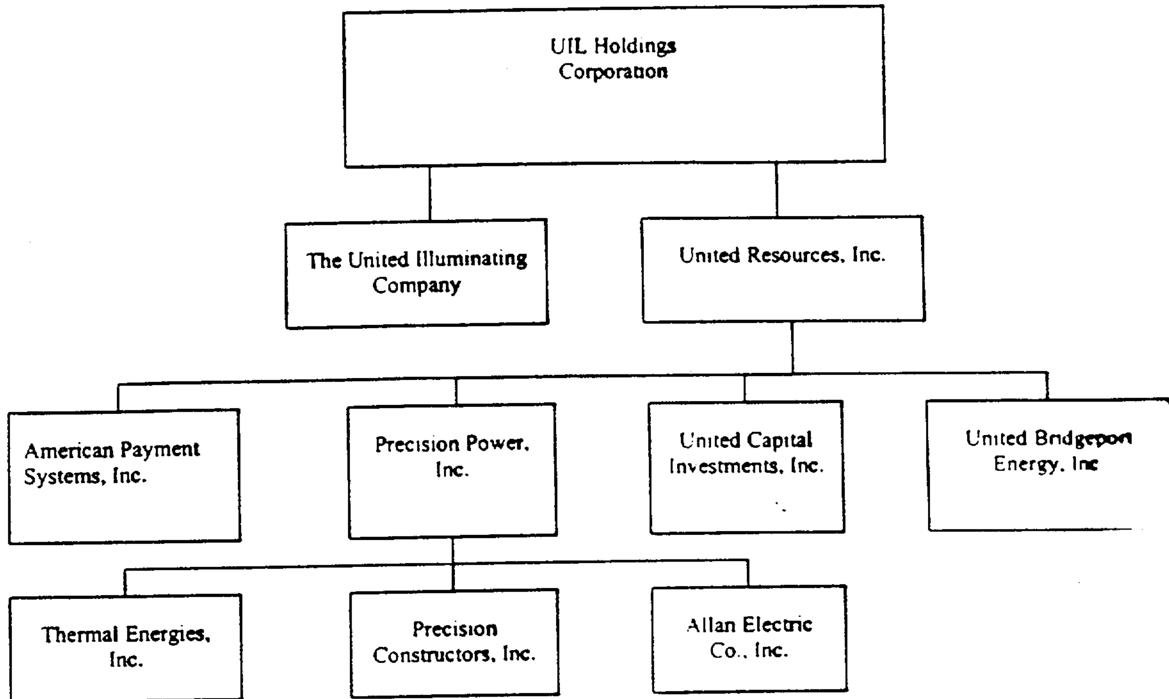
The following charts demonstrate the differences between United Illuminating's present organizational structure and the organizational structure of UIL Holdings after the merger and share exchange.

United Illuminating's current corporate structure is as follows:



The reorganized corporate structure after the completion of the plan of merger and share exchange is expected to be as follows:

THE UNITED ILLUMINATING COMPANY
REORGANIZED UNIT ORGANIZATION



UNITED ILLUMINATING COMPANY
REQUEST FOR CONSENT TO
CORPORATE REORGANIZATION

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
A	The United Illuminating Company Agreement and Plan of Merger and Share Exchange
B	Decision of the State of Connecticut DPUC Approving The United Illuminating Company Agreement and Plan of Merger and Share Exchange
C	Annual Report of The United Illuminating Company on Form 10-K/A-3 to the Securities Exchange Commission

THE UNITED ILLUMINATING COMPANY AGREEMENT AND PLAN OF MERGER AND SHARE EXCHANGE

EXHIBIT A

EXHIBIT A

AGREEMENT AND PLAN OF MERGER AND SHARE EXCHANGE

AGREEMENT AND PLAN OF MERGER AND SHARE EXCHANGE, dated as of January 24, 2000 (this "Agreement"), by and among The United Illuminating Company, a specially chartered Connecticut corporation ("UI"), UIL Holdings Corporation, a Connecticut corporation ("Holdings"), and United Mergings, Inc., a Connecticut corporation ("Mergings").

WHEREAS, the authorized capital stock of UI consists of (a) 30,000,000 shares of common stock, without par value (the "UI Common Stock"), (b) 1,119,612 shares of preferred stock, $100.00 par value per share, (c) 2,400,000 shares of preferred stock, $25.00 par value per share, and (d) 5,000,000 shares of preferred stock designated as preference stock, $25.00 par value per share; and

WHEREAS, the authorized capital stock of Holdings consists of 30,000,000 shares of common stock, without par value (the "Holdings Common Stock"), of which 100 shares are issued and outstanding as of the date hereof and held beneficially and of record by United Illuminating (b) 1,000,000 shares of preferred stock, $100.00 par value per share, (c) 4,000,000 shares of preferred stock, $25.00 par value per share, and (d) 4,000,000 shares of preferred stock designated as preference stock, $25.00 par value per share; and

WHEREAS, the authorized capital stock of Mergings consists of 10,000 shares of common stock, without par value (the "Mergings Common Stock") of which 100 shares are issued and outstanding as of the date hereof and held beneficially and of record by Holdings; and

WHEREAS, the respective Boards of Directors of United Illuminating, Holdings and Mergings have deemed it advisable and in the best interests of United Illuminating, Holdings and Mergings and their respective shareholders that (i) Mergings be merged with and into United Illuminating, with UI being the surviving corporation, (ii) each outstanding share of Mergings Common Stock be converted into one share of UI Common Stock, (iii) each outstanding share of UI Common Stock (excluding shares with respect to which dissenters' rights have been properly exercised) be converted into one share of Holdings Common Stock, and (iv) each share of Holdings Common Stock owned by UI be cancelled, all upon the terms and conditions herein provided (the "Plan of Merger and Share Exchange"); and

WHEREAS, United Illuminating as the sole shareowner of Holdings, and Holdings as the sole shareowner of Mergings, have each approved the Plan of Merger and Share Exchange, and the Board of Directors of UI has recommended that the shareowners of UI who are entitled to vote thereon approve the Plan of Merger and Exchange at a Special Meeting of the Shareowners of UI;

NOW, THEREFORE, in consideration of the mutual agreements and covenants set forth herein, United Illuminating, Holdings and Mergings hereby agree to merge and exchange shares in accordance with the following plan:

ARTICLE I

Merger and Share Exchange

On the Effective Date (as defined in Article III hereof) (i) Mergings shall be merged (the "Merger") with and into United Illuminating with UI being the surviving corporation (United Illuminating as constituted after the Effective Date is sometimes referred to herein as the "Surviving Corporation"), (ii) each outstanding share of Mergings Common Stock shall be automatically converted into and exchanged for one share of UI Common Stock, (iii) each outstanding share of UI Common Stock (excluding shares with respect to which dissenters' rights have been properly exercised) shall be automatically converted into and exchanged for one share of Holdings Common Stock, and (iv) each share of Holdings Common Stock owned by UI shall be automatically cancelled. The exchange of shares of UI Common Stock for shares of Holdings Common Stock, the related exchange of shares of Mergings Common Stock for shares of UI Common Stock and the related cancellation of shares of Holdings Common Stock owned by United Illuminating are hereinafter referred to as the "Share Exchange"

None of the other securities of United Illuminating, including its issued and outstanding preferred stock and preference stock, if any, shall be converted, exchanged or otherwise affected by the Merger or the Share Exchange.

ARTICLE II

Effect of Merger and Share Exchange

The Merger and the Share Exchange shall be effected in accordance with, and be subject to, the provisions of the applicable statutes of the State of Connecticut. The effect of the Merger and the Share Exchange shall be that provided herein and in Section 33-820 of the Connecticut Business Corporation Act ("CBCA").

ARTICLE III

Effective Date

Subject to the satisfaction or waiver of the conditions and obligations of the parties hereto, the Merger and the Share Exchange shall be effective at the close of business on the date of the filing of a Certificate of Merger and Share Exchange with the Secretary of the State of the State of Connecticut (the "Effective Date").

ARTICLE IV

Terms and Conditions of Merger and Share Exchange

A. On the Effective Date, the Certificate of Incorporation of UI as in existence on the Effective Date shall, without any further action on the part of the shareowners of UI or Mergings, be the Certificate of Incorporation of the Surviving Corporation. The Bylaws of UI shall be the Bylaws of the Surviving Corporation until altered, amended or repealed.

B. On the Effective Date, (i) each certificate that prior thereto represented an outstanding share or outstanding shares of UI Common Stock shall be deemed for all corporate purposes to evidence the ownership of the same number of shares of Holdings Common Stock, (ii) each certificate that prior thereto represented outstanding shares of Mergings Common Stock shall be deemed for all corporate purposes to evidence the ownership of the same number of shares of the Surviving Corporation's Common Stock, and (iii) each certificate held by UI that prior thereto represented outstanding shares of Holdings Common Stock shall be cancelled.

C. On and after the Effective Date, the members of the Board of Directors of UI shall be the members of the Board of Directors of the Surviving Corporation, the officers of UI shall be the officers of the Surviving Corporation, and said directors shall hold office until the next annual meeting of the shareowners of the Surviving Corporation or as otherwise provided by law or the Bylaws of the Surviving Corporation.

ARTICLE V

Conditions Precedent

The consummation of the Merger and the Share Exchange is subject to the following conditions precedent

A. the approval of the Plan of Merger and Share Exchange by the shareowners of UI;

B. the approval for listing, upon official notice of issuance, by the New York Stock Exchange, of the Holdings Common Stock to be issued in accordance with the Plan of Merger and Share Exchange;

C. the receipt of such orders, authorizations, approvals or waivers from regulatory bodies, boards or agencies as are required in connection with the Merger and the Share Exchange;

D. the receipt by UI of a tax opinion acceptable to UI's Board of Directors as to the Federal income tax consequences of the Merger and the Share Exchange;

E. the satisfaction of the respective obligations of the parties hereto in accordance with the terms and conditions herein contained; and

F. the execution and filing of the appropriate Certificate of Merger and Share Exchange with the Secretary of the State of the State of Connecticut.

EXHIBIT A

ARTICLE VI

Amendments, Modifications, Waivers and Termination

This Agreement may be amended, modified or supplemented, or compliance with any provision or condition hereof may be waived, at any time, by the mutual consent of the Boards of Directors of United Illuminating, Holdings and Mergings, provided, however, that no such amendment, modification, supplement or waiver shall be made or effected, if such amendment, modification, supplement or waiver, in the judgment of the Board of Directors of United Illuminating would materially and adversely affect the shareowners of United Illuminating.

This Agreement may be terminated and the Plan of Merger and Share Exchange and related transactions abandoned at any time prior to the time the Certificate of Merger and Share Exchange is filed with the Secretary of the State of the State of Connecticut, if the Board of Directors of UI determines, in its sole discretion, that consummation of the Merger and the Share Exchange would be inadvisable or not in the best interests of UI or its shareowners.

ARTICLE VII

Shareowner Approval

This Agreement shall be submitted to the shareowners of UI entitled to vote with respect to the Plan of Merger and Share Exchange for their approval as provided by the CBCA. United Illuminating as the sole shareowner of Holdings and Holdings, as the sole shareowner of Mergings, have each authorized and approved the Plan of Merger and Share Exchange.

ARTICLE VIII

Further Assurances

In case at any time after the Effective Date any further action is necessary or desirable to carry out the purposes of this Agreement, each of the parties will take such further action (including the execution and delivery of such further instruments and documents) as any other party may request, all at the sole cost and expense of the requesting party.

EXHIBIT A

IN WITNESS WHEREOF, each of the corporate parties hereto, pursuant to authority granted by their respective Boards of Directors, has caused this Agreement and Plan of Merger and Share Exchange to be executed by its duly authorized officer, as of the date first above written.

THE UNITED ILLUMINATING COMPANY

By: /s/ Robert L. Fiscus
Name: Robert L. Fiscus
Title: Vice Chairman of the Board of Directors,
Chief Financial Officer, Treasurer and Secretary

UIL HOLDINGS CORPORATION

By: /s/ Robert L. Fiscus
Name: Robert L. Fiscus
Title: Vice Chairman of the Board of Directors,
Chief Financial Officer, Treasurer and Secretary

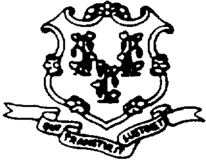
UNITED MERGINGS, INC.

By: /s/ Robert L. Fiscus
Name: Robert L. Fiscus
Title: Vice Chairman of the Board of Directors,
Chief Financial Officer, Treasurer and Secretary

EXHIBIT A

DECISION OF THE STATE OF CONNECTICUT DPUC APPROVING THE UNITED ILLUMINATING COMPANY AGREEMENT AND PLAN OF MERGER AND SHARE EXCHANGE

EXHIBIT B



STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC UTILITY CONTROL
TEN FRANKLIN SQUARE
NEW BRITAIN, CT 06051

DOCKET NO. 98-07-05 DPUC REVIEW OF THE UNITED ILLUMINATING COMPANY'S CORPORATE UNBUNDLING PLAN

May 19, 1999

By the following Commissioners:

Glenn Arthur
Linda Kelly Arnold
Donald W. Downes

DECISION

EXHIBIT B

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EXHIBIT B

DECISION

I. INTRODUCTION

A. SUMMARY

Section 5(a) of Public Act 98-28, An Act Concerning Electric Restructuring, codified at §16-244e(a) of the General Statutes of Connecticut, requires that each electric company, not later than October 1, 1998, must submit an unbundling plan to the Department of Public Utility Control to unbundle and separate, by October 1, 1999, all the company's generation assets that have not been sold pursuant to Conn. Gen. Stat. §16-43, or will not be divested as of January 1, 2000. The unbundling plan must also provide for the allocation of the rights and responsibilities between the electric distribution company and generation entities or affiliates.

This Decision determines that UI's unbundling plan is acceptable and will achieve the required separation of the generation segment from the regulated transmission and distribution functions of the Company. In so doing, the Department also approves UI's corporate holding company structure as proposed by the Company to achieve the separation of regulated and unregulated businesses. Under this structure, UI will not guarantee any debt or credit instruments of the holding company or any of the holding company's unregulated subsidiaries unless required by law. The Department also approves of UI's plan to submit its nuclear generation assets (ownership interests in Seabrook and Millstone 3) to a public auction held in a commercially reasonable manner. Further, the Department finds that it is appropriate for UI to place its nuclear generating assets into a separate corporate division for the period from October [illegible] 1999, to divestiture pursuant to the public auction. Last, the Department approves [illegible] UI's proposed financial accounting system (Cost Accounting Methodology Manual) which should assure that costs will be charged to UI, the holding company and other affiliates in accordance with cost causation. The Department believes that the appropriate segregation of costs according to business segment should assure that the regulated distribution company does not in any way subsidize the holding company's unregulated affiliates.

B. BACKGROUND

On October 1, 1998, pursuant to the requirements of Section 5 of Public Act 98-28, An Act Concerning Electric Restructuring (Act), The United Illuminating Company (UI or Company) filed with the Department of Public Utility Control (Department) [illegible] Petition for Approval of Corporate Unbundling (Unbundling Plan).[1] On November [illegible] 1998, UI submitted an application pursuant to Section 16-47 of the General Statutes [illegible] Connecticut (Conn. Gen. Stat.) for approval of a corporate restructuring of the Company into a holding company system with control over an electric public service company (Holding Company Application).

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[1] On the same date, the Company filed with the Department a divestiture plan regarding its non[illegible] generation assets. That plan is the subject of Docket No. 98-10-07, DPUC Review of The [illegible] Illuminating Company's Divestiture Plan.

EXHIBIT B

C. Conduct of the Proceeding

By Notice of Hearing dated November 30, 1998, the Department announced a public hearing to be held at its offices, Ten Franklin Square, New Britain, Connecticut, on December 22, 1998. That hearing was opened and immediately continued to February 8, 1999. By Notice of Hearing dated January 25, 1999, the hearing was rescheduled and held on February 18, and March 8, 1999.

By Notice of Scope of Proceeding dated January 29, 1999, the Department announced that the proceeding would be limited to issues directly related to corporate unbundling and establishment of a holding company, including the financial accounting system associated with corporate restructuring. Specifically, the Department announced that the following issues would not be considered in this docket: standard offer; stranded costs or the manner of recovery of stranded costs; the fuel adjustment clause; cost allocation; and the manner in which the Company's rates will be unbundled.

The Department issued a draft Decision on April 23, 1999, and all parties and intervenors were provided an opportunity to file written exceptions to, and present oral arguments on, the draft Decision.

D. Parties and Intervenors

The Department recognized the following as parties to this proceeding: The United Illuminating Company, P. O. Box 1564, New Haven, CT 06506-0901; Enron Energy Services, 2 Capital Plaza, Concord, NH 03301; and the Office of Consumer Counsel, Ten Franklin Square, New Britain, CT 06051.

The Department designated the following as intervenors: Attorney General of the State of Connecticut; Cellnet Data Systems; Connecticut Municipal Electric Energy Cooperative; and Connecticut Industrial Energy Consumers.

II. COMPANY'S PROPOSAL

According to UI, its corporate unbundling plan provides for a structure consistent with the restructuring contemplated in the Act. The plan includes divestiture of all of its non-nuclear generation assets other than the mothballed English Station. Unbundling Plan, p. 1. Because of this divestiture and the Company's intent to utilize the output from nuclear generation assets for sales in the wholesale market, UI included in its plan an explanation of how it intends to meet its obligations to serve customers from the time of closing of the sale of non-nuclear generation assets and in the standard offer period First, UI has entered into a power purchase arrangement with Wisvest-Connecticut, LLC (Wisvest), the purchaser of its two major non-nuclear generating plants, for Wisvest to supply UI's system requirements in excess of the nuclear generation and power purchase agreements retained by UI. Unbundling Plan, p. 2; Decision dated March 5, 1999, in Docket No. 98-10-07. This arrangement ends June 30, 2000. To serve standard offer and default service requirements commencing July 1, 2000, UI intends to enter into supply agreement(s) incorporating the intent of § 20 of the Act. Id. UI also proposed a purchased power adjustment clause under Conn. Gen. Stat. § 16-19b to become effective July 1, 2000.

With regard to its nuclear generation assets, UI proposes to establish a separate division within the Company to which the Company's retained minority ownership interests in Seabrook Unit I (Seabrook) and Millstone Unit 3 (Millstone 3) will be transferred, as an interim step in the corporate unbundling of these generation assets. Unbundling Plan, p. 3. UI states that this is an interim step, as it intends to sell its nuclear generation assets by January 1, 2004, in accordance with Section 7 of the Act. Id.

In its Unbundling Plan, UI proposes to establish a holding company system structure to implement the requirements of the Act. The proposed structure, purposes and transaction details are discussed below. UI's plan also includes a detailed cost accounting and transfer pricing system, the Cost Accounting Methodology Manual, that will serve as the basis for the preparation of financial statements and regulatory reporting in the future. Unbundling Plan, p. 4.

III. DEPARTMENT ANALYSIS

A. Request to Establish a Holding Company

UI determined that a holding company system structure would be the most effective means for the Company to implement the requirements of the Act. Unbundling Plan, p. 3. Specifically, UI believes that establishing a holding company system structure

> will facilitate the clear functional unbundling and separation of electric distribution company operations, activities, assets and liabilities from the Company's unregulated operations, activities, assets and liabilities that are unrelated to distribution company operations and functions, and (2) will afford UI the managerial, structural and financial flexibility necessary to meet challenges in the competitive marketplace.

Holding Company Application, pp. 5-6.

More specifically, UI testified that the holding company structure will better separate the regulated and unregulated operations compared to the current structure of the Company, that it will enable the managers of each business to focus more clearly on the goals of those businesses, and that it will enable UI to better track the costs and revenues of the regulated and unregulated businesses. Tr. 2/18/99, pp. 6-10.

UI also testified that the holding company structure will enable it to grow, thereby receiving better notice in the investment community. UI believes that being noticed in the investment community benefits ratepayers as well as shareholders because an increase in its stock price benefits everyone. UI testified that it intends to expand both its regulated and unregulated operations. With the divestiture of its fossil generation assets, UI would like to build up its regulated asset base by either buying some assets of another regulated company, or possibly merging with another distribution company Since these regulated businesses would provide a steady, predictable but probably low growth revenue stream, the Company would want to expand the unregulated

businesses, which would have a higher growth rate. The result of this expansion, UI predicts, is that the holding company would have a higher price earnings ratio in the marketplace than UI has now and the value of the holding company's stock would be higher than UI's stock is now. UI believes this would have a favorable impact on both the regulated and unregulated business. Tr. 2/18/99, pp. 6-10, 55, 56, 94, 95 and 173.

To carry out the proposed restructuring into a holding company system, the Company will form a new subsidiary, a Connecticut corporation, UIL Holdings, Inc. (Holdings). Tr. 3/8/99, p. 294. A merger agreement will be entered into between the Company and Holdings. The restructuring will be implemented through a reverse triangle merger (Merger), a common transaction employed in corporate restructurings. Shortly before the restructuring effective date, Holdings will form a new subsidiary of its own, a Connecticut corporation named United Mergings, Inc. (Mergings). Mergings will be a short-lived entity, created and used solely to effectuate the Merger. Unbundling Plan, p.15. Pursuant to the merger agreement, the following events will occur on the effective date of the merger:

a) Mergings will merge into the Company, with the Company being the surviving corporation;

b) Each outstanding share of UI common stock will automatically be converted into a share of Holdings common stock;

c) The outstanding shares of Mergings common stock (that is, shares issued to Holdings at the time of Mergings was formed) will be converted into the same number of shares of UI common stock outstanding immediately prior to the share conversion;

d) Each share of Holdings common stock issued to the Company when Holdings was formed will be canceled; and

e) The name of Holdings will be changed to UIL Holdings, Inc., and the Company's name will stay the same, The United Illuminating Company.

Unbundling Plan, pp. 15 and 16; Tr. 3/8/99, pp. 294-295.

As a result of the Merger, the Company will become a subsidiary of a holding company that will own all outstanding shares of common stock of the Company. Basically, the reverse triangle merger is a legal process that ensures that none of the entities disappear while all the common stock exchanges occur and allows continuity between the distribution and the holding company. Tr. 2/18/99, pp. 103-105. The Merger will not result in any change in the terms of the outstanding preferred stock of the Company, which will remain outstanding at the Company level and will not be converted into, or otherwise become, a security of Holdings. Similarly, the debt securities and other indebtedness of the Company will continue to be obligations of the Company. The Directors of the Company will become Directors of Holdings upon completion of the Merger. Unbundling Plan, p. 16.

UI needs the approval of the Department, the Nuclear Regulatory Commission (NRC) and the stockholders before it can form the holding company. UI expects to propose the holding company structure to the stockholders for their approval at the annual meeting in May. Once UI has all the approvals, it estimates it will take about two weeks to actually form the holding company. Tr. 2/18/99, p. 85.

OCC supports UI's proposal to form a holding company "provided certain affiliate transaction protections are incorporated into the proposal." OCC Brief, p. 1. However, OCC also takes the position that "the Department should not approve the holding company application in this proceeding," but rather should direct the Company to develop a Code of Conduct. Id., p. 5. See discussion in Section II. E., Code of Conduct, below. The AG did not oppose the creation of a holding company. AG Brief, pp. 6-8.

The Department believes that it is appropriate to make a clear separation between regulated and unregulated operations. Providing appropriate methods to separate and track costs of each subsidiary are in place, as discussed in Section II. D., Cost Accounting Methodology Manual, below, the Department does not believe the holding company structure will in any way harm regulated utility operations. Therefore, the Department approves UI's request to establish a holding company. The regulated distribution company shall become a subsidiary of the holding company. UI's current unregulated subsidiaries shall become unregulated subsidiaries of the holding company.

Currently, UI does not guarantee operations or make any financial guarantees to the outside world for its subsidiaries. Tr. 2/18/99, p. 87. As far as financing by its subsidiaries, UI states that it has been careful to not do anything in the financing arena that would incur risks or create a reward situation for its ratepayers. Tr. 2/18/99, pp 87 and 88. Under the holding company structure, the subsidiaries may be able to engage in more leveraged financing activities. Id. The holding company could provide financial guarantees for the unregulated subsidiaries, but that is not something the Company's officers would encourage. According to UI, the Company's officers would not want to affect the holding company's credit rating by making guarantees for the subsidiaries. Tr. 2/18/99, pp. 88-90. Other than for a nuclear division or subsidiary, UI stated that the distribution company would not guarantee any debt or credit instruments of the holding company or any of the holding company's unregulated subsidiaries unless a future situation should arise where the law would require a guarantee. Tr. 3/8/99, pp. 254 and 255.

UI testified that the regulated company's cost of capital should not be reflective of the risks that may exist in the unregulated operations. Tr. 3/8/99, p. 263. The AG concurs that the regulated distribution company should be protected from capital costs that are the results of activities of the holding company's unregulated subsidiaries. AG Brief, p. 8.

The Department agrees that the regulated distribution company should not guarantee or be involved in any other manner with financings of the holding company or any of the holding company's other subsidiaries The Department will determine the degree of risk between the regulated distribution company, the holding company and its

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unregulated subsidiaries to establish the appropriate rate of return and authorized capital structure in future rate case proceedings.

UI indicated in the Unbundling Plan that it needed to select names for the holding company and the distribution company. Possible choices were The United Illuminating Company or UI Co. for the holding company and UI Distribution Company for the regulated distribution company. Unbundling Plan, pp. 11 and 12. The potential names raised concerns during the hearing about who owned the rights to the name and whether or not UI ratepayers should be compensated for the use of the name. UI believes that ratepayers do not own The United Illuminating Company name and that the Department does not need to approve the holding company name. UI indicated it would come up with the names by the time it mailed the proxy statements to shareholders in the latter half of March. Tr. 2/18/99, pp. 119-131. The Company now expects the holding company's name will be UIL Holdings, Inc., selected from its stock exchange symbol, and the regulated distribution company's name will be The United Illuminating Company, the same as it is now. Tr. 3/8/99, pp. 294 and 295. Therefore according to UI, there is no reason to consider whether or not a royalty payment could be imposed on the holding company. UI Brief, p. 8.

The AG questioned the benefits that the unregulated affiliates could obtain from the use of UI personnel or property that displays the UI name or logo and indicated that the Department should consider royalty payments to UI's ratepayers for that use. Tr. 3/8/99, pp. 288-293; AG Brief, p. 7; AG Reply Brief, pp 4 and 5.

The Department concurs with UI that royalty payment for the holding company name is not an issue at this time, since the Company plans to name the holding company UIL Holdings, Inc. However, if the name changes, the Department will revisit this issue. The Department also finds that the use of UI personnel or property by any unregulated affiliate is a cost allocation issue, not a royalty payment issue. As such the Company should follow procedures set out in the Cost Accounting Methodology Manual (CAMM), as discussed in Section II. D., below, to account for those costs properly

UI sees the costs of setting up the holding company as being a cost of implementing restructuring that should be shared between customers and shareholders. Tr. 3/9/99, pp. 265-266. One of the reasons UI has requested to set up a holding company is to implement the requirements of Public Act 98-28. Id. Also, UI referred to prior Department rulings seeking a clean separation between the regulated company and unregulated companies. Id. However, UI conceded that it could operate the distribution company without the holding company structure. Tr. 3/9/99, p. 264

OCC and AG believe that it is not necessary for UI to create a holding company to continue the activities of the distribution company and that, since the shareholders not the ratepayers, will benefit from the creation of the holding company, shareholders should bear the costs to create it. OCC Brief, p. 5; AG Brief, p. 6.

The Department concurs with OCC and AG. UI has not been ordered to create a holding company structure, nor is that corporate structure necessary for it to continue the regulated activities of the distribution company. Therefore, all costs associated with the proposed corporate restructuring shall be borne by shareholders.

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B. COST ACCOUNTING METHODOLOGY MANUAL

As part of the corporate unbundling plan, UI has submitted its Cost Accounting Methodology Manual (CAMM), a detailed cost accounting and transfer pricing system, which it believes provides for proper assignment and allocation of costs among the activities within the restructured company. Unbundling Plan, p. 4 and Appendix One; Tr. 2/18/99, p. 12; UI Brief, p. 6. UI envisions that the regulated utility will continue to be the primary subsidiary of the holding company and that support and corporate services will continue to be provided out of the regulated utility company. Tr. 2/18/99, pp. 11 and 12. UI does not envision any changes to the CAMM in the immediate term; however, the Company will review the CAMM over time to see if any allocators need to change as it divests its generation. Tr. 2/18/99, p. 154. As UI sells off its generation, it will look at the overall support functions to see which ones could be downsized. The remaining costs would get allocated to the Company's other business units. Tr. 2/18/99, p. 157.

The CAMM includes some allocators that are different from those approved in the Decision dated July 29, 1998, in Docket No. 97-01-15, DPUC Review of Electric Companies Cost of Service and Unbundled Tariffs. UI provided a side-by-side comparison of the approved cost allocations in Docket No. 97-01-15 by account and the allocations UI proposes to use in the CAMM. Response to Interrogatory EL-17. UI then separated the costs into five groups. The first group contains costs where UI's methodology in the CAMM matches the Department's findings in Docket No. 97-01-15. In the second group, UI identified the costs it allocated in the CAMM consistent with revised allocations approved in the Decision dated January 13, 1999, in Docket No 98-06-17, DPUC Investigation into Billing and Metering Protocols and Appropriate Cost-Sharing Allocations among Electric Distribution Companies and Electric Suppliers.

In the third group, UI identified categories of costs that it will first "direct charge," if possible, with any residual costs allocated on the best cost causation basis that UI believes is consistent with the language in the Decision in Docket No. 97-01-15. Tr 2/18/99, pp. 21 and 22. Late Filed Exhibit No. 1. Administrative and general (A&G) costs are part of the third group. In Docket No. 97-01-15, these costs were to be allocated using a plant or rate base allocator. After divestiture, the plant and rate base for generation will be gone. Therefore, UI looked to other types of allocators for the A&G and similar types of indirect costs and put forward its allocation proposals in the CAMM. Tr. 3/8/99, pp. 229 and 230.

The fourth group contains costs, including uncollectibles, that UI has not proposed to allocate in accordance with Docket No. 97-01-15, but for which UI believes its allocations are consistent with new requirements of the Act. Tr. 2/18/99, pp. 22 and 23. Late Filed Exhibit No. 1. Going forward, UI will have uncollectibles only for distribution revenues and possibly generation service revenues for low income and moratorium customers on standard offer. UI believes these costs should be directly assigned to the distribution company. Tr. 3/8/99, pp. 239 and 240.

The last group contains costs that UI believes will be incurred only by the distribution company after corporate unbundling and divestiture. Therefore, UI believes they should be charged to the distribution company and not allocated as required by the

Decision in Docket No. 97-01-15. Tr. 2/18/99, pp. 23 and 24. Late Filed Exhibit No. 1 Included in the last group are customer call center costs. UI believes it would not be able to recover those costs under the approved allocation methodology. While UI believes it cannot discontinue call center services, it is concerned about when it would be allowed to collect those costs. Any reductions to the staffing levels for the purpose of reducing costs might affect call waiting time for customers and the quality of customer service. Tr. 2/18/99, pp. 142-144.

UI proposed that an internal audit would be done every two years on its compliance with the CAMM, with the results of the audit made available to the Department. Unbundling Plan, p. 18; Response to Interrogatory EL-13. One reason for the audit is the anticipated growth in the unregulated subsidiaries. Tr. 2/18/99, pp. 135 and 136.

The Department approves UI's proposed changes to the allocators approved in Docket No. 97-01-15 as identified in Late Filed Exhibit No. 1. The Department agrees with UI that changes to the previously approved allocators are necessary as a result of the divestiture of generation assets and the treatment of billing and metering services required by the Act. The use of plant or rate base is no longer appropriate to allocate general costs between functions because UI has divested its fossil generation and its remaining nuclear entitlements are essentially purchased power arrangements. UI is not the operator of any of its nuclear entitlements, so it does not have the same level of operating costs, overhead, and administrative expenses that it would have if it were responsible for the day to day operations of the nuclear facilities. The Company plans to assign more costs directly than in the past. Those costs not directly assigned are often allocated based on the same percentages as those that are directly assigned, which is now feasible because of modifications to UI's accounting system. Tr. 3/8/99, pp. 234-236. The Department finds these assignments to be reasonable. In addition, the assignment of corporate costs to business units based on the weighted average share of total company revenue, payroll, and assets, as explained in the March 8, 1999, hearing, is consistent with past Department Decisions allocating general costs to all functions. Id., pp. 242-243. UI should allocate regulatory costs, particularly for the Federal Energy Regulatory Commission, the State Department of Environmental Protection, and the NRC, to generation where appropriate.

In Docket No. 98-06-17, the Department ordered the Company to develop charges to bill suppliers for customer service, when appropriate. Therefore, allocation of the call center and other customer service costs to the distribution function has the same overall effect on distribution costs as the previous allocation method approved in Docket No. 97-01-15. For the foregoing reasons, the Department approves the CAMM as proposed by UI. UI should file any changes to the CAMM on an annual basis through 2001. This will better enable the Department to monitor the allocators and allocation methodologies UI uses.

The Department agrees that the results of the internal audit should be filed with the Department. As part of that filing, UI should include management's responses to any recommendations, including actions UI will take to correct any deficiencies, and any changes to the CAMM that result from the internal audit. The Department also notes

that it has the authority to examine the transactions between a regulated utility and its affiliates pursuant to Conn. Gen. Stat. Section 16-8(c).

In addition, Recommendations VII-1, VII-2 and VII-3 of the Department's December 1997 management audit report involved UI's relationship with its affiliates, including its cost allocation methodology. The audit report indicated that UI should monitor the activities between UI and its affiliates, have processes and procedures set up to govern them and maintain documentation as to the benefits of the relationships to the regulated company. Response to Interrogatory EL-13; Tr. 2/18/99, p. 137. UI is in the process of responding to the recommendations and expects to complete the tasks by the end of the second quarter 1999. Late Filed Exhibit No. 5.

UI shall file its responses to recommendations VII-1, VII-2 and VII-3 with the Department in this docket. The responses should include all affiliates of the holding company.

C. CODE OF CONDUCT

OCC and AG raised the issue of potential cross-subsidization and affiliate transactions in a holding company system structure. Although OCC supports the holding company structure as an appropriate way to segregate the affiliates, regulated and unregulated, in a restructured environment, OCC cautions that affiliate transactions must be strictly governed to prevent misuse or misapplication of regulated affiliate resources to unregulated affiliates. OCC Brief, p. 5. Therefore, OCC suggests that the Department should not approve the holding company application in this proceeding but rather should direct the Company to develop a code of conduct to ensure that the regulated company does not subsidize the unregulated affiliates in any way. Id. AG believes the Department should review cost allocations between affiliates beyond just approving the CAMM. AG Reply Brief, p. 5. AG further believes that the Department should enact a code of conduct governing transactions between the distribution company and unregulated affiliates. AG Brief, p. 7.

UI puts forward several reasons for rejecting the arguments of OCC and the AG First, UI argues that a code of conduct is unnecessary because the CAMM assures that costs will be charged to UI, the holding company or another affiliate in accordance with cost causation, and that clear cost accounting is sufficient to prevent cross-subsidization between regulated and unregulated companies. Reply Brief, p. 3; Tr. 3/8/99, pp 288-292. Secondly, UI argues that there is no factual record upon which to grant the request for a code of conduct. Reply Brief, p. 3. Third, UI argues that if the Department wants to consider a code of conduct governing affiliate transactions, it should open a generic proceeding. Id, Tr. 3/8/99, p. 300. Finally, UI argues that OCC and the AG had the opportunity to argue in Docket No. 98-06-11, DPUC Promulgation of Regulations on Codes of Conduct for Electric Distribution Companies, that a broader code of conduct should be considered by the Department but they chose not to raise these issues Reply Brief, p. 4.

The chief area of potential abuse that electric industry restructuring presents involves the regulated distribution company and unregulated generation entity or affiliate. Both AG and OCC are correct to voice their concerns on this issue. It is this

same relationship that most concerned the General Assembly. In this regard, Section 15 of the Act directed the Department to adopt a code of conduct governing the relationship between the distribution company and its unregulated generation affiliates These regulations have been adopted and submitted for approval.

An important feature of UI's divestiture plan and corporate unbundling plan is that after July 1, 2000, UI's nuclear entitlements will be sold into the wholesale market only, making the potential for market or economic abuse minimal. UI will be subject to the code of conduct regulations. However, the OCC and AG arguments go beyond the relationship governed by the code of conduct regulations. Their concern is that the regulated company does not subsidize unregulated operations in any way.

UI is the last major public service company in Connecticut to adopt a holding company system structure. The CAMM is geared to assure proper allocation of cost responsibilities, using direct cost assignment wherever possible. Tr. 2/18/99, pp. 10-14 When services are sought from and furnished by the holding company, they are charged to the subsidiary. Response to Interrogatory EL-31. Most of the parent services are in managerial service, employee benefit programs and in payroll and payroll-related costs. The holding company structure is not a new or unique corporate form and UI's conversion to this corporate structure does not warrant a UI-specific code of conduct for its proper functioning.

Further, there is on-going statutory oversight by the Department over holding companies in existing law. Section 16-8c provides for Department audit of transactions between a public service company and a related holding company or subsidiary that is not itself a public service company. The purpose of the statute is "to ensure that transactions do not have an adverse impact on the costs or revenues of the public service company, the rates and charges paid by the customer of the public service company or upon the quality of service of such public service company." Thus, law already appropriately provides for the concerns of OCC and AG.

D. Nuclear Generation Assets and Purchased Power Contracts

1. Nuclear Generation Assets

UI holds ownership, including leasehold interests pursuant to a sale/leaseback agreement, totaling 17.5% in Seabrook (203 35 megawatts) and 3.68% in Millstone 3 (41.26 megawatts). Seabrook is jointly owned by 11 New England electric utility companies, including UI, and is operated by North Atlantic Energy Service Company, a service company subsidiary of Northeast Utilities (NU). Millstone 3 is jointly owned by 13 New England utilities, including UI, and is operated by Northeast Nuclear Energy Company, another service subsidiary of NU Both units are subject to licensing requirements and jurisdiction of the NRC The Company is invoiced monthly for its ownership share of the operating and capital costs of each plant. A small staff of UI employees monitors the operation of the plants and their budgets and costs.

Until June 30, 2000, UI will use its share of the capacity and output of the plants to furnish service to the Company's retail customers, including the standard offer However, after July 1, 2000, when all customers will have the right to choose generation

suppliers. UI will sell the capacity and output of these units into the wholesale power market only. Because of the wholesale-only use of these nuclear entitlements and the absence of any purchase/sale transactions, UI claims there is no need to develop transfer pricing between a generation affiliate and the distribution segment of the Company. Further, revenues received from wholesale sales will be segregated from revenues collected by the Company for its transmission, distribution and retail sales functions. Unbundling Plan, p. 7.

UI intends to divest itself of its ownership interests in both nuclear plants in a time frame that will allow divestiture to occur by January 1, 2004, in accordance with Section 7 of the Act.[2] In the holding company structure, UI intends to establish a separate division into which the Company's retained minority ownership interests in Seabrook and Millstone 3 nuclear generation assets will be transferred. Unbundling Plan, p. 3. This will be an interim step prior to full divestiture of these units and in furtherance of its corporate unbundling strategy. It is UI's position that the assigning of the legacy nuclear assets to a division rather than establishing a separate corporate subsidiary will reduce time and on-going costs without adversely affecting the functional separation of the operation and costs of these units from the electric distribution company's regulated operations and costs.[3]

In support of its plan to place the units in a corporate division rather than a legally separate subsidiary, UI states that it is more cost and time efficient to transfer the nuclear assets to a functionally separate division than to a legally distinct corporate affiliate. Tr. 2/18/99, pp. 10-11, 36-38, 107-108.

The Company's Unbundling Plan sets forth some of the requirements for transfer of these assets to separate subsidiaries. Unbundling Plan, pp. 9-10. First, UI would need the consent of the NRC. Since the separate subsidiaries would control the ownership interests in the licenses, the NRC would need assurance that the new legal owners would have the ability to accumulate adequate funds for operation and decommissioning over the operating life of the units. Since the new subsidiaries would not be entitled to recover funds for operation and spent fuel disposal through regulated rates after January 1, 2000, the NRC would likely require a guarantee by the Company for the funding needs of nuclear subsidiary. It is further likely that the other owners would demand the same guarantee as a condition of their support of the Company's request to the NRC. Further, the Company would need to obtain certain consents to amend the terms and conditions of its Seabrook sale/leaseback arrangement [illegible] also be necessary to obtain modifications to the terms and conditions of the [illegible]

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2 Section 7(b) states in salient part: Not later than January 1, 2004, each electric distribution [illegible] shall either (1) submit its nuclear generation assets to a public auction held in a com[illegible] reasonable manner . . . in order to divest itself of remaining nuclear generation assets, or [illegible] remaining nuclear generation assets to one of more legally separate corporate affiliates at [illegible] value, in which case no stranded costs shall be recovered.

3 UI will fully separate its ownership interests in Seabrook and Millstone 3 from all of its other assets [illegible] a functional basis. There will be separate divisional income statements and balance sheets [illegible] divisional accounting will be used to segregate all revenue, expenses, assets and [illegible] Unbundling Plan, p. 7.

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documents that govern approximately $200 million for its ownership share of pollution control facilities at both units.[4]

If UI were successful in arranging the sale of these nuclear assets by 2004, the license transfer and refinancing efforts would still have to be undertaken. However, these steps would be the final ones necessary for the Company to achieve total generation divestiture. If the Company were to undertake the transfer to a legally distinct subsidiary at this time, the whole approval and consent process would have to be repeated when the units are ultimately sold.

Both the OCC and AG take legal exception to the Company's proposal to transfer the units to a corporate but functionally separate division. OCC Brief, p. 2; AG Brief, p. 3. It is their belief that the Company is required to transfer the units to a subsidiary and that the transfer to a division would violate section 5(a)(3).[5] They argue that, on or before January 1, 2000, UI must transfer its nuclear assets into a corporate affiliate and that the Company cannot keep its nuclear assets in a division after that date unless it can show that it is required to do so by the NRC. AG Brief, p. 3; OCC Brief, p. 2.

The Department believes that UI's plan to permanently divest itself of its ownership interests in its nuclear assets by January 1, 2004, is in accord with the requirements of the Act. Further, its plan to unbundle and separate these generation assets, effective October 1, 1999, by placing them in a corporate division is in accordance with Sections 5 and 7 of the Act.

Between October 1, 1999, and January 1, 2004, it is entirely appropriate to accomplish the required Section 5 functional separation by the placement of nuclear assets in a separate corporate division. UI does not intend to retain and transfer its nuclear assets on a permanent basis, but rather intends to submit these assets to a public auction. UI's plan to divest "pursuant to section 7 of this Act" is as exactly directed by Section 5(a)(3). The January 1, 2000, date is cited in Section 5(a)(3), however, it used as a definitional term to identify the assets to which the Section refers, i.e., those "nuclear assets that will not be sold by January 1, 2000," rather than as a mandatory date for the company to complete an act. Contrast the use of the date in Section 5 with language that cites a date by which an act is required to be done, such as in Section 7(d)(2): "Not later than January 1, 2004, the electric distribution company shall transfer the nuclear generation assets . . . to one or more separate corporate affiliates." Section 5 merely directs that, for assets not sold by January 1, 2000,

4 There are at least three refinancings for various debt covenants that would have to be undertaken to transfer UI's ownership share to a stand alone subsidiary: Seabrook Lease Obligation Bonds, Connecticut Pollution Control Revenue Bonds issued in connection with Millstone 3, and New Hampshire Business Finance Authority bonds issued in connection with Seabrook. LF-2 UI Brief p. 3.

5 Section 5(a)(3) provides: "For any nuclear generation assets that will not be sold by January 1, 2000 unbundling and separation shall occur by (A) divestiture pursuant to Section 7 of this Act, (B) transfer on a functional basis to one or more corporate affiliates that are legally separate from the company's distribution and transmission assets and all related operations and functions, or (C) if required to comply with rules, regulations or licensing requirements of the United States Regulatory Commission transfer on a functional basis to one or more divisions that are structurally separate from the electric distribution company."

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unbundling and separation shall occur by divestiture pursuant to Section 7. The language of Section 7 of the Act is clear and unambiguous: an electric company is not required to transfer its nuclear assets to a corporate affiliate until January 1, 2004. The Department is satisfied that the functional unbundling and separation of these assets as of October 1, 1999, is achieved by their placement in a separate corporate division until divested no later than January 1, 2004.

In further support of this interpretation, the Department notes the time frame set forth in Section 7(e). Section 7(e) addresses the recovery of costs associated with nuclear generation assets in the competitive transition charge. The language in this section states: "On or **after** January 1, 2000, and **prior** to the date when a nuclear generation asset is sold at public auction **or** transferred to a corporate affiliate . . ." [Emphasis added.] According to the argument of the OCC and AG, no such time period would exist, as they believe Section 5 requires the transfer of nuclear assets (either to a subsidiary or division, if required by the NRC) not later than January 1, 2000. The clear legislative intent in Section 7 is that January 1, 2004 is the deadline by which the transfer of nuclear assets to a corporate affiliate must be accomplished. The fact that Section 5 states that unbundling and separation shall occur by way of divestiture pursuant to Section 7 makes both sections of the Act internally consistent. The AG and OCC interpretation of the use of the January 1, 2000 date in Section 5 creates an irreconcilable conflict with the time frame set forth in Section 7. The Department is required to interpret statutes with the presumption that the legislature created a harmonious and consistent body of law.

The Department agrees with the Company's view that transfer of the nuclear units to a division rather than a subsidiary is both legally permissible and the better course of action, taking into account that such transfer is interim pending final divestiture at public auction and that its associated operations and costs will be functionally separated from the Company's regulated distribution operations.

2. Purchased Power Contracts

UI plans to include its purchased power contracts in the same corporate division as its nuclear assets. The Company would sell its largest independent power producer contract, Bridgeport RESCO, into the wholesale market, but may keep its smaller obligations to help supply the standard offer. Tr. 3/8/99, p. 238. The Department believes UI's plan to include these contracts in the division with the nuclear assets is appropriate and consistent with the Act. The Department will determine whether purchased power contracts should be used for the standard offer or sold into the wholesale market in Docket No. 99-03-35, DPUC Determination of The United Illuminating Company's Standard Offer.

E. ENGLISH STATION

UI believes that English Station should not be considered a generation asset for the purpose of transfer to a generation affiliate because it is not operating. Response to Interrogatory EL-4. Also, as with its nuclear entitlements, UI does not believe it is appropriate to transfer the remaining English Station investment to a separate subsidiary at this time because of the time and expense involved. Tr. 2/18/99, p. 11. In

UI's view, the plant should be decommissioned and dismantled and put in a condition in which the property can be sold. Tr. 2/18/99, p. 11.

The Department is currently reviewing the decommissioning of English Station in Docket No. 98-10-07. Because English Station is no longer a viable generating site, UI feels the plant should remain with the distribution company while the Company awaits Department action on the request to decommission the plant in Docket No. 98-10-07 Tr. 3/8/99, p. 225. Currently UI's remaining investment in English Station is recorded as plant held for future use. Tr. 3/8/99, p. 225. UI believes the plant should be transferred to nonutility property because the Company does not intend to use the plant as a future generating site. Tr. 3/8/99, pp. 225 and 226.

The Department believes there is no need to transfer English Station to a separate subsidiary or division since it is not operating and there are no plans by UI to operate this facility as a generation plant in the future. UI should keep the remaining plant balance with the distribution company as plant held for future use. If the status changes, then it may be appropriate to revisit this issue.

III. FINDINGS OF FACT

1. In its Unbundling Plan, UI proposes to establish a holding company structure.
2. The restructuring into a holding company system will be implemented through a reverse triangle merger.
3. As a result of the Merger, the Company will become a subsidiary of a holding company that will own all outstanding shares of common stock of the Company
4. UI determined that a holding company system was the best corporate structure for the Company to implement the requirements of the Act.
5. UI could operate the distribution company without the holding company structure
6. Currently UI does not guarantee operations or make any financial guarantees to the outside world for its subsidiaries.
7. Other than for a nuclear division or subsidiary, the distribution company will not guarantee any debt or credit instruments of the holding company or any of the holding company's unregulated subsidiaries unless required by law.
8. The Company expects the holding company's name will be UIL Holdings, Inc. and the regulated distribution company's name will be The United Illuminating Company.
9. UI's Cost Accounting Methodology Manual is a detailed cost accounting and transfer pricing system that assigns and allocates costs among the activities within the restructured company.

10. UI provided a side-by-side comparison of the Department approved cost allocations in Docket No. 97-01-15 by account and the allocations UI proposes to use in the CAMM.

11. UI proposed that an internal audit be done every two years on its compliance with the CAMM and that the results of the audit be made available to the Department.

12. UI is in the process of responding to the recommendations of a December 1997 management audit concerning UI's relationship with its affiliates, including its cost allocation methodology.

13. UI holds ownership, including leasehold interests pursuant to a sale/leaseback agreement, totaling 17.5% in Seabrook (203.35 megawatts) and a 3.68% in Millstone 3 (41.26 megawatts).

14. UI is a non-operating minority owner of both Seabrook and Millstone 3.

15. In the holding company structure, UI intends to establish a separate division into which the Company's retained minority ownership interests in Seabrook and Millstone 3 will be transferred.

16. To transfer its nuclear ownership interests to a separate subsidiary, UI would have to obtain the approval of the NRC, which would likely require financial guarantees from the Company, and of the other owners of the plants, and UI would also need to amend the terms and conditions of its Seabrook sale/leaseback arrangement and the financing of pollution control facilities at both plants.

17. UI intends to divest itself of its ownership interests in both nuclear plants in a time frame that will allow divestiture to occur by January 1, 2004.

18. UI plans to include its purchased power contracts in the same corporate division as its nuclear assets.

19. Currently, UI's remaining investment in English Station is recorded as plant held for future use.

IV. CONCLUSION AND ORDERS

A. Conclusion

The Department concludes that UI's unbundling plan is acceptable and will achieve the required separation of the generation segment from the regulated transmission and distribution functions of the Company. In so doing, the Department also approves the corporate holding company structure as proposed by the Company to achieve the separation of regulated and unregulated businesses. The Department also approves of UI's plan to submit its nuclear generation assets (ownership interests in Seabrook and Millstone 3) to a public auction held in a commercially reasonable

manner. Further, the Department finds that it is appropriate for UI to place its nuclear generating assets into a separate corporate division for the period from October 1 1999, to divestiture pursuant to the public auction. Last, the Department approves of UI's proposed financial accounting system (Cost Accounting Methodology Manual) which will insure that costs will be charged to UI, the holding company and other affiliates in accordance with cost causation.

Under the holding company structure, UI will not guarantee any debt or credit instruments of the holding company or any of the holding company's unregulated subsidiaries unless required by law. Ratepayers will not be responsible for the costs of establishing the holding company.

B. ORDERS

For the following Orders, please submit an original and five copies of any requested material, identified by Docket Number, Title, and Order Number, to the Executive Secretary.

1. By July 15, 1999, UI shall file its responses to the 1997 management audit recommendations VII-1, VII-2 and VII-3. The responses shall include all affiliates of the holding company.

2. On September 1, 1999, 2000 and 2001, UI shall file any changes to the CAMM If no changes have been made, UI shall so report.

3. Within 30 days following the completion of the corporate restructuring, the Company shall so notify the Department. The Company shall file documentation that the restructuring is complete along with all formal documents related to the establishment of the holding company.

4. Within 30 days following the completion of the corporate restructuring, the Company shall notify the Department of any variance from the proposed corporate restructuring.

5. UI shall follow procedures set out in the Cost Accounting Methodology Manual to properly account for the use of UI personnel or property by any unregulated affiliate.

6. UI shall timely file the results of future internal audits of the CAMM. As part of those filings, UI shall include management's responses to any recommendations including actions UI will take to correct any deficiencies, and any changes to the CAMM that result from the internal audit.

EXHIBIT B

DOCKET NO. 98-07-05 DPUC REVIEW OF THE UNITED ILLUMINATING COMPANY'S CORPORATE UNBUNDLING PLAN

This Decision is adopted by the following Commissioners:

Glenn Arthur

Linda Kelly Arnold

Donald W. Downes

CERTIFICATE OF SERVICE

The foregoing is a true and correct copy of the Decision issued by the Department of Public Utility Control, State of Connecticut, and was forwarded by Certified Mail to all parties of record in this proceeding on the date indicated.

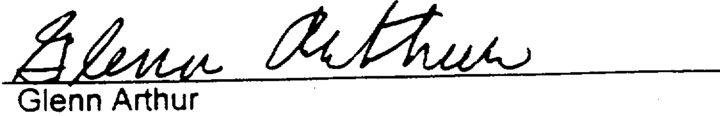
Louise E. Rickard
Acting Executive Secretary
Department of Public Utility Control

Date

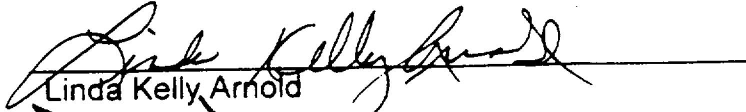
EXHIBIT B

DOCKET NO. 98-07-05 DPUC REVIEW OF THE UNITED ILLUMINATING COMPANY'S CORPORATE UNBUNDLING PLAN

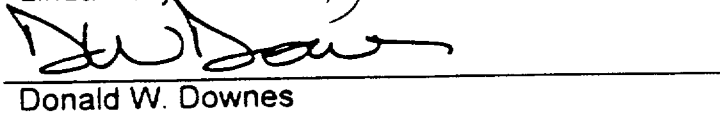
This Decision is adopted by the following Commissioners:



Glenn Arthur



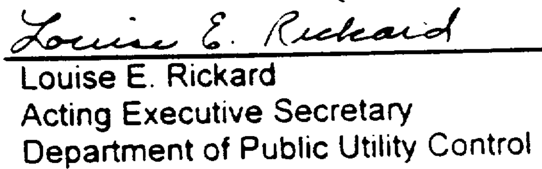
Linda Kelly Arnold



Donald W. Downes

CERTIFICATE OF SERVICE

The foregoing is a true and correct copy of the Decision issued by the Department of Public Utility Control, State of Connecticut, and was forwarded by Certified Mail to all parties of record in this proceeding on the date indicated.



Louise E. Rickard
Acting Executive Secretary
Department of Public Utility Control

MAY 19 1999
Date

EXHIBIT B

ANNUAL REPORT OF THE UNITED ILLUMINATING COMPANY ON FORM 10-K/A-3 TO THE SECURITIES EXCHANGE COMMISSION

EXHIBIT C

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CONFORMED SUBMISSION TYPE: 10-K/A
PUBLIC DOCUMENT COUNT: 4
CONFORMED PERIOD OF REPORT: 19981231
FILED AS OF DATE: 19991130

FILER:

COMPANY DATA:
COMPANY CONFORMED NAME: UNITED ILLUMINATING CO
CENTRAL INDEX KEY: 0000101265
STANDARD INDUSTRIAL CLASSIFICATION: ELECTRIC SERVICES [4911]
IRS NUMBER: 060571640
STATE OF INCORPORATION: CT
FISCAL YEAR END: 1231

FILING VALUES:
FORM TYPE: 10-K/A
SEC ACT:
SEC FILE NUMBER: 001-06788
FILM NUMBER: 99766659

BUSINESS ADDRESS:
STREET 1: 157 CHURCH STREET
STREET 2: PO BOX 1564
CITY: NEW HAVEN
STATE: CT
ZIP: 06506-0901
BUSINESS PHONE: 2034992000

MAIL ADDRESS:
STREET 1: 157 CHURCH STREET
STREET 2: PO BOX 1564

EXHIBIT C

CITY: NEW HAVEN
STATE: CT
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A-3

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from ------------ to -----------

COMMISSION FILE NUMBER 1-6788

THE UNITED ILLUMINATING COMPANY

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CONNECTICUT	06-0571640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
157 CHURCH STREET, NEW HAVEN, CONNECTICUT	06506
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 203-499-2000

EXHIBIT C

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

<TABLE>
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REGISTRANT	TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
<S>	<C>	<C>
The United Illuminating Company	Common Stock, no par value	New York Stock Exchange
United Capital Funding Partnership L.P.(1)	9 5/8% Preferred Capital Securities, Series A (Liquidation Preference $25 per Security)	New York Stock Exchange

</TABLE>

(1) The 9 5/8% Preferred Capital Securities, Series A, were issued on April 3, 1995 by United Capital Funding Partnership L.P., a special purpose limited partnership in which The United Illuminating Company owns all of the general partner interests, and are guaranteed by The United Illuminating Company.

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: COMMON STOCK, NO PAR VALUE, OF THE UNITED ILLUMINATING COMPANY

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

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

The aggregate market value of the registrant's voting stock held by non-affiliates on January 31, 1999 was $699,286,165, computed on the basis of the average of the high and low sale prices of said stock reported in the listing of composite transactions for New York Stock Exchange listed securities, published in The Wall Street Journal on February 1, 1999.

EXHIBIT C

The number of shares outstanding of the registrant's only class of common stock, as of January 31, 1999, was 14,334,922.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of this Form 10-K into which document is incorporated
None	N/A

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This amendment to the Annual Report on Form 10-K of The United Illuminating Company (the "Company") for the fiscal year ended December 31, 1998 (the "Original Form 10-K") amends and modifies the Original Form 10-K by restating (a) Item 6 "Selected Financial Data" in order to amend and supplement that Item,

EXHIBIT C

(b) Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in order to amend and supplement the section captioned, "Results of Operations", and (c) Item 8 "Financial Statements and Supplementary Data" in order to (i) supplement and revise the "Consolidated Statement of Cash Flows" and "Consolidated Balance Sheet" and Notes (A), (O) and (Q) to the Notes to Consolidated Financial Statements.

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ITEM 6. SELECTED FINANCIAL DATA
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<S>	1998 <C>		1997 <C>		1996 <C>	
FINANCIAL RESULTS OF OPERATION ($000'S)						
Sales of electricity						
Retail						
Residential	$262,974		$259,325		$266,068	
Commercial	254,765		248,490		264,111	
Industrial	102,201		102,763		109,032	
Other	11,667		11,755		11,903	
Total Retail	631,607		622,333		651,114	
Wholesale (1)	44,948		82,871		72,844	
Other operating revenues	9,636		3,825		3,300	
Total operating revenues	686,191		709,029		727,258	
Fuel and interchange energy -net						
Retail -own load	116,769		109,542		95,359	
Wholesale	34,775		73,124		65,158	
Capacity purchased-net	34,515		39,976		46,830	
Depreciation	82,809	(3)	74,618	(3)	65,921	
Other amortization, principally deferred return and cancelled plant	13,758		13,758		13,758	
Other operating expenses, excluding tax expense	188,946		200,803		219,630	(7)
Gross earnings tax	24,039		23,571		26,804	
Other non-income taxes	40,635	(4)	28,922		30,382	
Total operating expenses, excluding income taxes	536,246		564,314		563,842	
Deferred return - Seabrook Unit 1	0		0		0	
AFUDC	468		1,575		2,375	
Other non-operating income(loss)	1,097	(5)	1,361		(8,445)	(5)

EXHIBIT C

Interest expense				
Long-term debt - net	42,836	56,158	65,046	
Dividend requirement of mandatorily redeemable securities	4,813	4,813	4,813	
Other	9,018	6,068	4,721	
Total	56,667	67,039	74,580	
Income tax expense				
Operating income tax	53,619	40,833 (6)	53,590	
Non-operating income tax	(3,848)	(3,678)	(9,869)	
Total	49,771	37,155	43,721	
Income(loss) before cumulative effect of accounting change	45,072	43,457	39,045	
Cumulative effect of change in accounting - net of tax	0	0	0	
Net income (loss)	45,072	43,457	39,045	(8)
Discount on preferred stock redemption	(21)	(48)	(1,840)	
Preferred and preference stock dividends	201	205	330	
Income (loss) applicable to common stock	$44,892	$43,300	$40,555	
Operating income	$96,326	$103,882	$109,826	
FINANCIAL CONDITION ($000'S)				
Plant in service-net	$1,172,555	$1,222,174	$1,258,306	
Construction work in progress	33,695	25,448	40,998	
Plant-related regulatory asset	0	0	0	
Other property and investments	58,047	58,441	49,091	
Current assets	305,189	204,474	199,097	
Deferred charges and regulatory assets	371,674	408,993	449,150	
Total Assets	$1,941,160	$1,919,530	$1,996,642	
Common stock equity	$445,507	$436,081	$439,468	
Preferred, preference stock and company-obligated mandatorily redeemable securities of subsidiaries holding solely parent debentures	54,299	54,351	54,461	
Long-term debt excluding current portion	664,510	644,670	759,680	
Noncurrent liabilities (9)	109,981	119,868	138,816	
Current portion of long-term debt	66,202	100,000	69,900	
Notes payable	86,892	37,751	10,965	
Other current liabilities (9)	172,830	175,340	166,138	
Deferred income tax liabilities and other	340,939	351,469	357,214	
Total Capitalization and Liabilities	$1,941,160	$1,919,530	$1,996,642	

EXHIBIT C

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(1) Operating Revenues, for years prior to 1992, include wholesale power exchange contract sales that were reclassified from Fuel and Capacity expenses in accordance with Federal Energy Regulatory Commission requirements.
(2) Includes reclassification of certain Commercial and Industrial customers.
(3) Includes the before-tax effect of charges for additional amortization of conservation & load management costs: $13.1 million in 1998 and $6.6 million in 1997.
(4) Includes the effect of charges of $14.0 million, before-tax, associated with property tax settlement.
(5) Includes the before-tax effect of charges for losses associated with unregulated subsidiaries: $2.8 million in 1997 and $5.8 million in 1996.

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$260,694	$252,386	$238,185	$226,455	$226,751	$211,891	$205,183
259,715	250,771 (2)	256,559	253,456 (2)	255,782	234,704	219,852
106,963	104,242 (2)	97,466	97,010 (2)	91,895	94,526	92,855
11,736	11,469	11,349	11,065	10,886	10,536	9,943
639,108	618,868	603,559	587,986	585,314	551,657	527,833
48,232	34,927	45,931	75,484	84,236	85,657	77,925
3,109	2,953	3,533	3,855	3,821	3,332	3,348
690,449	656,748	653,023	667,325	673,371	640,646	609,106
96,538	99,589	98,694	108,084	123,010	119,285	128,739
41,631	27,765	39,356	55,169	61,858	69,117	62,681
47,420	44,769	47,424	43,560	44,668	42,827	50,234
61,426	58,165	56,287	50,706	48,181	36,526	35,618
13,758	1,172	1,780	10,415	10,415	4,173	10,415

EXHIBIT C

183,749	193,098	203,427 (10)	183,426	178,912	176,419	144,867
27,379	27,403	27,955	27,362	27,223	25,595	24,506
31,564	32,458	29,977	31,869	28,673	24,648	20,294
503,465	484,419	504,900	510,591	522,940	498,590	477,354
0	0	7,497	15,959	17,970	21,503	0
2,762	3,463	4,067	3,232	5,190	3,443	65,443
(5,068)	(1,907)	71	18,545	2,697	22,654	(219,742)
63,431	73,772	80,030	88,666	90,296	94,056	91,126
3,583	0	0	0	0	0	0
12,841	10,301	12,260	12,882	9,847	15,468	22,849
79,855	84,073	92,290	101,548	100,143	109,524	113,975
59,828	44,937	33,309	48,712	47,231	43,493	37,963
(4,901)	(3,214)	(6,322)	(12,558)	(19,299)	(17,409)	(101,135)
54,927	41,723	26,987	36,154	27,932	26,084	(63,172)
49,896	48,089	40,481	56,768	48,213	54,048	(73,350)
0	(1,294)	0	0	7,337	0	0
49,896	46,795	40,481 (11)	56,768	55,550	54,048	(73,350)
(2,183)	0	0	0	0	0	0
1,329	3,323	4,318	4,338	4,530	4,751	8,233
$50,750	$43,472	$36,163	$52,430	$51,020	$49,297	($81,583)
$127,156	$127,392	$114,814	$108,022	$103,200	$98,563	$93,789
$1,277,910	$1,268,145	$1,243,426	$1,224,058	$1,219,871	$1,209,173	$562,473
41,817	57,669	77,395	59,809	54,771	50,257	675,831
0	0	0	0	0	0	81,768
53,355	53,267	58,096	65,320	79,009	90,006	91,648
136,481	157,309	187,981	247,954	164,839	161,066	170,823
475,258	538,601	567,394	556,493	554,365	553,986	605,696
$1,984,821	$2,074,991	$2,134,292	$2,153,634	$2,072,855	$2,064,488	$2,188,239
$439,484	$428,028	$423,324	$422,746	$401,771	$379,812	$362,584

EXHIBIT C

60,539	44,700	60,945	60,945	62,640	69,700	70,000
845,684	708,340	875,268	893,457	909,998	899,993	868,884
65,747	59,458	62,666	44,567	110,217	110,850	117,200
40,800	193,133	143,333	92,833	37,500	41,667	18,667
0	67,000	0	84,099	13,000	15,000	45,000
102,336	122,084	117,343	114,757	114,280	138,173	133,459
430,231	452,248	451,413	440,230	423,449	409,293	572,445
$1,984,821	$2,074,991	$2,134,292	$2,153,634	$2,072,855	$2,064,488	$2,188,239

</TABLE>

(6) Includes the effect of credits of $6.7 million to provide tax provision for fossil generation decommissioning.
(7) Includes the effect of charges of $23.0 million, before-tax, associated with voluntary early retirement programs.
(8) Includes the effect of charges of $13.4 million, after-tax, associated with voluntary early retirement programs.
(9) Amounts for years prior to 1996 were reclassified in 1996.
(10) Includes the effect of a reorganization charge of $13.6 million, before-tax, associated with a voluntary early retirement program.
(11) Includes the effect of a reorganization charge of $7.8 million, after-tax.

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ITEM 6. SELECTED FINANCIAL DATA (CONTINUED)
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<S>	1998 <C>	1997 <C>	1996 <C>
COMMON STOCK DATA			
Average number of shares outstanding	14,017,644	13,975,802	14,100,806
Number of shares outstanding at year-end	14,034,562	13,907,824	14,101,291
Earnings(loss) per share (average) - basic	$3.20	$3.10	$2.88
Earnings(loss) per share (average) - diluted	$3.20	$3.09	$2.87
Book value per share	$31.74	$31.35	$31.16
Average return on equity			
Total	9.44%	10.45%	9.20%
Utility	11.43%	11.54%	11.51%
Dividends declared per share	$2.88	$2.88	$2.88
Market Price:			
High	$53.750	$45.938	$39.750

EXHIBIT C

Low	$42.625	$24.500	$31.375
Year-end	$51.500	$45.938	$31.375
Net cash provided by operating activities, less dividends ($000's)	$71,566	$132,189	$120,625
Capital expenditures, excluding AFUDC	$38,040	$33,436	$47,174
OTHER FINANCIAL AND STATISTICAL DATA			
Sales by class (MWh's)			
Residential	1,924,724	1,899,284	1,895,804
Commercial	2,324,507	2,248,974	2,263,056
Industrial	1,154,935	1,168,470	1,143,410
Other	48,166	48,619	48,388
Total	5,452,332	5,365,347	5,350,658
Number of retail customers by class (average)			
Residential	281,591	280,283	279,024
Commercial	29,468	29,228	28,666
Industrial	1,752	1,697	1,652
Other	1,172	1,163	1,141
Total	313,983	312,371	310,483
Revenue per kilowatt hour by class (cents)			
Residential	13.66	13.65	14.03
Commercial	10.96	11.05	11.67
Industrial	8.85	8.79	9.54
Average large industrial customers time of use rate (cents)	8.16	8.12	8.26
System requirements (MWh)	5,728,222	5,631,296	5,640,957
Peak load - kilowatts	1,142,670	1,173,160	1,044,620
Generating capability- peak(kilowatts)	1,323,380	1,356,100	1,522,350
Load factor	57.23%	54.80%	61.64%
Fuel generation mix percentages			
Coal	21	44	38
Oil	46	15	8
Nuclear	23	25	37
Cogeneration	6	9	9
Gas	0	2	3
Hydro	4	5	5
Revenues - retail sales ($000's)			
Base	$629,446	$620,636	$643,344
Base rate adjustments	2,161	1,697	7,770

EXHIBIT C

Sales provision adjustment	0	0	0
Total	$631,607	$622,333	$651,114
Revenues - retail sales per kWh (cents)			
Base	11.54	11.57	12.02
Base rate adjustments	0.04	0.03	0.15
Sales provision adjustment	0.00	0.00	0.00
Total	11.58	11.60	12.17
Fuel and energy cost per kWh (cents)	2.04	1.95	1.69
Fossil	2.60	2.39	2.41
Nuclear	0.58	0.61	0.46
Number of employees at year-end	1,193	1,175	1,287
Total payroll($000 'S)	$65,294	$68,640	$69,276

</TABLE>

(1) Includes reclassification of certain Commercial and Industrial customers.

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<TABLE>
<CAPTION>

1995	1994	1993	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>	<C>
14,089,835	14,085,452	14,063,854	13,941,150	13,899,906	13,887,748	13,887,748
14,100,091	14,086,691	14,083,291	14,033,148	13,932,348	13,887,748	13,887,748
$3.60	$3.09	$2.57	$3.76	$3.67	$3.55	($5.87)
$3.59	$3.08	$2.56	$3.74	$3.66	$3.55	($5.87)
$31.16	$30.39	$30.06	$30.12	$28.84	$27.35	$26.11
11.84%	10.19%	8.45%	12.67%	13.01%	13.39%	-18.88%
13.04%	12.50%	10.97%	14.46%	13.39%	13.97%	20.21%
$2.82	$2.76	$2.66	$2.56	$2.44	$2.32	$2.32
$38.500	$39.500	$45.875	$42.000	$39.125	$34.125	$34.250
$29.500	$29.000	$38.500	$34.125	$30.000	$26.875	$24.750
$37.375	$29.500	$40.250	$41.500	$39.000	$31.125	$34.250

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$120,033	$94,807	$104,547	$109,020	$73,865	$39,189	$31,437
$59,363	$63,044	$94,743	$66,390	$63,157	$64,018	$77,041
1,890,575	1,892,955	1,844,041	1,799,456	1,851,447	1,826,700	1,883,363
2,273,965	2,285,942 (1)	2,359,023	2,303,216 (1)	2,347,757	2,259,340	2,254,099
1,126,458	1,135,831 (1)	1,036,547	997,168 (1)	980,071	1,060,751	1,109,119
48,435	48,718	50,715	52,984	55,118	58,013	60,427
5,339,433	5,363,446	5,290,326	5,152,824	5,234,393	5,204,804	5,307,008
278,326	275,441	273,752	273,936	274,064	275,637	276,385
28,550	28,394 (1)	28,968	28,848 (1)	29,768	29,808	29,526
1,599	1,538 (1)	959	1,017 (1)	268	319	347
1,122	1,127	1,175	1,358	1,361	1,352	1,316
309,597	306,500	304,854	305,159	305,461	307,116	307,574
13.79	13.33	12.92	12.58	12.25	11.60	10.89
11.42	10.97	10.88	11.00	10.89	10.39	9.75
9.50	9.18	9.40	9.73	9.38	8.91	8.37
8.53	8.69	8.89	8.84	8.64	8.06	7.58
5,647,690	5,652,657	5,630,581	5,475,664	5,541,477	5,501,495	5,603,502
1,156,740	1,130,780	1,114,900	1,034,440	1,145,820	1,054,600	1,094,400
1,434,102	1,462,290	1,515,420	1,402,800	1,474,190	1,449,600	1,289,800
55.74%	57.07%	57.65%	60.26%	55.21%	59.55%	58.45%
37	35	31	34	34	43	39
7	14	16	17	21	24	37
37	32	38	35	29	20	11
9	9	8	8	9	9	9
5	4	1	1	4	3	3
5	6	6	5	3	1	1
$637,219	$619,097	$605,887	$608,176	$607,997	$589,346	$577,611
1,889	(229)	(2,328)	(41,221)	(37,497)	(45,900)	(49,778)
0	0	0	21,031	14,814	8,211	0
$639,108	$618,868	$603,559	$587,986	$585,314	$551,657	$527,833

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11.93	11.54	11.45	11.80	11.62	11.32	10.88
0.04	0.00	(0.04)	(0.80)	(0.72)	(0.88)	(0.93)
0.00	0.00	0.00	0.41	0.28	0.16	0.00
11.97	11.54	11.41	11.41	11.18	10.60	9.95
1.71	1.76	1.75	2.43	2.67	2.63	2.78
2.22	2.14	2.08	2.98	3.11	2.89	2.98
0.85	0.94	1.23	1.42	1.62	1.55	0.89
1,358	1,377	1,490	1,554	1,571	1,587	1,627
$72,984	$75,441	$75,305	$74,052	$71,888	$69,237	$65,175

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

MAJOR INFLUENCES ON FINANCIAL CONDITION

The Company originally filed its Annual Report on Form 10-K with the Securities and Exchange Commission (SEC) on March 11, 1999. Subsequent to that filing, in conjunction with a review of the Company's disclosure statements with respect to becoming a holding company, the SEC has requested, and the Company has agreed, to restate the effects of several one-time items taken in 1996, 1997 and 1998 over different time periods. Through year-end 1998, the cumulative effect of these changes, which are detailed in Note (Q), "Restatement of Financial Results", is zero. The following discussion, as well as all financial tables and statements throughout the 10-K, have been modified to reflect these changes.

The Company's financial condition will continue to be dependent on the level of its retail and wholesale sales and the Company's ability to control expenses. The two primary factors that affect sales volume are economic conditions and weather. Total operation and maintenance expense, excluding one-time items and cogeneration capacity purchases, declined by 1.1 percent, on average, during the past 5 years. There will be significant changes to operation and maintenance expense and other expenses in 1999, partly as a result of the Generation Asset Divestiture (see "Looking Forward").

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The Company's financial status and financing capability will continue to be sensitive to many other factors, including conditions in the securities markets, economic conditions, interest rates, the level of the Company's income and cash flow, and legislative and regulatory developments, including the cost of compliance with increasingly stringent environmental legislation and regulations and competition within the electric utility industry.

On December 31, 1996, the DPUC completed a financial and operational review of the Company and ordered a five-year incentive regulation plan for the years 1997 through 2001 (the Rate Plan). The DPUC did not change the existing retail base rates charged to customers; but the Rate Plan increased amortization of the Company's conservation and load management program investments during 1997-1998, and accelerated the amortization and recovery of unspecified assets during 1999-2001 if the Company's common stock equity return on utility investment exceeds 10.5% after recording the amortization. The Rate Plan also provided for retail price reductions of about 5%, compared to 1996 and phased-in over 1997-2001, primarily through reductions of conservation adjustment mechanism revenues, through a surcredit in each of the five plan years, and through acceptance of the Company's proposal to modify the operation of the fossil fuel clause mechanism. The Company's authorized return on utility common stock equity during the period is 11.5%. Earnings above 11.5%, on an annual basis, are to be utilized one-third for customer price reductions, one-third to increase amortization of regulatory assets, and one-third retained as earnings. As a result of the Rate Plan, customer prices were required to be reduced, on average, by 3% in 1997 compared to 1996. Also as a result of the Rate Plan, customer prices are required to be reduced by an additional 1% in 2000, and another 1% in 2001, compared to 1996. Retail revenues have decreased by approximately 4.8% through 1998 compared to 1996 due to customer price reductions. The Rate Plan was reopened in 1998, in accordance with its terms, to determine the assets to be subjected to accelerated recovery in 1999, 2000 and 2001. The DPUC decided on February 10, 1999 that $12.1 million of the Company's regulatory tax assets will be subjected to accelerated recovery in 1999. The DPUC has not yet determined the assets to be subjected to recovery after 1999. The Rate Plan also includes a provision that it may be reopened and modified upon the enactment of electric utility restructuring legislation in Connecticut and, as a consequence of the 1998 Restructuring Act described below, the Rate Plan may be reopened and modified. However, aside from implementing an additional price reduction in 2000 to achieve the minimum 10% price reduction required by the Restructuring Act and the probable reductions in the accelerated amortizations scheduled in the Rate Plan, the Company is unable to predict, at this time, in what other respects the Rate Plan may be modified on account of this legislation.

In April 1998, Connecticut enacted Public Act 98-28 (the Restructuring

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Act), a massive and complex statute designed to restructure the State's regulated electric utility industry. The business of generating and supplying electricity directly to consumers will be price-deregulated and opened to competition beginning in the year 2000. At that time, these business activities will be separated from the business of delivering electricity to consumers, also known as the transmission and distribution business. The business of delivering electricity will remain with the incumbent franchised utility companies (including the Company), which will continue to be regulated by the DPUC as Distribution Companies. Beginning in 2000, each retail consumer of electricity in Connecticut (excluding consumers served by municipal electric systems) will be able to choose his, her or its supplier of electricity from

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among competing licensed suppliers, for delivery over the wires system of the franchised Distribution Company. Commencing no later than mid-1999, Distribution Companies will be required to separate on consumers' bills the charge for electricity generation services from the charge for delivering the electricity and all other charges. On July 29, 1998, the DPUC issued the first of what are expected to be several orders relative to this "unbundling" requirement, and has now reopened its proceeding to consider the amount of the generation services charge to be included on consumers' bills.

A major component of the Restructuring Act is the collection, by Distribution Companies, of a "competitive transition assessment," a "systems benefits charge," an "energy conservation and load management program charge" and a "renewable energy investment charge". The competitive transition assessment represents costs that have been reasonably incurred by, or will be incurred by, Distribution Companies to meet their public service obligations as electric companies, and that will likely not otherwise be recoverable in a competitive generation and supply market. These costs include above-market long-term purchased power contract obligations, regulatory asset recovery and above-market investments in power plants (so-called stranded costs). The systems benefits charge represents public policy costs, such as generation decommissioning and displaced worker protection costs. Beginning in 2000, a Distribution Company must collect the competitive transition assessment, the systems benefits charge, the energy conservation and load management program charge and the renewable energy investment charge from all Distribution Company customers, except customers taking service under special contracts pre-dating the Restructuring Act. The Distribution Company will also be required to offer a "standard offer" rate that is, subject to certain adjustments, at least 10% below its fully bundled prices for electricity at rates in effect on December 31, 1996, as discussed below. The standard offer is required, subject to certain

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adjustments, to be the total rate charged under the standard offer, including generation and transmission and distribution services, the competitive transition assessment, the systems benefits charge, the energy conservation and load management program charge and the renewable energy investment charge.

The Restructuring Act requires that, in order for a Distribution Company to recover any stranded costs associated with its power plants, its fossil-fueled plants must be sold prior to 2000, with any net excess proceeds used to mitigate its recoverable stranded costs, and the Company must attempt to divest its ownership interest in its nuclear-fueled power plants prior to 2004. By October 1, 1998, each Distribution Company was required to file, for the DPUC's approval, an "unbundling plan" to separate, on or before October 1, 1999, all of its power plants that will not have been sold prior to the DPUC's approval of the unbundling plan or will not be sold prior to 2000.

In May of 1998, the Company announced that it would commence selling, through a two-stage bidding process, all of its non-nuclear generation assets, in compliance with the Restructuring Act. On October 2, 1998, the Company agreed to sell both of its operating fossil-fueled generating stations, Bridgeport Harbor Station and New Haven Harbor Station, to Wisvest-Connecticut, LLC, a single-purpose subsidiary of Wisvest Corporation. Wisvest Corporation is a non-utility subsidiary of Wisconsin Energy Corporation, Milwaukee, Wisconsin. The sale price is $272 million in cash, including payment for some non-plant items, and the transaction is expected to close during the spring of 1999. It is contingent upon the receipt of approvals from the DPUC, the Federal Energy Regulatory Commission (FERC), and other federal and state agencies. A petition seeking the DPUC's approval was filed on October 30, 1998 and, on March 5, 1999, the DPUC issued a decision approving the sale. An application seeking the FERC's authorization for the sale of the facilities subject to its jurisdiction was filed on December 21, 1998 and, on February 24, 1999, the FERC issued an order authorizing the sale.

The Company will realize a book gain from the sale proceeds net of taxes and plant investment. However, this gain will be offset by a writedown of other above-market generation costs eligible for the competitive transition assessment, such as regulated plant costs and tax-related regulatory assets or other costs related to the restructuring transition, such that there will be no net income effect of the sale. Net cash proceeds from the sale are expected to be in the range of $160-$165 million. The Company anticipates using these proceeds to reduce debt.

The October 2, 1998 sale agreement for Bridgeport Harbor Station and New Haven Harbor Station resulted from a bidding process. The Company's only other fossil-fueled generating station is its small deactivated English Station, in New Haven. English Station was also offered for sale in the bidding process, but

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it attracted no bids. Also offered for sale were two long-term contracts for the purchase of power from refuse-to-energy facilities located in Bridgeport and Shelton, Connecticut, one long-term contract for the purchase of power from a small hydroelectric generating station located in Derby, Connecticut, and the Company's 5.45% participating share in the Hydro-Quebec transmission intertie facility linking New England and Quebec, Canada. None of these contracts attracted an acceptable bid.

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On October 1, 1998, in its "unbundling plan" filing with the DPUC under the Restructuring Act, the Company stated that it plans to divest its nuclear generation ownership interests (17.5% of Seabrook Station in New Hampshire and 3.685% of Millstone Station Unit No. 3 in Connecticut) by the end of 2003, in accordance with the Restructuring Act. The divestiture method has not yet been determined. In anticipation of ultimate divestiture, the Company proposed to satisfy, on a functional basis, the Restructuring Act's requirement that nuclear generating assets be separated from its transmission and distribution assets. This would be accomplished by transferring the nuclear generating assets into a separate new division of the Company, using divisional financial statements and accounting to segregate all revenues, expenses, assets and liabilities associated with nuclear ownership interests.

The Company's unbundling plan also proposes to separate its ongoing regulated transmission and distribution operations and functions, that is, the Distribution Company assets and operations, from all of its unregulated operations and activities. This would be achieved by undergoing a corporate restructuring into a holding company structure. In the holding company structure proposed, the Company will become a wholly-owned subsidiary of a holding company, and each share of the common stock of the Company will be converted into a share of common stock of the holding company. In connection with the formation of the holding company structure, all of the Company's interests in all of its operating unregulated subsidiaries will be transferred to the holding company and, to the extent new businesses are subsequently acquired or commenced, they will also be financed and owned by the holding company. An application for the DPUC's approval of this corporate restructuring was filed on November 13, 1998. DPUC hearings on the corporate unbundling plan and corporate restructuring commenced on February 18, 1999.

Under the Restructuring Act, all Connecticut electricity customers will be able to choose their power supply providers after June 30, 2000. The Company will be required to offer fully-bundled service to customers under a regulated

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"standard offer" rate and will also become the power supply provider to each customer who does not choose an alternate power supply provider, even though the Company will no longer be in the business of retail power generation. In order to mitigate the financial risk that these regulated service mandates will pose to the Company in an unregulated power generation environment, its unbundling plan proposes that a purchased power adjustment clause be added to its regulated rates, effective July 1, 2000, as permitted by the Restructuring Act. This clause, similar to and based on the purchased gas adjustment clauses used by Connecticut's natural gas local distribution companies, would work in tandem with the Company's procurement of power supplies to assure that "standard offer" customers pay competitive market rates for power supply services and that the Company collects its costs of providing such services. The Distribution Company is also required under the Restructuring Act to provide back-up power supply service to customers whose electric supplier fails to provide power supply services for reasons other than the customers' failure to pay for such services. The Restructuring Act provides for the Distribution Company to recover its reasonable costs of providing this back-up service.

In addition to approval by the DPUC, the several features of the Company's unbundling plan will be subject to approvals and consents by federal regulators, other state and federal agencies, and the Company's common stock shareowners.

On and after January 1, 2000 and until January 1, 2004, the Company will be responsible for providing a standard offer service to customers who do not choose an alternate electricity supplier. The standard offer prices, including the fully-bundled price of generation, transmission and distribution services, the competitive transition assessment, the systems benefits charge and the energy conservation and renewable energy assessments, must be at least 10% below the average fully-bundled prices in effect on December 31, 1996. The Company has already delivered about 4.8% of this decrease, in price reductions through 1998. The DPUC's 1996 financial and operational review order anticipated sufficient income in 2000 to accelerate amortization of regulatory assets of about $50 million, equivalent to about 8% of retail revenues. Substantially all of this accelerated amortization may have to be eliminated to allow for the additional standard offer price reduction requirement of 10%, at a minimum, while providing for the added costs imposed by the restructuring legislation. The legislation does prescribe certain bases for adjusting the price of standard offer service if the 10% minimum price reduction cannot be accomplished.

Currently, the Company's electric service rates are subject to regulation and are based on the Company's costs. Therefore, the Company, and most regulated utilities, are subject to certain accounting standards (Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71)) that are not applicable to other businesses in general. These accounting rules allow a regulated utility, where appropriate, to

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defer the income statement impact of certain costs that are expected to be recovered in future regulated

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service rates and to establish regulatory assets on its balance sheet for such costs. The effects of competition or a change in the cost-based regulatory structure could cause the operations of the Company, or a portion of its assets or operations, to cease meeting the criteria for application of these accounting rules. The Company expects to continue to meet these criteria in the foreseeable future. The Restructuring Act enacted in Connecticut in 1998 provides for the Company to recover in future regulated service rates previously deferred costs through ongoing assessments to be included in such rates. If the Company, or a portion of its assets or operations, were to cease meeting these criteria, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs are not recoverable in that portion of the business that continues to meet the criteria for the application of SFAS No. 71. If this change in accounting were to occur, it would have a material adverse effect on the Company's earnings and retained earnings in that year and could have a material adverse effect on the Company's ongoing financial condition as well.

LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements are presently projected as follows:

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<S>	1999 <C>	2000 <C>	2001 (millions) <C>	2002 <C>	2003 <C>
Cash on Hand - Beginning of Year (1)	$101.4	$34.5	$9.0	$42.7	$ -
Internally Generated Funds less Dividends (2)	98.4	59.4	57.4	64.4	72.7
Net Proceeds from Sale of Fossil Generation Plants	160.0	-	-	-	-
Subtotal	359.8	93.9	66.4	107.1	72.7
Less:					
Capital Expenditures (excluding AFUDC) (2)	30.7	34.5	23.4	18.9	23.3

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Cash Available to pay Debt Maturities and Redemptions	329.1	59.4	43.0	88.2	49.4
Less:					
Maturities and Mandatory Redemptions	69.6	0.4	0.3	100.3	100.5
Optional Redemptions	145.0	50.0	-	-	-
Repayment of Short-Term Borrowings	80.0	-	-	-	-
	-----	-----	------	-----	-----
External Financing Requirements (Surplus) (2)	$(34.5)	$(9.0)	$(42.7)	$12.1	$51.1
	=====	====	======	====	====

</TABLE>

(1) Includes the Seabrook Unit 1 operating deposit, but not restricted cash of American Payment Systems, Inc.

(2) Internally Generated Funds less Dividends, Capital Expenditures and External Financing Requirements are estimates based on current earnings and cash flow projections, including the implementation of the legislative mandate to achieve a 10% price reduction from December 31, 1996 price levels by the year 2000. Connecticut's Restructuring Act, described at "Major Influences on Financial Condition", requires the Company to divest itself of its fossil-fueled generating plants prior to January 1, 2000 and to attempt to divest itself of its ownership interests in nuclear-fueled generating units prior to January 1, 2004. This forecast reflects the estimated net after-tax proceeds ($160-$165 million) from a proposed divestiture of fossil-fueled generation plants on or about April 1, 1999. All of these estimates are subject to change due to future events and conditions that may be substantially different from those used in developing the projections.

All of the Company's capital requirements that exceed available cash will have to be provided by external financing. Although the Company has no commitment to provide such financing from any source of funds, other than a $75 million revolving credit agreement and an $80 million revolving credit agreement, described below, the Company expects to be able to satisfy its external financing needs by issuing additional short-term and long-term debt, and by issuing common stock, if necessary. The continued availability of these methods of financing will be dependent on many factors, including conditions in the securities markets, economic conditions, and the level of the Company's income and cash flow.

On January 13, 1998, the Company issued and sold $100 million principal amount of 6.25% four-year and eleven month Notes. The yield on the Notes, which were issued at a discount, is 6.30%; and the Notes will mature on

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December 15, 2002. The proceeds from the sale of the Notes were used to repay $100 million principal amount of 7 3/8% Notes, which matured on January 15, 1998.

In March 1998, the Company repurchased $33,798,000 principal amount of 6.20% Notes, at a premium of $178,000, plus accrued interest.

On June 8, 1998, the Company repaid a $50 million Term Loan prior to its August 29, 2000 due date. On June 8, 1998, the Company also repaid $30 million of a $50 million Term Loan prior to its due date of September 6, 2000.

On June 8, 1998, the Company borrowed $80 million under a new revolving credit agreement with a group of banks. The funds were used to repay $80 million of Term Loans prior to their due dates. The borrowing limit of this facility, which extends to June 7, 1999, is $80 million. The facility permits the Company to borrow funds at a fluctuating interest rate determined by the prime lending market in New York, and also permits the Company to borrow money for fixed periods of time specified by the Company at fixed interest rates determined by the Eurodollar interbank market in London. If a material adverse change in the business, operations, affairs, assets or condition, financial or otherwise, or prospects of the Company and its subsidiaries, on a consolidated basis, should occur, the banks may decline to lend additional money to the Company under this revolving credit agreement, although borrowings outstanding at the time of such an occurrence would not then become due and payable. As of December 31, 1998, the Company had $80 million of short-term borrowings outstanding under this facility.

On December 18, 1998, the Company issued and sold $100 million principal amount of 6% five-year Notes. The yield on the Notes, which were issued at a discount, is 6.034%; and the Notes will mature on December 15, 2003. The proceeds from the sale of the Notes were used to repay $66.2 million principal amount of 6.2% Notes, which matured on January 15, 1999, and for general corporate purposes.

On February 1, 1999, the Company converted $7.5 million principal amount Connecticut Development Authority Bonds from a weekly reset mode to a five-year multiannual mode. The interest rate on the Bonds for the five-year period beginning February 1, 1999 is 4.35% and will be paid semi-annually beginning on August 1, 1999. In addition, on February 1, 1999, the Company converted $98.5 million principal amount Business Finance Authority of the State of New Hampshire Bonds from a weekly reset mode to a multiannual mode. The interest rate on $27.5 million principal amount of the Bonds is 4.35% for a three-year

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period beginning February 1, 1999. The interest rate on $71 million principal amount of the Bonds is 4.55% for a five-year period. Interest on the Bonds will be paid semi-annually beginning on August 1, 1999.

The Company has a revolving credit agreement with a group of banks, which currently extends to December 8, 1999. The borrowing limit of this facility is $75 million. The facility permits the Company to borrow funds at a fluctuating interest rate determined by the prime lending market in New York, and also permits the Company to borrow money for fixed periods of time specified by the Company at fixed interest rates determined by either the Eurodollar interbank market in London, or by bidding, at the Company's option. If a material adverse change in the business, operations, affairs, assets or condition, financial or otherwise, or prospects of the Company and its subsidiaries, on a consolidated basis, should occur, the banks may decline to lend additional money to the Company under this revolving credit agreement, although borrowings outstanding at the time of such an occurrence would not then become due and payable. As of December 31, 1998, the Company had no short-term borrowings outstanding under this facility.

In addition, as of December 31, 1998, one of the Company's subsidiaries, American Payment Systems, Inc., had borrowings of $6.8 million outstanding under a bank line of credit agreement.

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At December 31, 1998, the Company had $101.4 million of cash and temporary cash investments, including the Seabrook Unit 1 operating deposit, but excluding restricted cash of American Payment Systems, Inc. This was an increase of $69.4 million from the corresponding balance at December 31, 1997. The components of this increase, which are detailed in the Consolidated Statement of Cash Flows, are summarized as follows:

	(Millions)
Balance, December 31, 1997	$ 32.0

Net cash provided by operating activities	110.0
Net cash provided by (used in) financing activities:	
- Financing activities, excluding dividend payments	29.4
- Dividend payments	(40.5)

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Net cash provided by investing activities, excluding investment in plant	8.5
Cash invested in plant, including nuclear fuel	(38.0)

Net Change in Cash	69.4

Balance, December 31, 1998	$101.4
	=====

The Company's long-term debt instruments do not limit the amount of short-term debt that the Company may issue. The Company's revolving credit agreement described above requires it to maintain an available earnings/interest charges ratio of not less than 1.5:1.0 for each 12-month period ending on the last day of each calendar quarter. For the 12-month period ended December 31, 1998, this coverage ratio was 3.6:1.0.

SUBSIDIARY OPERATIONS

UI has one wholly-owned subsidiary, United Resources, Inc. (URI), that serves as the parent corporation for several unregulated businesses, each of which is incorporated separately to participate in business ventures that will complement UI's regulated electric utility business and provide long-term rewards to UI's shareowners.

URI has four wholly-owned subsidiaries. The largest URI subsidiary, American Payment Systems, Inc., manages a national network of agents for the processing of bill payments made by customers of UI and other utilities. It manages agent networks in 36 states and processed approximately $7.5 billion in customer payments during 1998, generating operating revenues of approximately $33.7 million and operating income of approximately $1.7 million. Another subsidiary of URI, Thermal Energies, Inc., owns and operates heating and cooling energy centers in commercial and institutional buildings, and is participating in the development of district heating and cooling facilities in the downtown New Haven area, including the energy center for an office tower and participation as a 52% partner in the energy center for a city hall and office tower complex. A third URI subsidiary, Precision Power, Inc., provides power-related equipment and services to the owners of commercial buildings, government buildings and industrial facilities. URI's fourth subsidiary, United Bridgeport Energy, Inc., is participating in a merchant wholesale electric generating facility being constructed on land leased from UI at its Bridgeport Harbor Station generating plant.

The after-tax impact of the subsidiaries on the consolidated financial

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statements of the Company is as follows:

	Net Income (loss) (000's)	Earnings per Share	Assets at Dec. 31 (000's)
		(Basic & Diluted)	
1998	$(1,111)	$(0.08)	$83,306
1997	(2,185)	(0.16)	69,338
1996	(5,979)	(0.42)	51,827

In 1996 and 1997, the Company made provisions for losses of $3.3 million (after-tax) and $1.6 million (after-tax), respectively, associated with collection agent errors and defaults and miscellaneous other items at its American Payment Systems, Inc. subsidiary.

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YEAR 2000 ISSUE

The Company's planning and operations functions, and its cash flow, are dependent on the timely flow of electronic data to and from its customers, suppliers and other electric utility system managers and operators. In order to assure that this data flow will not be disturbed by the problems emanating from the fact that many existing computer programs were designed without considering the impact of the year 2000 and use only two digits to identify the year in the date field of the programs (the Year 2000 Issue), the Company initiated in mid-1997, and is pursuing, an aggressive program to identify and correct deficiencies in its computer systems. This comprehensive program includes all information technology systems and encompasses systems critical to the generation, transmission and distribution of electric energy as well as traditional business systems. Critical systems have been defined as those business processes, including embedded technology, which if not remediated may have a significant impact on safety, customers, revenue or regulatory compliance. The Company has also identified critical suppliers and other persons with whom data must be exchanged and is asking for assurance of their Year 2000 compliance.

An inventory and assessment of the Company's computer system applications, hardware, software and embedded technologies have been completed, and recommended solutions to all identified risks and exposures have been generated.

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A testing, remediation, renovation, replacement and retirement program has been in progress since early 1998. Both external and internal resources are being utilized to accomplish the testing, remediation and renovation efforts. A total of 383 affected business processes have been identified and 337 of them have been verified as Year 2000 compliant through testing, remediation, replacement or retirement. The remediation methodology utilized has been Fixed Windowing, and totally independent platforms have been installed for testing all of the applications. Necessary upgrades to mainframe hardware and software were completed and tested by June 30, 1999. This included a "destructive" mainframe test performed at an independent site in Ponca City, Oklahoma.

The Company included its operating non-nuclear generation facilities in the Year 2000 program up to the date of their divestiture on April 16, 1999. At that point, all related documentation was transferred and delivered to Wisvest-Connecticut, LLC, the purchaser of these generation facilities. See Note (C), "Rate-Related Regulatory Proceedings" above, for a description of this transaction.

As of August 3, 1999 there were 36 business processes remaining to be determined as Year 2000 ready. Priority one processes are those defined as affecting safety, reliability, regulatory compliance or having a significant financial impact. The priority one Customer Services process relates to the Customer Information System that has been 100% tested but is under continuous change due to the electric industry restructuring in Connecticut. The Controller's department has two systems awaiting modification and testing, the accounts payable system and the general ledger system. All priority one systems are to be complete by December 31, 1999. Priority two implies that failure of this software or hardware will present a disruption of service at current budget levels, but work-arounds with negative implications for current service or cost levels are available, if needed. Priority three implies that failure of this software or hardware may present an inconvenience to occasional work requirements or an impediment to achievement of higher service or lower cost levels, but alternative work-arounds can be pursued if deemed necessary at some future date. Priority four implies that failure of this software or hardware will produce a nuisance or confusion but will not present any direct negative business consequence. The summary of remaining business processes by department and priority level is as follows:

	Priority 1	Priority 2	Priority 3	Priority 4	Total
Customer Services	1	20	8	1	30
Support Services	0	1	2	0	3
Controller's Department	2	1	0	0	3
Total	3	22	10	1	36

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As of August 3, 1999, the Company had completed the assessment and remediation phases of its program for these non-priority one business processes, which are in various stages of the testing and approval process and are projected to be completed by September 1, 1999. UI has successfully complied with all regulatory requirements. Most recently, UI successfully completed a Connecticut Department of Public Utility Control audit along with eight other utilities in the state. The Company also provides monthly reports to the North American Electric Reliability Council on the Year 2000 status of its transmission, distribution, telecommunication and system control and data acquisition assets.

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Requests for documented compliance information have been sent to all critical suppliers, data sharers and facility building owners and, as responses are received, appropriate solutions and testing programs are being developed and executed. While failure to achieve Year 2000 compliance by any one of a number of critical suppliers and data sharers could have some adverse effect on the success of the Company's implementation program, the Company believes that the entities that might impact the program most significantly in this regard are its telecommunications providers, the other participants in the New England Power Pool (NEPOOL), and the Independent System Operator (ISO) that operates the NEPOOL bulk power supply system. Year 2000 compliance failures by any of these entities could have a material effect on electricity delivery and telemetering. In its efforts to mitigate these risks, the Company has taken several actions. UI has communicated its concerns to its principal telecommunications provider and a joint effort to design and plan appropriate testing to insure that all critical telecommunications functions will be operational has commenced. The Year 2000 Issue is also being addressed at the regional level by NEPOOL and the ISO. Coordination efforts with NEPOOL to establish utility testing and readiness are in progress. The Company is a participant in all of the subcommittees working within NEPOOL/ISO on efforts to assure operational reliability. The Company is also actively involved with NEPOOL/ISO in the planning effort for integrated contingency planning, as directed by the North American Electric Reliability Council (NERC). The first NERC directed test was successfully completed on April 9, 1999.

Aside from telecommunications and NEPOOL/ISO concerns, the availability of vendor patches, releases and/or replacement equipment or software poses the most significant risk to the success of the Company's Year 2000 compliance implementation program. In order to minimize these risks, the Company will be

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actively involved in contingency planning. While the Company's knowledge and experience in electric system recovery planning and execution has been demonstrated in the past, the Company recognizes the need for, and importance of, Year 2000-specific contingency planning, because the complex interaction of today's computing and communications systems precludes certainty that all critical system remediation will be successful. High level contingency planning for essential business processes has been completed. These plans will be continually reviewed, revised and modified throughout the remainder of the year as appropriate. As a part of the contingency planning process, consideration will be given to potential frequency and duration of interruptions in the generating, financial and communications infrastructures. Since contingency planning is, by nature, a speculative process, there can be no assurance that this planning will completely eliminate the risk of material impacts to the Company's business due to Year 2000 problems. However, the Company recognizes the importance to its customers of a reliable supply of electricity, and it intends to devote whatever resources are necessary to assure that both the program and its implementation are successful.

The Company believes that the successful implementation of this program should ultimately cost approximately $6.1 million for existing information systems and embedded technology. A total of $5.2 million had been expended as of June 30, 1999. As systems testing progresses and more embedded technology vendor product information is forthcoming, business decisions made and testing results verified, the need for increased expenditures, if necessary, will be determined. The Company believes these actions will preclude any adverse impact of the Year 2000 Issue on its operations or financial condition.

NEW ACCOUNTING STANDARDS

See the discussion included in Note (A) of the Notes to Consolidated Financial Statements, Statement of Accounting Policies.

RESULTS OF OPERATIONS

1998 VS. 1997

Earnings for the twelve months of 1998 were $44.9 million, or $3.20 per share (both basic and diluted), up $1.6 million, or $.11 per share, from the twelve months of 1997, diluted. Excluding one-time items, accelerated amortization due to one-time items and associated regulated "sharing" effects, 1998 earnings from operations were $47.8 million, or $3.41 per share, up $.48 per share from 1997. The one-time items and their earnings per share impacts recorded in these periods are shown at "One-time items recorded in 1997 and

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1998" below.

Retail operating revenues increased by about $9.3 million in the twelve months of 1998 compared to 1997. Retail fuel and energy expense increased by $7.2 million and there was an increase of $0.4 million in revenue-based taxes. Overall, retail sales margin (revenue less fuel expense and revenue-based taxes) from operations increased by $1.7 million. The principal components of the retail sales margin change, year over year, include:

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	$ millions
Revenue from:	
DPUC rate order, excluding "sharing"	(1.3)
Other price changes	(0.3)
Estimate of "real" retail sales growth, up 1.3%	12.1
Estimate of weather effect on retail sales, up 0.2 %	1.8
Sales decrease from Yale University cogeneration, (0.9) %	(3.0)
Fuel and energy, margin effect:	
Sales increase	(2.7)
Increased nuclear availability	0.4
Unscheduled outage at Bridgeport Unit 3 (see Note A)	(2.5)
Fossil price and other	(2.4)

Note A: Saltwater contamination caused a shutdown of the Bridgeport Harbor Unit 3 generating unit on May 22, 1998. The unit returned to full service on August 23, 1998.

Net wholesale margin (wholesale revenue less wholesale energy expense) increased slightly in the twelve months of 1998 compared to the twelve months of 1997. Other operating revenues, which include NEPOOL related transmission

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revenues, increased by $5.8 million.

Operating expenses for operations, maintenance and purchased capacity charges decreased by $15.0 million in the twelve months of 1998 compared to the twelve months of 1997. The principal components of these expense changes, year over year, include:

	$ millions
Capacity expense:	
Connecticut Yankee preparing for decommissioning	(4.2)
Cogeneration and other purchases	(1.3)
Other O&M expense:	
Seabrook	(4.6)
Millstone Unit 3	(4.0)
Fossil generation unit overhauls and outages	7.5
Pension investment performance and assumptions	(3.0)
Personnel reductions	(6.0)
NEPOOL transmission expense	3.1
Other	(2.5)

Depreciation expense, excluding accelerated amortization, increased by $1.5 million in the twelve months of 1998 compared to 1997. According to the Company's current regulatory Rate Plan, "accelerated" amortization of past utility investments is scheduled for every year that the Rate Plan is in effect, contingent upon the Company earning a 10.5% return on utility common stock equity. All of the accelerated amortization in 1997 was recorded in the second quarter of that year as a result of a one-time gain recorded in that quarter. All of the accelerated amortization for 1998, $13.1 million, was recorded against earnings from operations. In addition, as part of the "sharing" mechanism, the Company would have accrued an additional amortization of about $2.6 million ($1.7 million after-tax) in 1998 against utility earnings from operations. Because of the one-time items in 1998, no "sharing" was actually recorded. The one-time charge for property tax expense incurred in the fourth

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quarter was a utility expense and negated the "sharing" that would have occurred from operations.

Other net income from operations decreased by about $1.9 million in the twelve months of 1998 compared to 1997. The Company's largest unregulated subsidiary, American Payment Systems, Inc. (APS), earned about $1.6 million (before-tax) in 1998 compared to a $2.7 million loss in 1997. This was more than offset by greater losses, compared to 1997, in the Company's other unregulated subsidiaries: $1.2 million (before-tax) at Precision Power, Inc. from the write-off of previously deferred costs and a review of reserves, and $1.2 million (before-tax) from start-up costs in other unregulated activities. By DPUC order, since consolidation at the unregulated subsidiary level produced no net taxable income in either year, the tax benefits associated with the losses, about $0.8 million in

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1998 and $0.4 million in 1997, were treated as benefits to utility income for the purposes of calculating return on utility common equity and "sharing". Other net income also decreased due to the absence of other non-utility income accruals of about $1 million made in 1997 that reversed a provision for 1997 Millstone 3 expense made in 1996 and charged to operating expenses in 1997, cancelled project costs of about $0.8 million for merger and acquisition advisor fees and analysis and lower income from non-operating utility investments.

Interest charges, excluding allowance for borrowed funds used during construction, continued on their downward trend, decreasing by $10.4 million in the twelve months of 1998 compared to 1997, as a result of the Company's refinancing program and strong cash flow.

OVERVIEW OF "SHARING" AND THE IMPACT ON EARNINGS
- ---

As previously indicated, the Company's regulatory Rate Plan requires a "sharing" of regulated utility income that produces a return on utility equity exceeding 11.5%. The measurement of this utility income and resulting return calculation includes the effects of any utility one-time items. Under the Rate Plan, one-third of the income above the 11.5% return would be applied to customer bill reductions, one-third would be applied to additional amortization of regulatory assets, and one-third would be retained by shareowners.

Earnings from operations, which excludes the impact of one-time items, should reflect an appropriate imputed amount of "sharing" to reflect accurately

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what the earnings would have been had neither the one-time items, nor their impact on "sharing", occurred. The Company estimates that the "sharing" that would have occurred had there been no one-time items in 1998 would have been: a revenue reduction of about $3.0 million or $.12 per share, increased amortization of about $1.7 million (after-tax) or $.12 per share, and retention by the Company of $1.7 million of income (after-tax) or $.12 per share. To summarize for 1998:

1998 Earnings per share (EPS)	From Operations and "Sharing"	One-time Items and "Sharing" Reversals	Total
Utility earnings before "sharing"	$3.73	$(.45)	$3.28
Less: Utility earnings to be "shared"	(.36)	.36	-
Utility EPS at 11.5 percent utility return	$3.37	$(.09)	$3.28
Plus: 1/3 Retained "Sharing" benefit	.12	(.12)	-
Net Utility EPS	3.49	(.21)	3.28
Unregulated Subsidiaries	(.08)	-	(.08)
Total 1998 EPS	$3.41	$(.21)	$3.20
Earnings reported through 3rd quarter	3.02	(.12)	2.90
Imputed 4th quarter earnings	$ .39	$(.09)	$ .30

ONE-TIME ITEMS RECORDED IN 1997 AND 1998

	One-time Items	EPS
1997	Cumulative deferred operating income tax benefits associated with future Decommissioning of fossil fuel generating plants (see explanation below)	$ .48
1997	Accelerated amortization associated with one-time item	$(.30)
1997	Gain from subleasing office space	$ .05
1997	Pension benefit adjustments associated with 1996 VERP and VSP	$ .11

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1997	Contract termination charge	$(.18)
1998	Refund of prior period transmission charges, with interest	$ .14
	"Sharing" due to one-time items recorded through third quarter	$(.05)
1998	Property tax settlement with the City of New Haven, CT	$(.59)
	Reversal of "sharing" imputed to property tax settlement	$ .29

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In accordance with a DPUC decision issued December 31, 1996 and effective for years 1997-2001, related to a financial and operational review of the Company (the Rate Plan), the Company was directed to explore and implement ways to reduce its potentially stranded costs. In addition, the decision required the Company to record a specified amount of accelerated amortization of conservation and load management costs during 1997 ($6.4 million before-tax, $4.1 million after-tax) as a stranded costs mitigation effort if the Company's return on its utility common stock equity exceeded 10.5% for that year. Based on these requirements, the Company recorded an operating income tax expense reduction of $6.7 million, or $.48 per share, in the first quarter of 1997, which made provision for the cumulative deferred tax benefit associated with the estimated future decommissioning costs of fossil fuel generating plants for which the Company had made provision in prior years without accruing the tax benefit. This tax benefit, originally recorded in the second quarter of 1997, has been restated to the first quarter of 1997 following consultations with the staff of the Securities and Exchange Commission and the Company's independent accountants to coincide with the effective date of the Rate Plan. As a result of recording the tax benefit, the Company exceeded the 10.5% utility common stock equity return and therefore was able to record the specified amount of accelerated amortization required in the Rate Plan for 1997. The accelerated amortization, which was originally recorded in the second quarter of 1997, has been restated and is now recorded ratably throughout 1997 as a charge to depreciation expense on the consolidated income statement. The after-tax amount of accelerated amortization was less than the cumulative deferred tax benefit because the after-tax amount of additional amortization was specified in the Rate Plan while the deferred tax benefit was calculated based upon the cumulative amount of estimated future decommissioning costs that had been recovered through rates at that time.

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During prior years, the Company had recognized, on a net basis, the deferred tax assets and offsetting regulatory tax liability related to these tax benefits associated with the future decommissioning of its fossil generating plants on its consolidated balance sheet in accordance with Statement of Financial Accounting Standards No. 109. The Company had recognized this regulatory tax liability through the systematic recovery of before-tax future decommissioning costs for its fossil generating units in its rates over the useful lives of these units.

Additional 1997 one-time items included: a $.05 per share gain related to subleasing office space; a "curtailment" gain of $2.5 million ($1.5 million after-tax), or $.11 per share, related to forgone pension benefits associated with the approximate 230 employees who left the Company as a result of 1996 voluntary retirement and separation programs; and a charge of $4.3 million ($2.5 million after-tax), or $.18 per share, for early termination of a contract with consultants that assisted the Company with its restructuring efforts, after the Company determined that the early termination option was more economic than the multi-year performance-based payout option. All of these one-time items were recorded as "Operating Expense - Operations - other".

As reported in its Quarterly Report on Form 10-Q for the period ending March 31, 1998, filed with the Securities and Exchange Commission, the Company had been investigating potential errors in the accounting procedure of APS. As a result of the investigation, the Company determined that APS should create additional reserves for shortfalls in agent collections and other potentially uncollectible receivables of $4.9 million. Of the total of $4.9 million, $2.8 million and $2.1 million were restated to 1997 and 1996, respectively, to provide for the reserves in the relevant periods. See Note (Q), "Restatement of Financial Results".

The principal business of APS is to operate a network of field agents for the purpose of accepting cash and check payments of a utility's bills and forwarding those payments, through APS accounts, to the utility. APS experienced rapid growth in 1996 and 1997. The number of agents in the APS network increased from 2,537 in 1995 to 4,904 in 1997; and the dollar volume of payment transactions increased from $2.3 billion on 17.2 million transactions in 1995 to $7.5 billion on 73.2 million transactions in 1997.

At year-end 1996, APS created a reserve to provide for losses associated with agent collections and uncollectible check deposits totaling $4.4 million before-tax. The Company has restated its 1996 earnings to move $0.7 million of this loss to 1995. See Note (Q), "Restatement of Financial Results". These losses stemmed from inadequate "back-office" banking systems and controls that failed to detect a significant amount of deposit shortfalls from agents and failed to identify a substantial number of uncollectible check deposits that

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were reimbursable from the utilities serviced. Specifically, APS agent bank accounts were not fully reconciled at the time the APS balance sheet items were prepared to allow for the identification, measurement and enforcement of material claims for recovery from APS agents for defalcated amounts or from APS customers for checks returned by banks due to insufficient funds.

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In 1997, under new management with added banking expertise, APS began implementing new systems and controls to manage the agent collection/deposit process. These changes included the increased use of daily cash reporting and account reconciliation on high volume agents, extensive reconciliation procedures, and agent monitors that interact daily with agents to investigate discrepancies in deposits. These new procedures were fully implemented by the 4th quarter of 1997.

In March of 1998, APS contracted for an insurance policy with an A+ rated carrier to protect against future losses from robberies, missing deposits, and agent fraud. The effect of the policy is to "cap" the cost of such losses at $200,000 per event per agent. The level of detected agent fraud in 1998 was well below that level, averaging $23,000 per month in total, or .004% of the monthly transaction dollar volume.

Also in 1998, APS implemented new procedures to correct difficulties in tracking agent deposits in bank mergers or acquisitions situations. During this process, it was discovered that certain large agent depository bank accounts were not reconciled appropriately and that the amount of APS working capital invested in the agent depository accounts to cover timing delays for cash transfers was over-estimated and the amount due to utilities underestimated. These cash flow discrepancies were masked by the rapid growth of cash deposits from the expansion in the agent network and the failure to properly take into account the cash effects of uncleared bank transfers from agent depository accounts to utilities. APS accounting procedures, which failed to detect the cash flow discrepancies, have been rectified.

At December 31, 1998, the consolidated balance sheet reflected $54.5 million of accounts payable owed to APS utility customers. This payable will be relieved by $23.1 million of APS restricted cash, representing collections by APS agents prior to transmittal to the respective APS customers and $31.4 million of accounts receivable representing collections by APS agents that had not yet been deposited into APS banks accounts. Of the accounts payable and accounts receivable amounts, $4.7 million had originally been recorded on the

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consolidated balance sheet as of December 31, 1998.

The following table summarizes the effect of the restatements described above to the provision for APS losses, restricted cash, other accounts receivable, and accounts payable - APS utility customers:

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	FOR THE YEAR ENDED DECEMBER 31			
	1998	1997	1996	1995
	(In Thousands)			
Provision for APS losses (before-tax), as originally reported	$4,900	$ -	$4,471	$ -
Effect of restatement, described above	(4,900)	2,825	1,279	796
Provision for APS losses (before-tax), as restated	$ -	$2,825	$5,750	$796

	AS OF DECEMBER 31,		
	1998	1997	1996
	(In Thousands)		
Restricted cash, as originally reported	$ -	$ -	$ -
Effect of restatement, described above	23,056	21,063	16,681
Restricted cash, as restated	$23,056	$21,063	$16,681
Other accounts receivable, as originally reported (1)	$37,472	$27,914	$38,367
Effect of restatement, described above			
Additional accounts receivable for APS agents	26,768	23,284	19,903
Additional APS agent collection reserves	-	(4,900)	(2,075)
Other accounts receivable, as restated	$64,240	$46,298	$56,195

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<S>	AS OF DECEMBER 31, 1998	1997	1996
	(In Thousands)		
Accounts payable-APS utility customers, as originally reported	$ -	$ -	$ -
Accounts payable-APS utility customers reclassed from accounts payable	4,691	6,147	7,588
Effect of restatement, described above			
Restricted cash	23,056	21,063	16,681
Additional amounts owed to APS customers	26,768	23,284	19,903
Accounts payable -APS utility customers, as restated	$54,515	$50,494	$44,172

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(1) Includes accounts receivable from APS agents originally included in other accounts receivable of $4,691,000, $6,147,000 and $7,588,000 as of December 31, 1998, 1997 and 1996, respectively.

The one-time gain recorded in the third quarter of 1998 was to record a refund of prior period transmission charges. It amounted to $3.4 million or $.14 per share, but was recorded as two separate items; $1.8 million, or a gain of $.07 per share, as a credit to operation expense and $1.6 million, or $.07 per share, of interest income recorded as Other Income and (Deductions), Other-net. At the time this one-time item was recorded, in the third quarter of 1998, the Company estimated that it would be in the Rate Plan "sharing" range of earnings for the year of 1998 in total, and recorded, therefore, a "sharing" revenue reduction and increased amortization expense to reflect that estimate. The "sharing" related to the utility portion of this one-time item, the operation expense credit, was a charge of $.05 per share. The net result of the one-time gain for the period was, therefore, $.09 per share. The one-time charge recorded in the fourth quarter of 1998 as property tax expense of $14 million, or $.59 per share, reflected the DPUC's rejection of the Company's proposed accounting treatment of a property tax settlement between the Company and the City of New Haven. Upon that rejection, the Company was required to write-off immediately the full effect of that settlement. As a result of this one-time charge, the Company's final 1998 earnings results eliminated the requirement to record any Rate Plan "sharing" in 1998. The one-time charge eliminated "sharing" revenue reductions and increased amortization expense amounting to $.29 per share. The net result of the one-time charge for the period was, therefore, $.30 per share. See Note (L), Commitments and Contingencies Other Commitments and Contingencies - - Property Taxes.

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1997 VS. 1996
- -------------

Earnings for the twelve months of 1997 were $43.3 million, or $3.10 basic, and $3.09 diluted, earnings per share, up $2.7 million, or $.22 per share diluted, from 1996. Earnings from operations, which exclude one-time items and accelerated amortization of costs attributable to one-time items, decreased by $12.0 million, or $.82 per share, in 1997 compared to 1996, to a level of $2.93 per share, diluted. The one-time items recorded in 1996, which amounted to a net loss of $.88 per share were: charges to operating expenses of $23.0 million ($13.4 million after-tax), or $.95 per share, from early retirement and voluntary severance programs and $1.4 million ($0.8 million after-tax), or $.06 per share, for the cumulative loss on an office space sublease, and a gain of $1.8 million (after-tax), or $.13 per share, from the repurchase of preferred stock at a discount to par value.

Retail operating revenues decreased by about $28.8 million in 1997 compared to 1996:

o A retail kilowatt-hour sales increase of 0.3% from the prior year increased retail revenues by $1.8 million and sales margin (revenue less fuel expense and revenue-based taxes) by $1.3 million. The Company believes that weather factors had a negative impact on retail kilowatt-hour sales of about 0.5 percent. There was one less day in 1997 (1996 was a leap year), which decreased retail kilowatt-hour sales by 0.3 percent. This would indicate that "real" (i.e. not attributable to abnormal weather or the leap year day in 1996) kilowatt-hour sales increased by about 1.0-1.5 percent for the year.

o Reductions in customer bills, as agreed to by the Company and the DPUC in December 1996, decreased retail revenues by about $23.0 million, including suspension of the fossil fuel adjustment clause (FAC) mechanism that reduced revenues by $6.0 million. This was a somewhat greater decrease than expected, principally because of a decrease in conservation spending and the corresponding decrease in conservation revenues. Other reductions in customer bills, due to rate mix, contract pricing and other pass-through reductions, amounted to $7.6 million.

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During the third quarter of 1999, the Company reviewed an adjustment of $2.7 million made to retail operating revenues in the fourth quarter of 1997

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related to the reversal of prior period overestimates of transmission line losses. The Company uses an estimated line loss factor, based upon a 24 month-moving historical line loss factor, to calculate the amount of revenue from electricity sales that is unbilled during the period and therefore should be accrued. This loss factor is applied to the known amount of electricity delivered to the Company's transmission grid from internal and external sources. Historically, this methodology provided a reasonable estimate of the amount of unbilled revenue.

Beginning in the first quarter of 1996, the outages of four nuclear generating units resulted in the Company purchasing power from other sources. The electricity from other sources followed different transmission paths and exhibited different line loss characteristics than the electricity generated by the nuclear generating units. During this period of time, the Company continued to utilize the 24 month-moving average loss factor in order to smooth the impact of changes in the line loss factors in the calculation of unbilled revenue amounts.

Based upon a review of the actual New England Power Pool line loss factors during this period and the pattern of when they occurred, the Company has restated the $2.7 million adjustment made to retail operating revenues, originally recorded in the fourth quarter of 1997, as shown below:

Quarter	Original Retail Revenue Adjustment	Restated Retail Revenue Adjustment	Difference
		(In thousands)	
1996			
First	$ -	$ (3)	$ (3)
Second	-	112	112
Third	-	820	820
Fourth	-	309	309
Total	$ -	$1,238	$1,238
1997			
First	$ -	$ 592	$ 592
Second	-	826	826
Third	-	652	652
Fourth	2,728	(580)	(3,308)
Total	$2,728	$1,490	$(1,238)

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Wholesale "capacity" revenues increased $2.1 million in 1997 compared to 1996. Wholesale "energy" revenues, which increased during 1997 compared to 1996 as a result of nuclear generating unit outages in the region, are a direct offset to wholesale energy expense and do not contribute to sales margin.

Retail fuel and energy expenses increased by $14.2 million in 1997 compared to 1996. These expenses increased by $12.6 million due to the need for more expensive energy to replace generation by nuclear generating units: for the Connecticut Yankee unit, which ran at nearly full capacity in the first six and one-half months of 1996, for Millstone Unit 3, which ran at nearly full capacity in the first quarter of 1996, for an unplanned eight-day extension of a Seabrook unit refueling outage in the second quarter of 1997 that increased the Company's replacement generation cost by about $0.7 million, and for an unplanned Seabrook unit outage that began on December 5, 1997. The Seabrook unit was returned to service from the last outage on January 17, 1998. Millstone Unit 3 was taken out of service on March 30, 1996 and Connecticut Yankee was taken out of service on July 23, 1996. Retail fuel and energy expenses also increased by about $1.6 million in 1997 compared to 1996, due to higher fossil fuel prices. By order of the DPUC, these costs are not passed on to customers through the FAC.

Operating expenses for operations, maintenance and purchased capacity charges decreased by $1.7 million, excluding the impact of one-time items, in 1997 compared to 1996:

o Purchased capacity expense decreased $6.9 million, due to declining costs from the retired Connecticut Yankee nuclear generating unit, and also due to slightly lower cogeneration costs.

<PAGE>

o Operation and maintenance expense increased by $5.1 million. General, refueling and unscheduled outage expenses at the Seabrook nuclear generating unit increased about $2.9 million, and general expenses at the Millstone 3 nuclear generating unit increased $4.8 million. Expenses associated with the Company's re-engineering efforts increased by a net $1.0 million. Other general expenses increased by about $2.9 million. These increases were partly offset by a $4.6 million reduction in pension expense due to investment performance and changes in actuarial assumptions and methodologies, and health benefit reductions of $1.9 million. The increase at Millstone Unit 3 was partly offset by the reversal of a portion of a 1996 provision in "Other income (deductions)".

EXHIBIT C

Depreciation expense, excluding the impact of one-time items, increased by $2.3 million in 1997 compared to 1996. Income taxes, exclusive of the effects of one-time items, changed based on changes in taxable income and tax rates.

Other net income increased by $9.8 million in 1997 compared to 1996 due, principally, to an improvement in earnings (reduction in losses) from unregulated subsidiaries. The Company's largest unregulated subsidiary, American Payment Systems, lost about $2.7 million (before-tax) in 1997, an improvement of $6.8 million over 1996 losses of about $9.5 million. Other UI subsidiaries lost $1.0 million ($0.6 million after-tax) compared to a loss of $0.2 million in 1996. The remainder of the improvement in other net income was due to an increase of $0.8 million in interest income and $2.4 million from the reversal of an accrual taken in 1996 for Millstone 3 expense of $1.2 million.

Interest charges continued their significant decline, decreasing by $7.5 million, or 11 percent, in 1997 compared to 1996 as a result of the Company's refinancing program and strong cash flow. Also, total preferred dividends (net-of-tax) decreased slightly in 1997 compared to 1996 as a result of purchases of preferred stock by the Company in 1996.

Early retirement and voluntary severance programs
- --

On May 22, 1995, the Company and the union representing approximately 695 of its operating maintenance and clerical employees agreed on a three-year contract, effective May 16, 1995. As part of this agreement, the Company offered a voluntary early retirement program to 74 employees, who had until January 31, 1996 to accept. The early retirement offer was accepted by 64 employees, and the Company recognized a charge to earnings in January 1996 of $7.2 million ($4.2 million, after-tax). The employees accepting the offer retired during the first nine months of 1996. In June 1996, the Company recognized an additional charge to earnings of $0.9 million ($0.5 million, after-tax) to reflect additional early retirement costs. In July 1996, the Company offered a Voluntary Early Retirement Program and a Voluntary Separation Plan to virtually all of its employees. A total of 163 employees accepted one or the other of these plans. In the third quarter of 1996, the Company recognized a charge to earnings of $14.9 million ($8.7 million, after-tax) to reflect the cost of these plans. The employees accepting the offer retired on or before December 31, 1997.

These programs should result in a reduction of 230 employees from a level of approximately 1,300 employees at year-end 1996. A portion of the personnel cost savings began in 1996, but the majority of the savings will be realized as the Company's process re-engineering efforts are completed over the next several years. Incremental annual savings in personnel costs of $4 million in 1997 and another $6 million in 1998 are expected

EXHIBIT C

LOOKING FORWARD

(THE FOLLOWING DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS, WHICH ARE SUBJECT TO UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE CURRENTLY EXPECTED. READERS ARE CAUTIONED THAT THE COMPANY REGARDS SPECIFIC NUMBERS AS ONLY THE "MOST LIKELY" TO OCCUR WITHIN A RANGE OF POSSIBLE VALUES.)

Five-year rate plan and restructuring legislation
- ---

The reader is referred to "Major Influences on Financial Condition", above, for a description of the Company's five-year Rate Plan and Connecticut's electric utility industry restructuring legislation.

<PAGE>

1999 Earnings
- -------------

1999 will be a year of transition to the January 1, 2000 effective date of electric utility restructuring legislation passed by the Connecticut legislature in 1998. The Company has taken one major step toward restructuring by proceeding with the sale of its fossil fuel generation plants...referred to as the Generation Asset Divestiture (GAD). That sale is expected to close on or about April 1, 1999.

One result of the generation plant sale will be a reduction in the Company's electric utility rate base, the basis for measuring return on utility common stock equity. Rate base is expected to decline from an average of $1,128 million in 1998 to about $920 million in 1999. Offsetting the decline is the Company's longstanding policy of debt paydown that increases the portion of rate base financed by equity. During 1998, a return of 11.5% on utility common stock equity would have produced earnings of about $3.43 per share. Utility earnings from operations above this range would have given rise to an imputed "sharing" benefit of $.12 per share. Because of the rate base reduction expected in 1999, the allowed return is expected to produce utility earnings in the $3.35-$3.40 per share range. Currently, the Company expects to be in a Rate Plan "sharing" position in 1999, to a somewhat greater extent than was the case for earnings from operations in 1998.

The Company's earnings from its utility business are affected principally

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by: retail sales that fluctuate with weather conditions and economic activity, nuclear generating unit availability and operating costs, and interest rates. These are all items over which the Company has little control, although the Company engages in economic development activities to increase sales, and hedges its exposure to volatility in interest rates.

The Company's revenues are principally dependent on the level of retail electricity sales. The two primary factors that affect the volume of these retail sales are economic conditions and weather. The Company's retail sales for 1998 of 5,452 gigawatt-hours set an all-time record for the Company and were up 1.4% from the 1997 level.

The Company estimates that mild 1998 weather reduced retail kilowatt-hour sales by about 0.5%, retail revenues by about $3.4 million, and retail sales margin by about $2.7 million. Weather corrected retail sales for 1998 were probably in the 5,470-5,500 gigawatt-hour range. On this weather-adjusted basis, the Company experienced about 1.0-1.5% of "real" sales growth in 1998 over weather-adjusted 1997 sales, with most of the growth appearing to occur in the first three quarters of the year.

Aside from "real" economic growth, reductions in retail electricity sales will occur in 1999 compared to 1998 as a result of the operation of a cogeneration unit at Yale University that produces approximately one half of Yale's annual electricity requirements (about 1.5% of the Company's total 1998 retail sales). This unit commenced operations in mid-1998, and has reduced total Company retail kilowatt-hour sales by about 0.9% in 1998 compared to 1997. The remaining impact will be reflected in the first half of 1999. Thus, it would require "real" growth of 0.5 percent in 1999 compared to 1998 just to maintain the 1998 level of "real" sales. Retail kilowatt-hour sales growth of 1.0% produces a margin improvement of about $5.0 million, before any "sharing" effect considerations.

Prices in individual customer rate classes will not change in 1999 relative to 1998, exclusive of any "sharing". However, sales growth is occurring in rate classes with higher than average prices, and the Company expects to have an increase in retail revenue of about $3.0 million in 1999 compared to 1998 from this price mix improvement.

Other operating revenues are expected to increase as a result of NEPOOL related transmission revenues by about $4.0 million due to NEPOOL restructuring changes; but this would have no net income effect as the higher revenues are due to higher transmission operating expense. Other than the NEPOOL impact, these revenues are expected to decrease by about $2 million to a more normal level. The Company does not anticipate, at this time, any other significant revenue reductions in 1999 retail revenues compared to 1998, unless the Company is

EXHIBIT C

achieving a "sharing" level of earnings.

As a result of GAD, wholesale capacity revenues will decrease by about $7.7 million in 1999 compared to 1998, because existing wholesale sales contracts were part of the asset sale. Also as a result of GAD, the Company's fuel and purchased energy charges will increase in 1999 compared to 1998 by about $40 million, to replace the power previously provided by the Company's fossil-fueled generation plants. This power supply purchase agreement was part of the GAD plant sale and it will help to ensure adequate resources to meet customer energy demands under a short-term fixed price agreement until July 2000 (the price declines somewhat in 2000 compared to 1999) when all customers will have a choice of generation suppliers. The Company expects that its projected 1999

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energy requirements that are not met by the GAD power supply purchase agreement will be met at lower prices than those experienced in 1998, primarily because of lower projected fossil fuel prices and energy prices in general. This is expected to result in energy cost savings of about $5 million.

Purchased capacity costs should decrease by about $2 million in 1999, due primarily to the retirement of the Connecticut Yankee nuclear generation plant.

Several other expense categories are expected to be reduced substantially in 1999 because of GAD and the Company's other cost reduction efforts, offsetting the impact of the increase in purchased energy. Operation and maintenance expense is projected to decrease by a net $22 million, reflecting a decrease of $32 million due to GAD and other general changes, partly offset by increases of about $5 million for nuclear unit refueling outages, $1 million for Y2K costs and $4 million due to NEPOOL transmission charges. The latter would have no net income effect, as the higher transmission expense would be covered by higher transmission revenues. Total Y2K costs for 1999 are currently projected at about $3.6 million. Other operation and maintenance expenses in 1999 should be fairly stable compared to 1998, unless an event occurs that cannot be predicted at this time.

Interest costs are expected to decline by about $14 million in 1999 compared to 1998, to about $38 million, a level that was last experienced in 1982. This anticipated interest cost reduction will result largely from debt paydown through use of the after-tax cash proceeds from GAD. The Company also expects to generate substantial cash flow from operations after dividend and capital spending, that will also be used to pay down debt.

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Depreciation, excluding accelerated amortization, should decrease by about $13 million in 1999 compared to 1998, due mostly to GAD but also from the near completion in 1998 of amortization of previously capitalized conservation program expenditures. A significant portion of the decrease in depreciation related to GAD will not affect taxable income and will not increase income taxes, and will therefore supplement the $13 million decrease with an additional tax benefit, comparing 1999 to 1998, of about $2.5 million, or $.18 per share.

Accelerated amortization, per the Rate Plan, will increase by about $7 million in 1999 compared to 1998. Property taxes should decrease by about $2 million, due mostly to GAD. Other operating expenses can be expected to have some increases and some decreases that should, more or less, offset one another.

In summary, the Company expects substantial net expense reductions as a result of GAD and ongoing cost control measures that should more than compensate for increased charges for purchased power and increased accelerated amortization costs in 1999. Such performance should allow utility earnings to increase above an 11.5% return on common stock equity into the Rate Plan "sharing" range. The 11.5% return level would produce utility earnings from operations of about $3.35-$3.40 per share, while the "shared" earnings benefit is currently anticipated to contribute about $.20 per share, although the size of this benefit will fluctuate with every event that affects utility operations during the year. The Company expects that 1999 quarterly earnings from operations will follow a pattern similar to that of 1998 on a weather-normalized basis.

Unregulated subsidiaries are expected to experience a loss of up to $.10 per share to earnings in 1999. American Payment Systems, Inc. is expected to build on 1998's contribution to earnings from operations of $.07 per share. However, this will depend on its ability to expand sales to its utility customers. Precision Power, Inc. (PPI) increased its organizational infrastructure in 1998, also in an effort to increase its presence in its principal markets of distributed power systems and services. At its current level of expense, PPI would lose $.10 to $.15 per share in 1999 if no substantial new contracts are obtained. PPI may also engage in acquisition activities in 1999 that may have short-term dilutive effects on earnings beyond those indicated above.

As a result of the earnings contributions anticipated from all of its different business activities described above, the Company expects earnings per share from operations to be in the range of $3.45 to $3.65 in 1999. These estimates are subject to all of the contingencies and uncertainties detailed in the preceding discussion and the reader is cautioned to read the "Looking Forward" and "Major Influences on Financial Condition" sections in their entirety.

EXHIBIT C

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<TABLE>
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

THE UNITED ILLUMINATING COMPANY
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(THOUSANDS EXCEPT PER SHARE AMOUNTS)
AS RESTATED

<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
OPERATING REVENUES (NOTE G)	$686,191	$709,029	$727,258
OPERATING EXPENSES			
Operation			
Fuel and energy	151,544	182,666	160,517
Capacity purchased	34,515	39,976	46,830
Early retirement program charges	-	-	23,033
Other	146,058	158,600	158,945
Maintenance	42,888	42,203	37,652
Depreciation (Note G)	82,809	74,618	65,921
Amortization of cancelled nuclear project and deferred return (Note D and J)	13,758	13,758	13,758
Income taxes (Note A and F)	53,619	40,833	53,590
Other taxes (Note G)	64,674	52,493	57,186
Total	589,865	605,147	617,432
OPERATING INCOME	96,326	103,882	109,826
OTHER INCOME AND (DEDUCTIONS)			
Allowance for equity funds used during construction	13	336	940
Other-net (Note G)	1,097	1,361	(8,445)
Non-operating income taxes	3,848	3,678	9,869
Total	4,958	5,375	2,364
INCOME BEFORE INTEREST CHARGES	101,284	109,257	112,190
INTEREST CHARGES			
Interest on long-term debt	50,129	63,063	66,305

EXHIBIT C

Interest on Seabrook obligation bonds owned by the company	(7,293)	(6,905)	(1,259)
Dividend requirement of mandatorily redeemable securities	4,813	4,813	4,813
Other interest (Note G)	6,507	3,280	2,092
Allowance for borrowed funds used during construction	(455)	(1,239)	(1,435)
	53,701	63,012	70,516
Amortization of debt expense and redemption premiums	2,511	2,788	2,629
Net Interest Charges	56,212	65,800	73,145
NET INCOME	45,072	43,457	39,045
Discount on preferred stock redemptions	(21)	(48)	(1,840)
Dividends on preferred stock	201	205	330
INCOME APPLICABLE TO COMMON STOCK	$44,892	$43,300	$40,555
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	14,018	13,976	14,101
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	14,023	13,992	14,131
EARNINGS PER SHARE OF COMMON STOCK - BASIC	$3.20	$3.10	$2.88
EARNINGS PER SHARE OF COMMON STOCK - DILUTED	$3.20	$3.09	$2.87
CASH DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$2.88	$2.88	$2.88

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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<TABLE>

THE UNITED ILLUMINATING COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS

EXHIBIT C

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(THOUSANDS OF DOLLARS)
AS RESTATED

<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$45,072	$43,457	$39,045
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	88,099	79,487	70,363
Deferred income taxes	3,074	6,804	(2,813)
Deferred investment tax credits - net	(762)	(762)	(762)
Amortization of nuclear fuel	6,892	5,799	5,690
Allowance for funds used during construction	(468)	(1,575)	(2,375)
Amortization of deferred return	12,586	12,586	12,586
Early retirement costs accrued	-	-	23,033
Changes in:			
Accounts receivable - net	(14,889)	17,626	(43,417)
Fuel, materials and supplies	(14,466)	2,863	239
Prepayments	(4,027)	211	(557)
Accounts payable	(9,782)	8,404	59,241
Interest accrued	(63)	(3,569)	(671)
Taxes accrued	4,849	3,116	(4,247)
Other assets and liabilities	(4,062)	(1,644)	6,078
Total Adjustments	66,981	129,346	122,388
NET CASH PROVIDED BY OPERATING ACTIVITIES	112,053	172,803	161,433
CASH FLOWS FROM FINANCING ACTIVITIES			
Common stock	4,923	(6,432)	40
Long-term debt	199,636	98,500	82,500
Notes payable	49,141	26,786	10,965
Securities redeemed and retired:			
Preferred stock	(52)	(110)	(6,078)
Long-term debt	(222,348)	(151,199)	(72,895)
Discount on preferred stock redemption	21	48	1,840
Expenses of issues	(1,600)	(1,500)	(442)
Lease obligations	(339)	(315)	(291)
Dividends			
Preferred stock	(202)	(206)	(410)

EXHIBIT C

Common stock	(40,285)	(40,408)	(40,399)
NET CASH USED IN FINANCING ACTIVITIES	(11,105)	(74,836)	(25,170)
CASH FLOWS FROM INVESTING ACTIVITIES			
Plant expenditures, including nuclear fuel	(38,040)	(33,436)	(47,174)
Investment in Seabrook obligation bonds	8,528	(34,541)	(71,084)
NET CASH USED IN INVESTING ACTIVITIES	(29,512)	(67,977)	(118,258)
CASH AND TEMPORARY CASH INVESTMENTS:			
NET CHANGE FOR THE PERIOD	71,436	29,990	18,005
BALANCE AT BEGINNING OF PERIOD	53,065	23,075	5,070
BALANCE AT END OF PERIOD	124,501	53,065	23,075
LESS: RESTRICTED CASH	26,812	23,392	20,094
BALANCE: UNRESTRICTED CASH	$97,689	$29,673	$2,981
CASH PAID DURING THE PERIOD FOR:			
Interest (net of amount capitalized)	$51,481	$59,441	$69,669
Income taxes	$42,450	$26,773	$51,415

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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<TABLE>

THE UNITED ILLUMINATING COMPANY
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1998, 1997 and 1996

ASSETS
(Thousands of Dollars)
AS RESTATED

EXHIBIT C

<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Utility Plant at Original Cost			
In service	$1,886,930	$1,867,145	$1,843,952
Less, accumulated provision for depreciation	714,375	644,971	585,646
	1,172,555	1,222,174	1,258,306
Construction work in progress	33,695	25,448	40,998
Nuclear fuel	20,174	25,990	23,010
Net Utility Plant	1,226,424	1,273,612	1,322,314
Other Property and Investments	37,873	32,451	26,081
Current Assets			
Unrestricted cash and temporary cash investments	97,689	29,673	2,981
Restricted cash	26,812	23,392	20,094
Accounts receivable			
Customers, less allowance for doubtful accounts of $1,800, $1,800 and $2,300	54,178	57,231	64,960
Other, less allowance for doubtful accounts of $631, $5,397 and $6,629	64,240	46,298	56,195
Accrued utility revenues	21,079	25,269	29,139
Fuel, materials and supplies, at average cost	33,613	19,147	22,010
Prepayments	7,424	3,397	3,608
Other	154	67	110
Total	305,189	204,474	199,097
Deferred Charges			
Unamortized debt issuance expenses	9,421	6,611	6,580
Other	1,664	5,727	1,485
Total	11,085	12,338	8,065
Regulatory Assets (future amounts due from customers through the ratemaking process)			
Income taxes due principally to book-tax			

EXHIBIT C

differences (Note A)	264,811	277,350	289,672
Connecticut Yankee	42,633	51,313	64,851
Deferred return - Seabrook Unit 1	12,586	25,171	37,757
Unamortized redemption costs	23,468	23,027	25,063
Unamortized cancelled nuclear project	10,952	12,125	13,297
Uranium enrichment decommissioning costs	1,177	1,312	1,377
Other	4,962	6,357	9,068
Total	360,589	396,655	441,085
	$1,941,160	$1,919,530	$1,996,642

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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<TABLE>

THE UNITED ILLUMINATING COMPANY
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1998, 1997 and 1996

CAPITALIZATION AND LIABILITIES
(Thousands of Dollars)
AS RESTATED

<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Capitalization (Note B)			
Common stock equity			
Common stock	$292,006	$288,730	$284,579
Paid-in capital	2,046	1,349	772
Capital stock expense	(2,182)	(2,182)	(2,182)
Unearned employee stock ownership plan equity	(10,210)	(11,160)	-
Retained earnings	163,847	159,344	156,299
	445,507	436,081	439,468

EXHIBIT C

Preferred stock	4,299	4,351	4,461
Company-obligated mandatorily redeemable securities of subsidiary holding solely parent debentures	50,000	50,000	50,000
Long-term debt			
Long-term debt	757,370	746,058	826,527
Investment in Seabrook obligation bonds	(92,860)	(101,388)	(66,847)
Net long-term debt	664,510	644,670	759,680
Total	1,164,316	1,135,102	1,253,609
Noncurrent Liabilities			
Connecticut Yankee contract obligation	32,711	40,821	54,752
Pensions accrued (Note H)	31,097	39,149	49,205
Nuclear decommissioning obligation	23,045	17,538	12,851
Obligations under capital leases	16,506	16,853	17,193
Other	6,622	5,507	4,815
Total	109,981	119,868	138,816
Current Liabilities			
Current portion of long-term debt	66,202	100,000	69,900
Notes payable	86,892	37,751	10,965
Accounts payable	48,749	62,552	60,470
Accounts payable - APS utility customers	54,515	50,494	44,172
Dividends payable	10,155	10,051	10,205
Taxes accrued	9,015	4,166	1,050
Interest accrued	10,203	10,266	13,835
Obligations under capital leases	348	340	315
Other accrued liabilities	39,845	37,471	36,091
Total	325,924	313,091	247,003
Customers' Advances for Construction	1,867	1,878	1,888
Regulatory Liabilities (future amounts owed to customers through the ratemaking process)			
Accumulated deferred investment tax credits	15,623	16,385	17,147
Other	2,065	2,356	1,811
Total	17,688	18,741	18,958

EXHIBIT C

Deferred Income Taxes (future tax liabilities owed to taxing authorities)	321,384	330,850	336,368
Commitments and Contingencies (Note L)			
	$1,941,160	$1,919,530	$1,996,642

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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THE UNITED ILLUMINATING COMPANY
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(THOUSANDS OF DOLLARS)
AS RESTATED

<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
BALANCE, JANUARY 1	$159,344	$156,299	$156,380
Net income	45,072	43,457	39,045
Adjustments associated with repurchase of preferred stock	21	48	1,815
Total	204,437	199,804	197,240
Deduct Cash Dividends Declared			
Preferred stock	201	205	330
Common stock	40,389	40,255	40,611

EXHIBIT C

Total	40,590	40,460	40,941
BALANCE, DECEMBER 31	$163,847	$159,344	$156,299

</TABLE>

The accompanying Notes to Consolidated Financial Statements
are an integral part of the financial statements.

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THE UNITED ILLUMINATING COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
DECEMBER 31, 1998, 1997 AND 1996
(DOLLAR AMOUNTS IN THOUSANDS)
AS RESTATED

<CAPTION>

	Common Stock		Preferred Stock			Capital	Unearned		
					Paid-in	Stock	ESOP	Retained	
	Shares	Amount	Shares	Amount	Capital	Expense	Equity	Earnings	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance as of January 1, 1996	14,100,091	$284,542	105,394	$10,539	$769	($2,207)	-	$156,380	$450,023
Net income for 1996								39,045	39,045
Cash dividends on common stock - $2.88 per share								(40,611)	(40,611)
Cash dividends on preferred stock								(330)	(330)
Issuance of 1,200 shares common stock - no par value	1,200	37			3				40
Repurchase and cancellation of preferred stock			(60,782)	(6,078)		25		(25)	(6,078)
Discount on preferred stock repurchase								1,840	1,840

EXHIBIT C

Balance as of December 31, 1996	14,101,291	284,579	44,612	4,461	772	(2,182)	-	$156,299	$443,929
Net income for 1997								43,457	43,457
Cash dividends on common stock - $2.88 per share								(40,255)	(40,255)
Cash dividends on preferred stock								(205)	(205)
Issuance of 134,833 shares common stock - no par value	134,833	4,151			577				4,728
ESOP purchase of 328,300 common shares	(328,300)						(11,160)		(11,160)
Repurchase and cancellation of preferred stock	(1,103)	(110)							(110)
Discount on preferred stock repurchase								48	48
Balance as of December 31, 1997	13,907,824	288,730	43,509	4,351	1,349	(2,182)	(11,160)	$159,344	$440,432
Net income for 1998								45,072	45,072
Cash dividends on common stock - $2.88 per share								(40,389)	(40,389)
Cash dividends on preferred stock								(201)	(201)
Issuance of 98,798 shares common stock - no par value	98,798	3,276			459				3,735
Allocation of benefits - ESOP	27,940				238		950		1,188
Repurchase and cancellation of preferred stock			(524)	(52)					(52)
Discount on preferred stock repurchase								21	21
Balance as of December 31, 1998	14,034,562	$292,006	42,985	$4,299	$2,046	($2,182)	($10,210)	$163,847	$449,806

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The United Illuminating Company (UI or the Company) is an operating electric public utility company, engaged principally in the production,

purchase, transmission, distribution and sale of electricity for residential, commercial and industrial purposes in a service area of about 335 square miles in the southwestern part of the State of Connecticut. The service area, largely urban and suburban in character, includes the principal cities of Bridgeport (population 137,000) and New Haven (population 124,000) and their surrounding areas. Situated in the service area are retail trade and service centers, as well as large and small industries producing a wide variety of products, including helicopters and other transportation equipment, electrical equipment, chemicals and pharmaceuticals.

In addition, the Company has created, and owns, unregulated subsidiaries. The Board of Directors of the Company has authorized the investment of a maximum of $32.25 million in the unregulated subsidiaries, and, at February 28, 1999, $30 million had been invested. A wholly-owned subsidiary, United Resources, Inc., serves as the parent corporation to American Payment Systems, Inc., (APS) which manages a national network of agents for the processing of bill payments made by customers of other utilities.

(A) STATEMENT OF ACCOUNTING POLICIES

ACCOUNTING RECORDS

The accounting records are maintained in accordance with the uniform systems of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the Connecticut Department of Public Utility Control (DPUC).

USE OF ESTIMATES

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

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, United Resources Inc. Intercompany accounts and transactions have been eliminated in consolidation.

REGULATORY ACCOUNTING

The consolidated financial statements of the Company are in conformity with

EXHIBIT C

generally accepted accounting principles and with accounting for regulated electric utilities prescribed by the Federal Energy Regulatory Commission (FERC) and the Connecticut Department of Public Utility Control (DPUC). Generally accepted accounting principles for regulated entities allow the Company to give accounting recognition to the actions of regulatory authorities in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation". In accordance with SFAS No. 71, the Company has deferred recognition of costs (a regulatory asset) or has recognized obligations (a regulatory liability) if it is probable that such costs will be recovered or obligations relieved in the future through the ratemaking process. In addition to the Regulatory Assets and Liabilities separately identified on the Consolidated Balance Sheet, there are other regulatory assets and liabilities such as conservation and load management costs and certain deferred tax liabilities. The Company also has obligations under long-term power contracts, the recovery of which is subject to regulation.

The effects of competition could cause the operations of the Company, or a portion of its assets or operations, to cease meeting the criteria for application of these accounting rules. The Company expects to continue to meet these criteria in the foreseeable future. The Restructuring Act enacted in Connecticut in 1998 provides for the Company to recover in future regulated service rates previously deferred costs through ongoing assessments to be included in such rates. If the Company, or a portion of its assets or operations, were to cease meeting these criteria, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met. If this

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change in accounting were to occur, it could have a material adverse effect on the Company's earnings and retained earnings in that year and could have a material adverse effect on the Company's ongoing financial condition as well. See Note (C), Rate-Related Regulatory Proceedings.

RECLASSIFICATION OF PREVIOUSLY REPORTED AMOUNTS

Certain amounts previously reported have been reclassified to conform with

EXHIBIT C

current year presentations.

UTILITY PLANT

The cost of additions to utility plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The cost of current repairs and minor replacements is charged to appropriate operating expense accounts. The original cost of utility plant retired or otherwise disposed of and the cost of removal, less salvage, are charged to the accumulated provision for depreciation.

The Company's utility plant in service as of December 31, 1998, 1997 and 1996 was comprised as follows:

	1998	1997	1996
		(000's)	
Production	$1,133,984	$1,131,285	$1,124,113
Transmission	161,643	161,288	160,970
Distribution	408,845	401,426	387,825
General	56,264	52,776	47,889
Future use plant	30,505	30,594	32,751
Other	95,689	89,776	90,404
	$1,886,930	$1,867,145	$1,843,952

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

In accordance with the applicable regulatory systems of accounts, the Company capitalizes AFUDC, which represents the approximate cost of debt and equity capital devoted to plant under construction. In accordance with FERC prescribed accounting, the portion of the allowance applicable to borrowed funds is presented in the Consolidated Statement of Income as a reduction of interest charges, while the portion of the allowance applicable to equity funds is presented as other income. Although the allowance does not represent current cash income, it has historically been recoverable under the ratemaking process over the service lives of the related properties. The Company compounds the allowance applicable to major construction projects semi-annually. Weighted average AFUDC rates in effect for 1998, 1997 and 1996 were 7.0%, 7.5% and 9.0%, respectively.

DEPRECIATION

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Provisions for depreciation on utility plant for book purposes are computed on a straight-line basis, using estimated service lives determined by independent engineers. One-half year's depreciation is taken in the year of addition and disposition of utility plant, except in the case of major operating units on which depreciation commences in the month they are placed in service and ceases in the month they are removed from service. The aggregate annual provisions for depreciation for the years 1998, 1997 and 1996 were equivalent to approximately 3.26%, 3.15% and 3.12%, respectively, of the original cost of depreciable property.

INCOME TAXES

In accordance with Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes", the Company has provided deferred taxes for all temporary book-tax differences using the liability method. The liability method requires that deferred tax balances be adjusted to reflect enacted future tax rates that are anticipated to be in effect when the temporary differences reverse. In accordance with generally accepted accounting

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principles for regulated industries, the Company has established a regulatory asset for the net revenue requirements to be recovered from customers for the related future tax expense associated with certain of these temporary differences.

For ratemaking purposes, the Company normalizes all investment tax credits (ITC) related to recoverable plant investments except for the ITC related to Seabrook Unit 1, which was taken into income in accordance with provisions of a 1990 DPUC retail rate decision.

ACCRUED UTILITY REVENUES

The estimated amount of utility revenues (less related expenses and applicable taxes) for service rendered but not billed is accrued at the end of each accounting period.

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CASH AND TEMPORARY CASH INVESTMENTS

For cash flow purposes, the Company considers all highly liquid debt instruments with a maturity of three months or less at the date of purchase to be cash and temporary cash investments.

The Company is required to maintain an operating deposit with the project disbursing agent related to its 17.5% ownership interest in Seabrook Unit 1. This operating deposit, which is the equivalent to one and one half months of the funding requirement for operating expenses, is restricted for use and amounted to $3.8 million, $2.3 million and $3.4 million, at December 31, 1998, 1997 and 1996, respectively.

The Company's wholly-owned subsidiary, American Payment Systems, Inc., maintains separate bank accounts for holding cash received from utility customers before the amounts are transferred to utilities. The amount of this restricted cash at December 31, 1998, 1997 and 1996 was $23.1 million, $21.1 million and $16.7 million, respectively.

INVESTMENTS

The Company's investment in the Connecticut Yankee Atomic Power Company, a nuclear generating company in which the Company has a 9 1/2% stock interest, is accounted for on an equity basis. This investment amounted to $9.9 million, $10.5 million and $10.1 million at December 31, 1998, 1997 and 1996, respectively, and is included on the Consolidated Balance Sheet as a regulatory asset. See Note (L), Commitments and Contingencies - Other Commitments and Contingencies - Connecticut Yankee.

FOSSIL FUEL COSTS

Historically, the amount of fossil fuel costs that cannot be reflected currently in customers' bills pursuant to the fossil fuel adjustment clause in the Company's rates has been deferred at the end of each accounting period. Since adoption of the deferred accounting procedure in 1974, rate decisions by the DPUC and its predecessors have consistently made specific provision for amortization and ratemaking treatment of the Company's existing deferred fossil fuel cost balances. As a result of a December 1996 DPUC decision, the Company has suspended this deferred accounting procedure unless the average fossil fuel oil prices increase or decrease outside a certain bandwidth prescribed in the decision.

INTEREST RATE RISK MANAGEMENT

The Company utilizes interest rate instruments to manage interest rate

EXHIBIT C

risk. Interest rate swaps have been entered into that effectively convert $225 million of variable rate borrowings to fixed rate borrowings. The liability under the swap agreements is accounted for using the book value of the original debt, $145 million being included in long-term debt and $80 million within short-term debt. Interest payable under the swap agreements at the fixed rate is recorded in interest expense.

This accounting treatment for interest rate swaps is only utilized if the timing and value of receipts of variable rate interest under the swap agreement offset UI's liability for interest on the variable rate borrowings. If these

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

criteria are not met, the liability of the interest rate swaps is recorded at fair market value and any change in the market value is recorded as interest income or interest expense. Any gain or loss on the termination of the swaps is charged to interest expense in the period of termination. The Company does not enter into derivative instruments for anticipated transactions.

See Note (N), "Fair Value of Financial Instruments"

RESEARCH AND DEVELOPMENT COSTS

Research and development costs, including environmental studies, are charged to expense as incurred.

PENSION AND OTHER POSTEMPLOYMENT BENEFITS

The Company accounts for normal pension plan costs in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions", and for supplemental retirement plan costs and supplemental early retirement plan costs in accordance with the provisions of SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

The Company accounts for other postemployment benefits, consisting principally of health and life insurance, under the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", which

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requires, among other things, that the liability for such benefits be accrued over the employment period that encompasses eligibility to receive such benefits. The annual incremental cost of this accrual has been allowed in retail rates in accordance with a 1992 rate decision of the DPUC.

URANIUM ENRICHMENT OBLIGATION

Under the Energy Policy Act of 1992 (Energy Act), the Company will be assessed for its proportionate share of the costs of the decontamination and decommissioning of uranium enrichment facilities operated by the Department of Energy. The Energy Act imposes an overall cap of $2.25 billion on the obligation assessed to the nuclear utility industry and limits the annual assessment to $150 million each year over a 15-year period. At December 31, 1998, the Company's unfunded share of the obligation, based on its ownership interest in Seabrook Unit 1 and Millstone Unit 3, was approximately $1.1 million. Effective January 1, 1993, the Company was allowed to recover these assessments in rates as a component of fuel expense. Accordingly, the Company has recognized these costs as a regulatory asset on its Consolidated Balance Sheet.

NUCLEAR DECOMMISSIONING TRUSTS

External trust funds are maintained to fund the estimated future decommissioning costs of the nuclear generating units in which the Company has an ownership interest. These costs are accrued as a charge to depreciation expense over the estimated service lives of the units and are recovered in rates on a current basis. The Company paid $2,580,000, $2,571,000 and $2,130,000 during 1998, 1997 and 1996 into the decommissioning trust funds for Seabrook Unit 1 and Millstone Unit 3. At December 31, 1998, the Company's shares of the trust fund balances, which included accumulated earnings on the funds, were $16.5 million and $6.5 million for Seabrook Unit 1 and Millstone Unit 3, respectively. These fund balances are included in "Other Property and Investments" and the accrued decommissioning obligation is included in "Noncurrent Liabilities" on the Company's Consolidated Balance Sheet.

IMPAIRMENT OF LONG-LIVED ASSETS

Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed Of" requires the recognition of impairment losses on long-lived assets when the book value of an asset exceeds the sum of the expected future undiscounted cash flows that result from the use of the asset and its eventual disposition. This standard also requires that rate-regulated companies recognize an impairment loss when a regulator excludes all or part of a cost from rates, even if the regulator allows the company to earn a return on the remaining allowable costs. Under this standard, the probability of recovery and the recognition of regulatory assets

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

under the criteria of SFAS No. 71 must be assessed on an ongoing basis. The Company does not have any assets that are impaired under this standard.

APS REVENUES AND AGENT COLLECTIONS

APS recognized revenue of $33.7 million, $31.7 million and $19.2 million for the years 1998, 1997 and 1996, respectively, based on established fees per payment transaction processed.

EARNINGS PER SHARE

The following table presents a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations for the years 1998, 1997 and 1996:

<TABLE>
<CAPTION>

(In thousands except per share amounts)

<S>	Income Applicable to Common Stock (Numerator) <C>	Average Number of Shares Outstanding (Denominator) <C>	Earnings per Share <C>
1998			
Basic earnings per share	$44,892	14,018	$3.20
Effect of dilutive stock options	-	5	(.00)
Diluted earnings per share	$44,892	14,023	$3.20
1997			
Basic earnings per share	$43,300	13,976	$3.10

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Effect of dilutive stock options	-	16	(.01)
Diluted earnings per share	$43,300	13,992	$3.09
1996			
Basic earnings per share	$40,555	14,101	$2.88
Effect of dilutive stock options	-	30	(.01)
Diluted earnings per share	$40,555	14,131	$2.87

</TABLE>

STOCK-BASED COMPENSATION

The Company accounts for employee stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation". This statement establishes financial accounting and reporting standards for stock-based employee compensation plans, such as stock purchase plans, stock options, restricted stock, and stock appreciation rights. The statement defines the methods of determining the fair value of stock-based compensation and requires the recognition of compensation expense for book purposes. However, the statement allows entities to continue to measure compensation expense in accordance with the prior authoritative literature, APB No. 25, "Accounting for Stock Issued to Employees", but requires that pro forma net income and earnings per share be disclosed for each year for which an income statement is presented as if SFAS No. 123 had been applied. The accounting requirements of this statement are effective for transactions entered into after 1995. However, pro forma disclosures must include the effects of all awards granted after January 1, 1995. As of December 31, 1998, there were no options granted to which this statement would apply. The Company has not elected to adopt the expense recognition provisions of SFAS No. 123.

NEW ACCOUNTING STANDARDS

On January 1, 1998, the Company adopted Statement of Financial Standards (SFAS) No. 130, "Reporting Comprehensive Income", which provides authoritative guidance on the reporting and display of comprehensive

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

income and its components. For the years ended December 31, 1998, 1997 and 1996, comprehensive income was equal to net income as reported.

On January 1, 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which provides guidance about segment reporting. As described in Note (P), "Segment Information", the Company has only one reportable segment, that of regulated generation, distribution and sale of electricity.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement, which is effective for fiscal quarters of fiscal years beginning after June 15, 1999, establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires entities to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The accounting for the changes in the fair value of a derivative (gains and losses) would depend on the intended use and designation of the derivative. The Company currently does not anticipate utilizing derivative instruments of the type defined in this statement, on or after the effective date of this statement.

<PAGE>
<TABLE>

THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(B) CAPITALIZATION
<CAPTION>

	December 31,					
	1998		1997		1996	
	Shares Outstanding	$(000's)	Shares Outstanding	$(000's)	Shares Outstanding	$(000's)

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<S>	<C>	<C>	<C>	<C>	<C>	<C>
COMMON STOCK EQUITY						
Common stock, no par value, at December 31(a)	14,034,562	$292,006	13,907,824	$288,730	14,101,291	$284,579
Shares authorized						
1996 30,000,000						
1997 30,000,000						
1998 30,000,000						
Paid-in capital		2,046		1,349		772
Capital stock expense		(2,182)		(2,182)		(2,182)
Unearned employee stock ownership plan equity		(10,210)		(11,160)		-
Retained earnings (b)		163,847		159,344		156,299
Total common stock equity		445,507		436,081		439,468
PREFERRED AND PREFERENCE STOCK (c)						
Cumulative preferred stock, $100 par value, shares authorized at December 31,						
1996 1,119,612						
1997 1,119,612						
1998 1,119,612						
Preferred stock issues:						
4.35% Series A	10,370		10,894		11,297	
4.72% Series B	17,158		17,158		17,658	
4.64% Series C	12,745		12,745		12,945	
5 5/8% Series D	2,712		2,712		2,712	
	42,985	4,299	43,509	4,351	44,612	4,461
Cumulative preferred stock, $25 par value: 2,400,000 shares authorized Preferred stock issues	-	-	-	-	-	-
Cumulative preference stock, $25 par value: 5,000,000 shares authorized Preference stock issues	-	-	-	-	-	-
Total preferred stock not subject to mandatory redemption		4,299		4,351		4,461

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MINORITY INTEREST IN PREFERRED SECURITIES (d)	50,000	50,000

</TABLE>

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<TABLE>
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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

	December 31,		
	1998 $(000's)	1997 $(000's)	1996 $(000's)
<S>	<C>	<C>	<C>
LONG-TERM DEBT (e)			
First Mortgage Bonds:			
9.44%, Series B	-	-	$32,40
Other Long-term Debt			
Pollution Control Revenue Bonds:			
Variable rate, 1996 Series, due June 26, 2026	7,500	7,500	7,50
9 3/8%, 1987 Series, due July 1, 2012	-	-	25,00
10 3/4%, 1987 Series, due November 1, 2012	-	-	43,50
8%, 1989 Series A, due December 1, 2014	25,000	25,000	25,00
5 7/8%, 1993 Series, due October 1, 2033	64,460	64,460	64,46
Solid Waste Disposal Revenue Bonds:			
Adjustable rate 1990 Series A, due September 1, 2015	-	-	30,00
Pollution Control Refunding Revenue Bonds:			
Variable rate, 1997 Series, due July 30, 2027	98,500	98,500	
Notes:			
7 3/8%, 1992 Series G, due January 15, 1998	-	100,000	100,00

EXHIBIT C

6.20%, 1993 Series H, due January 15, 1999	66,202	100,000	100,00
6.25%, 1998 Series I, due December 15, 2002	100,000	-	
6.00%, 1998 Series J, due December 15, 2003	100,000	-	
Term Loans:			
6.95%, due August 29, 2000 (Note 1)	50,000	50,000	50,00
6.47%, due September 6, 2000 (Note 1)	-	50,000	50,00
6.4375%, due September 6, 2000 (Note 1)	20,000	50,000	50,00
6.675%, due October 25, 2001 (Note 1)	25,000	25,000	25,00
7.005% due October 25, 2001 (Note 1)	50,000	50,000	50,00
Obligation under the Seabrook Unit 1 sale/leaseback agreement	217,230	225,601	243,66
	823,892	846,061	896,52
Unamortized debt discount less premium	(320)	(3)	(9
Total long-term debt	823,572	846,058	896,42
Less:			
Current portion included in Current Liabilities (e)	66,202	100,000	69,90
Investment-Seabrook Lease Obligation Bonds	92,860	101,388	66,84
Total long-term debt included in Capitalization	664,510	644,670	759,68
TOTAL CAPITALIZATION	$1,164,316	$1,135,102	$1,253,60

</TABLE>

Note 1: The fixed interest rate for these variable interest rate term loans reflects the effect of the associated interest rate swaps.

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(a) COMMON STOCK

The Company had 14,334,922 shares of its common stock, no par value, outstanding at December 31, 1998, of which 300,360 shares were unallocated shares held by the Company's Employee Stock Ownership Plan ("ESOP") and not recognized as outstanding for accounting purposes.

The Company issued 98,798 shares of common stock in 1998, 134,833 shares of common stock in 1997 and 1,200 shares of common stock in 1996, pursuant to a stock option plan.

In 1990, the Company's Board of Directors and the shareowners approved a stock option plan for officers and key employees of the Company. The plan provides for the awarding of options to purchase up to 750,000 shares of the Company's common stock over periods of from one to ten years following the dates when the options are granted. The Connecticut Department of Public Utility Control (DPUC) has approved the issuance of 500,000 shares of stock pursuant to this plan. The exercise price of each option cannot be less than the market value of the stock on the date of the grant. Options to purchase 3,500 shares of stock at an exercise price of $30 per share, 7,800 shares of stock at an exercise price of $39.5625 per share, and 5,000 shares of stock at an exercise price of $42.375 per share have been granted by the Board of Directors and remained outstanding at December 31, 1998. Options to purchase 14,299 shares of stock at an exercise price of $30 per share, 54,500 shares of stock at an exercise price of $30.75 per share, 4,000 shares of stock at an exercise price of $35.625 per share, and 25,999 shares of stock at an exercise price of $39.5625 per share were exercised during 1998.

<TABLE>
<CAPTION>

	1998		1997		1996	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>

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Balance - Beginning of Year	115,098	$33.90	252,331	$32.20	255,133	$32.21
Granted	-	-	-	-	-	-
Forfeited	-	-	(2,400)	$30.75	(1,602)	$34.78
Exercised	(98,798)	$33.16	(134,833)	$30.79	(1,200)	$30.75
Balance - End of Year	16,300	$38.37	115,098	$33.90	252,331	$32.20
	-------		-------		-------	
Exercisable at End of Year	16,300	$38.37	96,698	$34.51	215,432	$31.73
	=======		=======		=======	

</TABLE>

Stock options in the amounts of 10,936 shares, 99,352 shares and 222,622 shares at December 31, 1998, 1997 and 1996, respectively, were not included it the computation of diluted EPS because doing so would have been antidilutive for those periods.

On February 23, 1998, the Board of Directors granted 80,000 "phantom" stock options to Nathaniel D. Woodson upon his appointment as President of the Company. On each of the first five anniversaries of the grant date, 16,000 options become exercisable and can be exercised at any time within Mr. Woodson's period of employment with the Company by means of the Company paying him the difference between the prevailing market price for each share and the option price of $45.16 per share option. At ten years after the grant date any unexercised options will expire. At December 31, 1998, no options had become exercisable and no expense had been incurred.

In 1996, the Company established its Long-Term Incentive Program (LTIP) for officers and key employees of the Company. Under the program, each LTIP participant is awarded contingent performance shares for each three-year performance period as defined under the program. Each contingent performance share is equivalent to one share of the Company's common stock. At the end of each performance period, the number of performance shares earned is calculated on the basis of the Company's total shareowner return during the performance period relative to a peer group of companies previously selected. For the 1996-1998 performance period, approximately $1.1 million was paid under this program. The Company accrues the costs of the LTIP as compensation expense when it is likely that payments will be made to participants in the program.

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The Company has entered into an arrangement under which it loaned $11.5 million to The United Illuminating Company ESOP. The trustee for the ESOP used the funds to purchase shares of the Company's common stock in open market transactions. The shares will be allocated to employees' ESOP accounts, as the loan is repaid, to cover a portion of the Company's required ESOP contributions. The loan will be repaid by the ESOP over a twelve-year period, using the Company contributions and dividends paid on the unallocated shares of the stock held by the ESOP. As of December 31, 1998 and 1997, 300,360 shares and 328,300 shares, with a fair market value of $15.5 million and $15.1 million, respectively, had been purchased by the ESOP and had not been committed to be released or allocated to ESOP participants.

(b) RETAINED EARNINGS RESTRICTION

The indenture under which $266.2 million principal amount of Notes are issued places limitations on the payment of cash dividends on common stock and on the purchase or redemption of common stock. Retained earnings in the amount of $105.7 million were free from such limitations at December 31, 1998.

(c) PREFERRED AND PREFERENCE STOCK

The par value of each of these issues was credited to the appropriate stock account and expenses related to these issues were charged to capital stock expense.

In April 1998, the Company purchased at a discount on the open market, and canceled, 524 shares of its $100 par value 4.35%, Series A preferred stock. The shares, having a par value of $52,400 were purchased for $31,440, creating a net gain of $20,960.

Shares of preferred stock have preferential dividend and liquidation rights over shares of common stock. Preferred shareholders are not entitled to general voting rights. However, if any preferred dividends are in arrears for six or more quarters, or if certain other events of default occurs, preferred shareholders are entitled to elect a majority of the Board of Directors until all preferred dividend arrearages are paid and any event of default is terminated.

Preference stock is a form of stock that is junior to preferred stock but senior to common stock. It is not subject to the earnings coverage requirements

EXHIBIT C

or minimum capital and surplus requirements governing the issuance of preferred stock. There were no shares of preference stock outstanding at December 31, 1998.

(d) PREFERRED CAPITAL SECURITIES

United Capital Funding Partnership L.P. (United Capital) is a special purpose limited partnership in which the Company owns all of the general partner interests.

The sole holding of United Capital is the $50 million of 9 5/8% Junior Subordinated Deferrable Interest Debentures, Series A, due April 30, 2025, (the Series A Debentures) issued by United Illuminating in 1995.

Holders of the preferred capital securities will be entitled to receive, to the extent of funds held by United Capital, cumulative preferential dividends, at an annual rate 9 5/8% of the liquidation preference of $25 per security, payable monthly in arrears on the last day of each calendar month. The payment of dividends and payments on redemption with respect to the preferred capital securities to the extent of funds held by United Capital, will be guaranteed under a Payment and Guarantee Agreement (the Guarantee) of United Illuminating. The Guarantee does not cover payment of amounts in respect of the preferred capital securities to the extent that United Capital does not have available funds for the payment thereof and cash on hand sufficient to make such payment. Such funds and cash on hand will be limited to payments by United Illuminating on the Series A Debentures. If United Illuminating fails to make interest payments on the Series A Debentures, United Capital will have insufficient funds to pay dividends on the preferred capital securities and the Guarantee will not cover payment of dividends.

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The 9 5/8% Preferred Capital Securities, Series A, issued by United Capital are subject to mandatory redemption when the Series A Debentures, Series A, mature or are redeemed.

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(e) LONG-TERM DEBT

The expenses to issue long-term debt are deferred and amortized over the life of the respective debt issue.

In 1990, United Illuminating sold and leased back a portion of its investment in Seabrook Unit 1, a 1150 mw nuclear generation plant in Seabrook, New Hampshire. The purchaser-lessor issued and sold $212 million of lease obligation bonds to finance the purchase price of $250 million. United Illuminating is obligated to make lease payments during the 30-year lease term that are used to pay the debt service on these bonds. In 1997, the lease obligation bonds were refinanced by the lessor, and United Illuminating purchased 49.9% of the new lease obligation bonds.

On January 13, 1998, the Company issued and sold $100 million principal amount of 6.25% four-year and eleven month Notes. The yield on the Notes, which were issued at a discount, is 6.30%; and the Notes will mature on December 15, 2002. The proceeds from the sale of the Notes were used to repay $100 million principal amount of 7 3/8% Notes, which matured on January 15, 1998.

In March 1998, the Company repurchased $33,798,000 principal amount of 6.20% Notes, at a premium of $178,000, plus accrued interest.

On June 8, 1998, the Company repaid a $50 million Term Loan prior to its August 29, 2000 due date. On June 8, 1998, the Company also repaid $30 million of a $50 million Term Loan prior to its due date of September 6, 2000.

On December 18, 1998, the Company issued and sold $100 million principal amount of 6% five-year Notes. The yield on the Notes, which were issued at a discount, is 6.034%; and the Notes will mature on December 15, 2003. The proceeds from the sale of the Notes were used to repay $66.2 million principal amount of 6.2% Notes, which matured on January 15, 1999, and for general corporate purposes.

On February 1, 1999, the Company converted $7.5 million principal amount Connecticut Development Authority Bonds from a weekly reset mode to a five-year multiannual mode. The interest rate on the Bonds for the five-year period beginning February 1, 1999 is 4.35% and will be paid semi-annually beginning on August 1, 1999. In addition, on February 1, 1999, the Company converted $98.5 million principal amount Business Finance Authority of the State of New Hampshire Bonds from a weekly reset mode to a multiannual mode. The interest rate on $27.5 million principal amount of the Bonds is 4.35% for a three-year period beginning February 1, 1999. The interest rate on $71 million principal amount of the Bonds is 4.55% for a five-year period. Interest on the Bonds will be paid semi-annually beginning on August 1, 1999.

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Maturities and mandatory redemptions/repayments are set forth below:

<TABLE>
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	1999	2000	2001	2002	2003
				(000's)	
Maturities	$66,202	$70,000	$75,000	$100,000	$100,000
Mandatory redemptions/repayments (1)	3,410	430	333	338	485
Maturities and Mandatory redemptions/repayments	$69,612	$70,430	$75,333	$100,338	$100,485

</TABLE>

(1) Principal component of Seabrook lease obligation, net of principal repayment of Seabrook Lease Obligation Bonds held as an investment.

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(C) RATE-RELATED REGULATORY PROCEEDINGS

In April 1998, Connecticut enacted Public Act 98-28 (the Restructuring Act), a massive and complex statute designed to restructure the State's regulated electric utility industry. The business of generating and supplying electricity directly to consumers will be price-deregulated and opened to competition beginning in the year 2000. At that time, these business activities will be separated from the business of delivering electricity to consumers, also known as the transmission and distribution business. The business of delivering electricity will remain with the incumbent franchised utility companies (including the Company), which will continue to be regulated by the DPUC as Distribution Companies. Beginning in 2000, each retail consumer of electricity in Connecticut (excluding consumers served by municipal electric systems) will be able to choose his, her or its supplier of electricity from among competing

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licensed suppliers, for delivery over the wires system of the franchised Distribution Company. Commencing no later than mid-1999, Distribution Companies will be required to separate on consumers' bills the charge for electricity generation services from the charge for delivering the electricity and all other charges. On July 29, 1998, the DPUC issued the first of what are expected to be several orders relative to this "unbundling" requirement, and has now reopened its proceeding to consider the amount of the generation services charge to be included on consumers' bills.

A major component of the Restructuring Act is the collection, by Distribution Companies, of a "competitive transition assessment," a "systems benefits charge," an "energy conservation and load management program charge" and a "renewable energy investment charge". The competitive transition assessment represents costs that have been reasonably incurred by, or will be incurred by, Distribution Companies to meet their public service obligations as electric companies, and that will likely not otherwise be recoverable in a competitive generation and supply market. These costs include above-market long-term purchased power contract obligations, regulatory asset recovery and above-market investments in power plants (so-called stranded costs). The systems benefits charge represents public policy costs, such as generation decommissioning and displaced worker protection costs. Beginning in 2000, a Distribution Company must collect the competitive transition assessment, the systems benefits charge, the energy conservation and load management program charge and the renewable energy investment charge from all Distribution Company customers, except customers taking service under special contracts pre-dating the Restructuring Act. The Distribution Company will also be required to offer a "standard offer" rate that is, subject to certain adjustments, at least 10% below its fully bundled prices for electricity at rates in effect on December 31, 1996, as discussed below. The standard offer is required, subject to certain adjustments, to be the total rate charged under the standard offer, including generation and transmission and distribution services, the competitive transition assessment, the systems benefits charge, the energy conservation and load management program charge and the renewable energy investment charge.

The Restructuring Act requires that, in order for a Distribution Company to recover any stranded costs associated with its power plants, its fossil-fueled plants must be sold prior to 2000, with any net excess proceeds used to mitigate its recoverable stranded costs, and the Company must attempt to divest its ownership interest in its nuclear-fueled power plants prior to 2004. By October 1, 1998, each Distribution Company was required to file, for the DPUC's approval, an "unbundling plan" to separate, on or before October 1, 1999, all of its power plants that will not have been sold prior to the DPUC's approval of the unbundling plan or will not be sold prior to 2000.

In May of 1998, the Company announced that it would commence selling,

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through a two-stage bidding process, all of its non-nuclear generation assets, in compliance with the Restructuring Act. On October 2, 1998, the Company agreed to sell both of its operating fossil-fueled generating stations, Bridgeport Harbor Station and New Haven Harbor Station, to Wisvest-Connecticut, LLC, a single-purpose subsidiary of Wisvest Corporation. Wisvest Corporation is a non-utility subsidiary of Wisconsin Energy Corporation, Milwaukee, Wisconsin. The sale price is $272 million in cash, including payment for some non-plant items, and the transaction is expected to close during the spring of 1999. It is contingent upon the receipt of approvals from the DPUC, the Federal Energy Regulatory Commission (FERC), and other federal and state agencies. A petition seeking the DPUC's approval was filed on October 30, 1998 and, on March 5, 1999, the DPUC issued a decision approving the sale. An application seeking the FERC's authorization for the sale of the facilities subject to its jurisdiction was filed on December 21, 1998 and, on February 24, 1999, the FERC issued an order authorizing the sale.

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The Company will realize a book gain from the sale proceeds net of taxes and plant investment. However, this gain will be offset by a writedown of other above-market generation costs eligible for the competitive transition assessment, such as regulated plant costs and tax-related regulatory assets or other costs related to the restructuring transition, such that there will be no net income effect of the sale. The Company anticipates using the net cash proceeds from the sale to reduce debt.

On October 1, 1998, in its "unbundling plan" filing with the DPUC under the Restructuring Act, the Company stated that it plans to divest its nuclear generation ownership interests (17.5% of Seabrook Station in New Hampshire and 3.685% of Millstone Station Unit No. 3 in Connecticut) by the end of 2003, in accordance with the Restructuring Act. The divestiture method has not yet been determined. In anticipation of ultimate divestiture, the Company proposed to satisfy, on a functional basis, the Restructuring Act's requirement that nuclear generating assets be separated from its transmission and distribution assets. This would be accomplished by transferring the nuclear generating assets into a separate new division of the Company, using divisional financial statements and

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accounting to segregate all revenues, expenses, assets and liabilities associated with nuclear ownership interests.

The Company's unbundling plan also proposes to separate its ongoing regulated transmission and distribution operations and functions, that is, the Distribution Company assets and operations, from all of its unregulated operations and activities. This would be achieved by undergoing a corporate restructuring into a holding company structure. In the holding company structure proposed, the Company will become a wholly-owned subsidiary of a holding company, and each share of the common stock of the Company will be converted into a share of common stock of the holding company. In connection with the formation of the holding company structure, all of the Company's interests in all of its operating unregulated subsidiaries will be transferred to the holding company and, to the extent new businesses are subsequently acquired or commenced, they will also be financed and owned by the holding company. An application for the DPUC's approval of this corporate restructuring was filed on November 13, 1998. DPUC hearings on the corporate unbundling plan and corporate restructuring commenced on February 18, 1999.

Under the Restructuring Act, all Connecticut electricity customers will be able to choose their power supply providers after June 30, 2000. The Company will be required to offer fully-bundled service to customers under a regulated "standard offer" rate and will also become the power supply provider to each customer who does not choose an alternate power supply provider, even though the Company will no longer be in the business of retail power generation. In order to mitigate the financial risk that these regulated service mandates will pose to the Company in an unregulated power generation environment, its unbundling plan proposes that a purchased power adjustment clause be added to its regulated rates, effective July 1, 2000, as permitted by the Restructuring Act. This clause, similar to and based on the purchased gas adjustment clauses used by Connecticut's natural gas local distribution companies, would work in tandem with the Company's procurement of power supplies to assure that "standard offer" customers pay competitive market rates for power supply services and that the Company collects its costs of providing such services. The Distribution Company is also required under the Restructuring Act to provide back-up power supply service to customers whose electric supplier fails to provide power supply services for reasons other than the customers' failure to pay for such services. The Restructuring Act provides for the Distribution Company to recover its reasonable costs of providing this back-up service.

In addition to approval by the DPUC, the several features of the Company's unbundling plan will be subject to approvals and consents by federal regulators, other state and federal agencies, and the Company's common stock shareowners.

On and after January 1, 2000 and until January 1, 2004, the Company will be

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responsible for providing a standard offer service to customers who do not choose an alternate electricity supplier. The standard offer prices, including the fully-bundled price of generation, transmission and distribution services, the competitive transition assessment, the systems benefits charge and the energy conservation and renewable energy assessments, must be at least 10% below the average fully-bundled prices in effect on December 31, 1996. The Company has already delivered about 4.8% of this decrease, in price reductions through 1998. The DPUC's 1996 financial and operational review order (see below) anticipated sufficient income in 2000 to accelerate amortization of regulatory assets of about $50 million, equivalent to about 8% of retail revenues. Substantially all of this accelerated amortization may

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have to be eliminated to allow for the additional standard offer price reduction requirement of 10%, at a minimum, while providing for the added costs imposed by the restructuring legislation. The legislation does prescribe certain bases for adjusting the price of standard offer service if the 10% minimum price reduction cannot be accomplished.

On December 31, 1996, the DPUC completed a financial and operational review of the Company and ordered a five-year incentive regulation plan for the years 1997 through 2001 (the Rate Plan). The DPUC did not change the existing retail base rates charged to customers; but the Rate Plan increased amortization of the Company's conservation and load management program investments during 1997-1998, and accelerated the amortization and recovery of unspecified assets during 1999-2001 if the Company's common stock equity return on utility investment exceeds 10.5% after recording the amortization. The Rate Plan also provided for retail price reductions of about 5%, compared to 1996 and phased-in over 1997-2001, primarily through reductions of conservation adjustment mechanism revenues, through a surcredit in each of the five plan years, and through acceptance of the Company's proposal to modify the operation of the fossil fuel clause mechanism. The Company's authorized return on utility common stock equity during the period is 11.5%. Earnings above 11.5%, on an annual basis, are to be utilized one-third for customer price reductions, one-third to increase amortization of regulatory assets, and one-third retained as earnings. As a result of the Rate Plan, customer prices were required to be reduced, on

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average, by 3% in 1997 compared to 1996. Also as a result of the Rate Plan, customer prices are required to be reduced by an additional 1% in 2000, and another 1% in 2001, compared to 1996. Retail revenues have decreased by approximately 4.8% through 1998 compared to 1996 due to customer price reductions. The Rate Plan was reopened in 1998, in accordance with its terms, to determine the assets to be subjected to accelerated recovery in 1999, 2000 and 2001. The DPUC decided on February 10, 1999 that $12.1 million of the Company's regulatory tax assets will be subjected to accelerated recovery in 1999. The DPUC has not yet determined the assets to be subjected to recovery after 1999. The Rate Plan also includes a provision that it may be reopened and modified upon the enactment of electric utility restructuring legislation in Connecticut and, as a consequence of the 1998 Restructuring Act described above, the Rate Plan may be reopened and modified. However, aside from implementing an additional price reduction in 2000 to achieve the minimum 10% price reduction required by the Restructuring Act and the probable reductions in the accelerated amortizations scheduled in the Rate Plan, the Company is unable to predict, at this time, in what other respects the Rate Plan may be modified on account of this legislation.

(D) ACCOUNTING FOR PHASE-IN PLAN

The Company phased into rate base its allowable investment in Seabrook Unit 1, amounting to $640 million, during the period January 1, 1990 to January 1, 1994. In conjunction with this phase-in plan, the Company was allowed to record a deferred return on the portion of allowable investment excluded from rate base during the phase-in period. Accordingly, the Company is amortizing the net-of-tax accumulated deferred return of $62.9 million over a five-year period that commenced January 1, 1995.

(E) SHORT-TERM CREDIT ARRANGEMENTS

The Company has a revolving credit agreement with a group of banks, which currently extends to December 8, 1999. The borrowing limit of this facility is $75 million. The facility permits the Company to borrow funds at a fluctuating interest rate determined by the prime lending market in New York, and also permits the Company to borrow money for fixed periods of time specified by the Company at fixed interest rates determined by either the Eurodollar interbank market in London, or by bidding, at the Company's option. If a material adverse change in the business, operations, affairs, assets or condition, financial or otherwise, or prospects of the Company and its subsidiaries, on a consolidated basis, should occur, the banks may decline to lend additional money to the Company under this revolving credit agreement, although borrowings outstanding at the time of such an occurrence would not then become due and payable. As of December 31, 1998, the Company had no short-term borrowings outstanding under this facility.

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On June 8, 1998, the Company borrowed $80 million under a new revolving credit agreement with a group of banks. The funds were used to repay $80 million of Term Loans prior to their due dates. The borrowing limit of this facility, which extends to June 7, 1999, is $80 million. The facility permits the Company to borrow funds at a fluctuating interest rate determined by the prime lending market in New York, and also permits the Company to borrow money for fixed periods of time specified by the Company at fixed interest rates determined by the Eurodollar

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interbank market in London. If a material adverse change in the business, operations, affairs, assets or condition, financial or otherwise, or prospects of the Company and its subsidiaries, on a consolidated basis, should occur, the banks may decline to lend additional money to the Company under this revolving credit agreement, although borrowings outstanding at the time of such an occurrence would not then become due and payable. As of December 31, 1998, the Company had $80 million of short-term borrowings outstanding under this facility.

In addition, as of December 31, 1998, one of the Company's indirect subsidiaries, American Payment Systems, Inc., had borrowings of $6.8 million outstanding under a bank line of credit agreement.

The Company's long-term debt instruments do not limit the amount of short-term debt that the Company may issue. The Company's revolving credit agreement described above requires it to maintain an available earnings/interest charges ratio of not less than 1.5:1.0 for each 12-month period ending on the last day of each calendar quarter. For the 12-month period ended December 31, 1998, this coverage ratio was 3.6:1.0.

Information with respect to short-term borrowings under the Company's revolving credit agreements is as follows:

<TABLE>
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<S>	1998 ---- <C>	1997 ---- (000's) <C>	1996 ---- <C>
Maximum aggregate principal amount of short-term borrowings outstanding at any month-end	$130,000	$50,000	$30,000
Average aggregate short-term borrowings outstanding during the year*	$115,753	$41,441	$15,380
Weighted average interest rate*	6.1%	5.9%	5.7%
Principal amounts outstanding at year-end	$80,000	$30,000	$0
Annualized interest rate on principal amounts outstanding at year-end	5.7%	6.2%	N/A

</TABLE>

*Average short-term borrowings represent the sum of daily borrowings outstanding, weighted for the number of days outstanding and divided by the number of days in the period. The weighted average interest rate is determined by dividing interest expense by the amount of average borrowings. Commitment fees of approximately $381,000, $114,000 and $130,000 paid during 1998, 1997 and 1996, respectively, are excluded from the calculation of the weighted average interest rate.

<PAGE>
<TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(F) INCOME TAXES
<CAPTION>

<S>	1998 ----- <C>	1997 ----- <C>	1996 ---- <C>
Income tax expense consists of:		(000's)	
Income tax provisions:			
Current			
Federal	$36,774	$23,568	$35,770
State	10,685	7,545	11,526
Total current	47,459	31,113	47,296
Deferred			

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Federal	2,964	6,123	216
State	110	681	(3,029)
Total deferred	3,074	6,804	(2,813)
Investment tax credits	(762)	(762)	(762)
Total income tax expense	$49,771	$37,155	$43,721
Income tax components charged as follows:			
Operating expenses	$53,619	$40,833	$53,590
Other income and deductions - net	(3,848)	(3,678)	(9,869)
Total income tax expense	$49,771	$37,155	$43,721
The following table details the components of the deferred income taxes:			
Tax depreciation on unrecoverable plant investment	$6,291	$8,089	$5,745
Fossil plants decommissioning reserve	(329)	(7,286) (1)	-
Conservation & load management	(8,026)	(5,768)	(367)
Accelerated depreciation	5,449	5,681	5,617
Pension benefits	3,463	4,911	(9,066)
Seabrook sale/leaseback transaction	304	2,664	(598)
Deferred fossil fuel costs	-	(686)	755
Cancelled nuclear project	(467)	(467)	(4,729)
Unit overhaul and replacement power costs	(1,157)	212	(1,491)
Bond redemption costs	(1,039)	(942)	(783)
Property Tax Settlement	(834)	-	-
Gain on sale of utility property	(697)	(272)	-
Other	116	668	2,104
Deferred income taxes - net	$3,074	$6,804	($2,813)

</TABLE>

(1) $6,719 of this amount is for deferred income tax benefits from prior years.

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Total income taxes differ from the amounts computed by applying the federal statutory tax rate to income before taxes. The reasons for the differences are as follows:

<TABLE>
<CAPTION>

	1998		1997		1996	
	PRE-TAX	TAX	PRE-TAX	TAX	PRE-TAX	TAX
			(000's)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Computed tax at federal statutory rate		$33,195		$28,214		$28,968
Increases (reductions) resulting from:						
Deferred return-Seabrook Unit 1	12,586	4,405	12,586	4,405	12,586	4,405
ITC taken into income	(762)	(762)	(762)	(762)	(762)	(762)
Allowance for equity funds used during construction	(13)	(5)	(336)	(118)	(940)	(329)
Fossil plant decommissioning reserve	(723)	(253)	(15,591)	(5,457)	-	-
Book depreciation in excess of non-normalized tax depreciation	22,789	7,976	23,926	8,374	22,703	7,946
State income taxes, net of federal income tax benefits	10,795	7,017	8,226	5,345	8,497	5,523
Other items - net	(5,149)	(1,802)	(8,134)	(2,846)	(5,797)	(2,030)
Total income tax expense		$49,771		$37,155		$43,721
Book income before income taxes		$94,843		$80,612		$82,766
Effective income tax rates		52.5%		46.1%		52.8%

</TABLE>

At December 31, 1998 the Company had deferred tax liabilities for taxable temporary differences of $430 million and deferred tax assets for deductible temporary differences of $109 million, resulting in a net deferred tax liability

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of $321 million. Significant components of deferred tax liabilities and assets were as follows: tax liabilities on book/tax plant basis differences and on the cumulative amount of income taxes on temporary differences previously flowed through to ratepayers, $282 million; tax liabilities on normalization of book/tax depreciation timing differences, $127 million and tax assets on the disallowance of plant costs, $41 million.

The Company has reflected on its Consolidated Balance Sheet as of December 31, 1997 an additional amount of deferred tax liabilities associated with plant book/tax basis differences. An offsetting regulatory asset, representing the future amounts to be collected from customers for the recovery of the tax expense associated with these additional tax liabilities, has also been reflected.

<PAGE>
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(G) SUPPLEMENTARY INFORMATION

<CAPTION>

	1998	1997 (000's)	1996
<S>	<C>	<C>	<C>
OPERATING REVENUES			
Retail	$631,607	$622,333	$651,114
Wholesale - capacity	11,524	9,747	7,686
- energy	33,424	73,124	65,158
Other	9,636	3,825	3,300
Total Operating Revenues	$686,191	$709,029	$727,258
SALES BY CLASS(MWH'S) - UNAUDITED			
Retail			
Residential	1,924,724	1,899,284	1,895,804

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Commercial	2,324,507	2,248,974	2,263,056
Industrial	1,154,935	1,168,470	1,143,410
Other	48,166	48,619	48,388
	5,452,332	5,365,347	5,350,658
Wholesale	1,551,109	2,700,393	2,260,423
Total Sales by Class	7,003,441	8,065,740	7,611,081

OTHER OPERATION EXPENSES

Production	$28,427	$26,203	$22,214
Transmission & Distribution	35,681	36,926	35,415
Customer Service	26,582	28,957	29,107
Administrative & General	55,368	66,514	72,209
Total	$146,058	$158,600	$158,945

DEPRECIATION

Plant in service	$67,143	$65,585	$63,618
Accelerated conservation and load management	13,086	6,636	-
Nuclear decommissioning	2,580	2,397	2,303
	$82,809	$74,618	$65,921

OTHER TAXES

Charged to:			
Operating:			
State gross earnings	$24,039	$23,571	$26,804
Local real estate and personal property (1)	35,088	22,974	24,854
Payroll taxes	5,547	5,948	5,528
	64,674	52,493	57,186
Nonoperating and other accounts	510	459	628
Total Other Taxes	$65,184	$52,952	$57,814

(1) 1998 includes $14,025 charge for property tax settlement.

OTHER INCOME AND (DEDUCTIONS) - NET

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Interest income	$3,181	$2,317	$1,505
Equity earnings from Connecticut Yankee	854	1,343	1,225
Loss from subsidiary companies (2)	(1,748)	(3,639)	(9,701)
Miscellaneous other income and (deductions) - net	(1,190)	1,340	(1,474)
Total Other Income and (Deductions) - net	$1,097	$1,361	($8,445)

(2) Includes before-tax non-recurring charges in 1997 and 1996 of $2,825 and $5,750, respectively, resulting from losses at American Payment Systems, Inc.

OTHER INTEREST CHARGES

Notes Payable	$5,050	$2,462	$882
Other	1,457	818	1,210
Total Other Interest Charges	$6,507	$3,280	$2,092

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(H) PENSION AND OTHER BENEFITS

The Company's qualified pension plan, which is based on the highest three years of pay, covers substantially all of its employees, and its entire cost is borne by the Company. The Company also has a non-qualified supplemental plan for certain executives and a non-qualified retiree only plan for certain early retirement benefits. The net pension costs for these plans for 1998, 1997 and 1996 were $(5,138,000), ($4,626,000) and $18,403,000, respectively.

The Company's funding policy for the qualified plan is to make annual contributions that satisfy the minimum funding requirements of ERISA but that do not exceed the maximum deductible limits of the Internal Revenue Code. These amounts are determined each year as a result of an actuarial valuation of the plan In 1996, the Company contributed $2.8 million for 1995 funding requirements. In 1997, the Company contributed $2.7 million for 1996 funding

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requirements and $2.5 million for 1997 funding requirements. In 1998, the Company contributed $2.6 million for 1998 funding requirements. During 1996, the Company established a supplemental retirement benefit trust and through this trust purchased life insurance policies on the officers of the Company to fund the future liability under the supplemental plan. The cash surrender value of these policies is shown as an investment on the Company's Consolidated Balance Sheet.

	1998	1997
	(000's)	
The components of net pension costs were as follows:		
Service cost of benefits earned during the period	$4,389	$ 3,791
Interest cost on projected benefit obligation	17,828	17,565
Expected return on plan assets	(25,934)	(22,293)
Amortization of:		
Prior service cost	406	406
Transition obligation (asset)	(1,095)	(1,065)
Actuarial (gain) loss	(1,132)	(498)
Settlements (curtailments)	400	(2,724)
Other amortization and deferrals-net	-	192
Net pension cost	$(5,138)	$(4,626)
Assumptions used to determine pension costs were:		
Discount rate	7.25%	7.75%
Average wage increase	4.50%	4.50%
Return on plan assets	11.00%	11.00%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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1998	1997

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The pension benefit obligations and plan assets as of December 31:

	(000's)	
Change in Projected Pension Benefit Obligation:		
Pension Benefit Obligation - January 1	$259,545	$232,783
Service cost	4,389	3,791
Interest cost	17,828	17,565
Curtailments/settlements	-	(3,193)
Actuarial (gain) loss	14,064	21,656
Benefits paid	(15,080)	(13,057)
Pension Benefit Obligation - December 31	$280,746	$259,545
Change in Plan Assets:		
Fair Value of Plan Assets - January 1	$243,739	$208,863
Actual return on plan assets	38,224	43,225
Employer contributions	2,914	5,429
Benefits paid (including expenses)	(16,193)	(13,778)
Fair Value of Plan Assets - December 31	$268,684	$243,739
Funded Status:		
Projected benefits greater than plan assets	$12,062	$15,806
Unrecognized prior service cost	(3,878)	(4,285)
Unrecognized net gain (loss) from past experience	15,639	19,259
Unrecognized transition asset	7,274	8,369
Accrued pension liability	$31,097	$39,149
Assumptions used in estimating benefit obligations at December 31:		
Discount rate	6.75%	7.25%
Average wage increase	4.50%	4.50%

</TABLE>

In addition to providing pension benefits, the Company also provides other postretirement benefits (OPEB), consisting principally of health care and life insurance benefits, for retired employees and their dependents. Employees with 25 years of service are eligible for full benefits, while employees with less than 25 years of service but greater than 15 years of service are entitled to partial benefits. Years of service prior to age 35 are not included in

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determining the number of years of service.

For funding purposes, the Company established a Voluntary Employees' Benefit Association Trust (VEBA) to fund OPEB for union employees. Approximately 44% of the Company's employees are represented by Local 470-1, Utility Workers Union of America, AFL-CIO, for collective bargaining purposes. The Company established a 401(h) account in connection with the qualified pension plan to fund OPEB for non-union employees who retire on or after January 1, 1994. The funding policy assumes contributions to these trust funds to be the total OPEB expense calculated under SFAS No. 106, adjusted to reflect a share of amounts expensed as a result of voluntary early retirement programs minus pay-as-you-go benefit payments for pre-January 1, 1994 non-union retirees, allocated in a manner that minimizes current income tax liability, without exceeding maximum tax deductible limits. In accordance with this policy, the Company contributed approximately $0, $0 and $3.8 million to the union VEBA in 1998, 1997 and 1996, respectively. The Company contributed $0.9 million, $1.7 million and $0.9 million to the 401(h) account in 1998, 1997 and 1996, respectively. Plan assets for both the union VEBA and 401(h) account consist primarily of equity and fixed-income securities.

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The components of the net cost of OPEB were as follows:

	1998	1997
	(000's)	
Service cost	$1,078	$ 925
Interest cost	2,576	2,434
Expected return on plan assets	(2,249)	(1,787)
Amortization of:		
Prior service cost	(71)	(86)
Transition obligation (asset)	1,169	1,906
Actuarial (gain) loss	(361)	(648)
Settlements (curtailments)	-	(186)
Other amortization and deferrals-net	-	492

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Net Cost of Postretirement Benefit	$2,142	$3,050

Assumptions used to determine OPEB costs were:

Discount rate	7.25%	7.75%
Health Care Cost Trend Rate	5.50%	5.50%
Return on plan assets	11.00%	11.00%

A one percentage point change in the assumed health care cost trend rate would have the following effects:

	1% Increase	1% Decrease
	(000's)	
Aggregate service and interest cost components	$463	$(372)
Accumulated postretirement benefit obligation	$4,246	$(3,498)

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
	(000's)	
The postretirement benefit obligations and plan assets as of December 31:		
Change in Projected Postretirement Benefit Obligation:		
Postretirement Benefit Obligation - January 1	$35,112	$36,220
Service cost	1,078	925
Interest cost	2,576	2,434
Amendments	-	(409)
Curtailments/settlements	-	204
Actuarial (gain) loss	4,002	(1,923)
Benefits paid	(2,539)	(2,339)

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Postretirement Benefit Obligation - December 31	$40,229	$35,112
Change in Plan Assets:		
Fair Value of Plan Assets - January 1	$21,168	$16,720
Actual return on plan assets	2,491	3,836
Employer contributions	910	1,737
Benefits paid (including expenses)	(1,366)	(1,125)
Fair Value of Plan Assets - December 31	$23,203	$21,168
Funded Status:		
Projected benefits greater than plan assets	$17,026	$13,944
Unrecognized prior service cost	946	1,017
Unrecognized net gain (loss) from past experience	1,241	5,363
Unrecognized transition asset	(16,368)	(17,537)
Accrued Postretirement liability	$ 2,845	$ 2,787
Assumptions used in estimating benefit obligations at December 31:		
Discount rate	6.75%	7.25%
Average wage increase	4.50%	4.50%

</TABLE>

The Company has an Employee Savings Plan (401(k) Plan) in which substantially all employees are eligible to participate. The 401(k) Plan enables employees to defer receipt of up to 15% of their compensation and to invest such funds in a number of investment alternatives. The Company makes matching contributions in the form of Company common stock for each employee. During the first five months of 1996, the matching contributions were made into the 401(k) Plan. Beginning in June 1996, the matching contributions were made into the Employee Stock Ownership Plan (ESOP). The Company's matching contribution to the 401(k) Plan during the first five months of 1996 was $0.8 million. In June 1996, all shares of the Company's common stock in the 401(k) Plan were transferred to the ESOP.

The Company has an ESOP for substantially all its employees. In June 1996, the Company began making matching contributions to the ESOP based on each employee's salary deferrals in the 401(k) Plan. The matching contribution currently equals fifty cents for each dollar of the employee's compensation deferred, but is not more than three and three-eighths percent of the employee's

EXHIBIT C

annual salary. The Company's matching contributions to the ESOP during 1998, 1997 and the period June 1996 - December 1996 were $1.7 million, $1.7 million and $0.8 million, respectively.

The Company pays dividends on the shares of stock in the ESOP to the participant and the Company receives a tax deduction on the dividends paid. The Company also makes contributions to the ESOP equal to 25% of the dividends paid to each participant. The Company's annual contributions during 1998, 1997 and 1996 were $270,000, $417,000 and $324,000, respectively.

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On May 22, 1995, the Company and the union representing approximately 695 of its operating, maintenance and clerical employees agreed on a three-year contract, effective May 16, 1995. As part of this agreement, the Company offered a voluntary early retirement program to 74 employees, who had until January 31, 1996 to accept. The early retirement offer was accepted by 64 employees, and the Company recognized a charge to earnings in January 1996 of $7.2 million ($4.2 million, after-tax). The employees accepting the offer retired during the first nine months of 1996. In June 1996, the Company recognized an additional charge to earnings of $0.9 million ($0.5 million, after-tax) to reflect additional early retirement costs.

In July 1996, the Company offered a Voluntary Early Retirement Program and a Voluntary Separation Plan to virtually all of its employees. A total of 163 employees accepted one or the other of these plans. In the third quarter of 1996, the Company recognized a charge to earnings of $14.9 million ($8.7 million, after-tax) to reflect the cost of these plans. The employees accepting the offer retired on or before December 31, 1997.

(I) JOINTLY OWNED PLANT AND POWER PURCHASE AGREEMENTS

At December 31, 1998, the Company had the following interests in jointly owned plants:

OWNERSHIP/

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	LEASEHOLD SHARE	PLANT IN SERVICE	ACCUMULATED DEPRECIATION
		(Millions)	
Seabrook Unit 1	17.5 %	$648	$146
Millstone Unit 3	3.685	135	63
New Haven Harbor Station	93.7	143	78

The Company's share of the operating costs of jointly owned plants is included in the appropriate expense captions in the Consolidated Statement of Income.

At December 31, 1998, the Company had two long-term contracts for the purchase of power. A contract with Wheelabrator Technology, Inc. requires the Company to purchase all of the energy output of a trash-to-energy cogeneration facility (Bridgeport RESCO) situated in Bridgeport, Connecticut, through April 2, 2008. A contract between Hydro-Quebec and the New England participants in a transmission facility linking New England and Quebec, Canada, requires the Company to purchase its 5.45% participating share of the energy delivered by Hydro-Quebec over the transmission facility. This contract is scheduled to expire in September, 2001; but it may be extended. The costs to the Company in 1998 for these two contracts were $26.1 million and $7.0 million, respectively. There are no annual minimum debt service payments, and no allocable portion of interest, associated with these contracts. The Company's guaranty liability for its participating share of the debt financing for the Hydro-Quebec transmission facility was $6.8 million at December 31, 1998.

(J) UNAMORTIZED CANCELLED NUCLEAR PROJECT

From December 1984 through December 1992, the Company had been recovering its investment in Seabrook Unit 2, a partially constructed nuclear generating unit that was cancelled in 1984, over a regulatory approved ten-year period without a return on its unamortized investment. In the Company's 1992 rate decision, the DPUC adopted a proposal by the Company to write off its remaining investment in Seabrook Unit 2, beginning January 1, 1993, over a 24-year period, corresponding with the flowback of certain Connecticut Corporation Business Tax (CCBT) credits. Such decision will allow the Company to retain the Seabrook Unit 2/CCBT amounts for ratemaking purposes, with the accumulated CCBT credits not deducted from rate base during the 24-year period of amortization in recognition of a longer period of time for amortization of the Seabrook Unit 2 balance. As a result of reducing its remaining unamortized investment in Seabrook Unit 2 with proceeds from the sale of certain Seabrook Unit 2 equipment, the Company expects to completely amortize its unamortized investment in the year 2008.

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(K) FUEL FINANCING OBLIGATIONS AND OTHER LEASE OBLIGATIONS

The Company has a Fossil Fuel Supply Agreement with a financial institution providing for the financing of up to $37.5 million of fossil fuel purchases. Under this agreement, the financing entity may acquire and/or store natural gas, coal and fuel oil for sale to the Company, and the Company may purchase these fossil fuels from the financing entity at a price for each type of fuel that reimburses the financing entity for the direct costs it has incurred in purchasing and storing the fuel, plus a charge for maintaining an inventory of the fuel determined by reference to the fluctuating interest rate on thirty-day, dealer-placed commercial paper in New York. The Company is obligated to insure the fuel inventories and to indemnify the financing entity against all liabilities, taxes and other expenses incurred as a result of its ownership, storage and sale of fossil fuel to the Company. This agreement currently extends to May 2000, when it will terminate. The Company discontinued using this fossil fuel financing arrangement in September 1998. At December 31, 1998, no fossil fuel purchases were being financed under this agreement. On April 16, 1999, the Company sold all of its operating non-nuclear generation facilities to an unaffiliated entity. As a result, the Company will not finance any fuel purchases under this agreement prior to its termination in May 2000.

The Company also has lease arrangements for data processing equipment, office equipment, vehicles and office space, including the lease of a distribution service facility, which is recognized as a capital lease. The gross amount of assets recorded under capital leases and the related obligations of those leases as of December 31, 1998 are recorded on the balance sheet.

Future minimum lease payments under capital leases, excluding the Seabrook sale/leaseback transaction, which is being treated as a long-term financing, are estimated to be as follows:

	(000's)
1999	$ 1,696
2000	1,696

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2001	1,696
2002	1,696
2003	1,696
After 2003	16,000
Total minimum capital lease payments	24,480
Less: Amount representing interest	7,626
Present value of minimum capital lease payments	$16,854

Capitalization of leases has no impact on income, since the sum of the amortization of a leased asset and the interest on the lease obligation equals the rental expense allowed for ratemaking purposes.

Operating leases, which are charged to operating expense, consist principally of a large number of small, relatively short-term, renewable agreements for a wide variety of equipment. In addition, the Company has an operating lease for its corporate headquarters. Future minimum lease payments under this lease are estimated to be as follows:

	(000's)
1999	$ 6,426
2000	6,524
2001	6,837
2002	8,168
2003	9,125
2004-2012	91,209
Total	$128,289

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Rental payments charged to operating expenses in 1998, 1997 and 1996, including rental payments for its corporate headquarters, were $11.7 million,

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$12.2 million and $12.8 million, respectively.

(L) COMMITMENTS AND CONTINGENCIES

CAPITAL EXPENDITURE PROGRAM

The Company's continuing capital expenditure program is presently estimated at $130.8 million, excluding AFUDC, for 1999 through 2003.

NUCLEAR INSURANCE CONTINGENCIES

The Price-Anderson Act, currently extended through August 1, 2002, limits public liability resulting from a single incident at a nuclear power plant. The first $200 million of liability coverage is provided by purchasing the maximum amount of commercially available insurance. Additional liability coverage will be provided by an assessment of up to $83.9 million per incident, levied on each of the nuclear units licensed to operate in the United States, subject to a maximum assessment of $10 million per incident per nuclear unit in any year. In addition, if the sum of all public liability claims and legal costs resulting from any nuclear incident exceeds the maximum amount of financial protection, each reactor operator can be assessed an additional 5% of $83.9 million, or $4.2 million. The maximum assessment is adjusted at least every five years to reflect the impact of inflation. With respect to each of the three nuclear generating units in which the Company has an interest, the Company will be obligated to pay its ownership and/or leasehold share of any statutory assessment resulting from a nuclear incident at any nuclear generating unit. Based on its interests in these nuclear generating units, the Company estimates its maximum liability would be $17.8 million per incident. However, any assessment would be limited to $2.1 million per incident per year.

The NRC requires each nuclear generating unit to obtain property insurance coverage in a minimum amount of $1.06 billion and to establish a system of prioritized use of the insurance proceeds in the event of a nuclear incident. The system requires that the first $1.06 billion of insurance proceeds be used to stabilize the nuclear reactor to prevent any significant risk to public health and safety and then for decontamination and cleanup operations. Only following completion of these tasks would the balance, if any, of the segregated insurance proceeds become available to the unit's owners. For each of the three nuclear generating units in which the Company has an interest, the Company is required to pay its ownership and/or leasehold share of the cost of purchasing such insurance. Although each of these units has purchased $2.75 billion of property insurance coverage, representing the limits of coverage currently available from conventional nuclear insurance pools, the cost of a nuclear incident could exceed available insurance proceeds. Under those circumstances, the nuclear insurance pools that provide this coverage may levy assessments

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against the insured owner companies if pool losses exceed the accumulated funds available to the pool. The maximum potential assessments against the Company with respect to losses occurring during current policy years are approximately $3.1 million.

OTHER COMMITMENTS AND CONTINGENCIES

CONNECTICUT YANKEE

On December 4, 1996, the Board of Directors of the Connecticut Yankee Atomic Power Company (Connecticut Yankee) voted unanimously to retire the Connecticut Yankee nuclear plant (the Connecticut Yankee Unit) from commercial operation. The Company has a 9.5% stock ownership share in Connecticut Yankee. The power purchase contract under which the Company has purchased its 9.5% entitlement to the Connecticut Yankee Unit's power output permits Connecticut Yankee to recover 9.5% of all of its costs from UI. In December of 1996, Connecticut Yankee filed decommissioning cost estimates and amendments to the power contracts with its owners with the Federal Energy Regulatory Commission (FERC). Based on regulatory precedent, this filing seeks confirmation that Connecticut Yankee will continue to collect from its owners its decommissioning costs, the unrecovered investment in the Connecticut Yankee Unit and other costs associated with the permanent shutdown of the Connecticut Yankee Unit. On August 31, 1998, a FERC Administrative Law Judge (ALJ) released an initial decision regarding Connecticut Yankee's December 1996 filing. The initial decision contains provisions that would allow Connecticut Yankee to recover,

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through the power contracts with its owners, the balance of its net unamortized investment in the Connecticut Yankee Unit, but would disallow recovery of a portion of the return on Connecticut Yankee's investment in the unit. The ALJ's decision also states that decommissioning cost collections by Connecticut Yankee, through the power contracts, should continue to be based on a previously-approved estimate until a new, more reliable estimate has been prepared and tested. During October of 1998, Connecticut Yankee and its owners filed briefs setting forth exceptions to the ALJ's initial decision. If this initial decision is upheld by the FERC, Connecticut Yankee could be required to

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write off a portion of the regulatory asset on its Balance Sheet associated with the retirement of the Connecticut Yankee Unit. In this event, however, the Company would not be required to record any write-off on account of its 9.5% ownership share in Connecticut Yankee, because the Company has recorded its regulatory asset associated with the retirement of the Connecticut Yankee Unit net of any return on investment. The Company cannot predict, at this time, the outcome of the FERC proceeding. However, the Company will continue to support Connecticut Yankee's efforts to contest the ALJ's initial decision.

The Company's estimate of its remaining share of Connecticut Yankee costs, including decommissioning, less return of investment (approximately $9.9 million) and return on investment (approximately $4.7 million) at December 31, 1998, is approximately $32.7 million. This estimate, which is subject to ongoing review and revision, has been recorded by the Company as an obligation and a regulatory asset on the Consolidated Balance Sheet.

HYDRO-QUEBEC

The Company is a participant in the Hydro-Quebec transmission intertie facility linking New England and Quebec, Canada. Phase I of this facility, which became operational in 1986 and in which the Company has a 5.45% participating share, has a 690 megawatt equivalent capacity value; and Phase II, in which the Company has a 5.45% participating share, increased the equivalent capacity value of the intertie from 690 megawatts to a maximum of 2000 megawatts in 1991. A ten-year Firm Energy Contract, which provides for the sale of 7 million megawatt-hours per year by Hydro-Quebec to the New England participants in the Phase II facility, became effective on July 1, 1991. Additionally, the Company is obligated to furnish a guarantee for its participating share of the debt financing for the Phase II facility. As of December 31, 1998, the Company's guarantee liability for this debt was approximately $6.8 million.

PROPERTY TAXES

The City of New Haven (the City) and the Company have been involved in a dispute over the amount of personal property taxes owed to the City for tax years beginning with 1991-1992. On May 8, 1998, the City and the Company reached a comprehensive settlement of all of the Company's contested personal property tax assessments and tax bills for the tax years 1991-1992 through 1997-1998 and the Company's personal property tax assessments for the tax year 1998-1999 and subsequent years. Under the terms of this settlement, the Company agreed to pay the City $14.025 million, subject to Connecticut Superior Court approval of the settlement and conditioned on the Company receiving authorization from the DPUC to recover the settlement amount from its retail customers. The DPUC denied the Company's initial application for such authorization and the City agreed to extend to December 31, 1998 the time period for satisfying this condition of the

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settlement in return for a payment by the Company of $6 million. The Company filed a second application with the DPUC on July 9, 1998, and on December 8, 1998 a Joint Stipulation among the Company, the Office of Consumer Counsel and the Connecticut Attorney General relative to the recovery of the settlement amount was filed with the DPUC. On December 30, 1998, the DPUC issued a draft decision rejecting this Joint Stipulation. The Company filed written exceptions to this draft decision and requested oral argument on the draft decision; and the City agreed to extend to March 1, 1999 the time period for obtaining a favorable DPUC authorization, in return for payment by the Company of an additional $6 million. On February 10, 1999, the DPUC issued a final decision rejecting the Joint Stipulation. The Company subsequently waived the condition to the settlement with the City that the DPUC authorize recovery of the settlement amount from the Company's retail customers and, on March 5, 1999, the settlement was approved by the Superior Court. The Company will pay the remaining $2.025 million of the settlement amount to the City promptly. Based on the DPUC's final decision, the Company has expensed the $14.025 million settlement amount in 1998.

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ENVIRONMENTAL CONCERNS

In complying with existing environmental statutes and regulations and further developments in areas of environmental concern, including legislation and studies in the fields of water and air quality (particularly "air toxics" and "global warming"), hazardous waste handling and disposal, toxic substances, and electric and magnetic fields, the Company may incur substantial capital expenditures for equipment modifications and additions, monitoring equipment and recording devices, and it may incur additional operating expenses. Litigation expenditures may also increase as a result of scientific investigations, and speculation and debate, concerning the possibility of harmful health effects of electric and magnetic fields. The total amount of these expenditures is not now determinable.

SITE DECONTAMINATION, DEMOLITION AND REMEDIATION COSTS

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The Company has estimated that the total cost of decontaminating and demolishing its Steel Point Station and completing requisite environmental remediation of the site will be approximately $11.3 million, of which approximately $8.3 million had been incurred as of December 31, 1998, and that the value of the property following remediation will not exceed $6.0 million. As a result of a 1992 DPUC retail rate decision, beginning January 1, 1993, the Company has been recovering through retail rates $1.075 million of the remediation costs per year. The remediation costs, property value and recovery from customers will be subject to true-up in the Company's next retail rate proceeding based on actual remediation costs and actual gain on the Company's disposition of the property.

The Company is presently remediating an area of PCB contamination at a site, bordering the Mill River in New Haven, that contains transmission facilities and the deactivated English Station generation facilities. Remediation costs, including the repair and/or replacement of approximately 560 linear feet of sheet piling, are currently estimated at $7.5 million. In addition, the Company is planning to repair and/or replace the remaining deteriorated sheet piling bordering the English Station property, at an additional estimated cost of $10 million.

As described at Note (C) "Rate-Regulated Regulatory Proceedings" above, the Company has contracted to sell its Bridgeport Harbor Station and New Haven Harbor Station generating plants in compliance with Connecticut's electric utility industry restructuring legislation. Environmental assessments performed in connection with the marketing of these plants indicate that substantial remediation expenditures will be required in order to bring the plant sites into compliance with applicable Connecticut minimum standards following their sale. The proposed purchaser of the plants has agreed to undertake and pay for the major portion of this remediation. However, the Company will be responsible for remediation of the portions of the plant sites that will be retained by it.

(M) NUCLEAR FUEL DISPOSAL AND NUCLEAR PLANT DECOMMISSIONING

Costs associated with nuclear plant operations include amounts for disposal of nuclear wastes, including spent fuel, and for the ultimate decommissioning of the plants. Under the Nuclear Waste Policy Act of 1982, the federal Department of Energy (DOE) is required to design, license, construct and operate a permanent repository for high level radioactive wastes and spent nuclear fuel. The Act requires the DOE to provide for the disposal of spent nuclear fuel and high level radioactive waste from commercial nuclear plants through contracts with the owners and generators of such waste; and the DOE has established disposal fees that are being paid to the federal government by electric utilities owning or operating nuclear generating units. In return for payment of the prescribed fees, the federal government was required to take title to and

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dispose of the utilities' high level wastes and spent nuclear fuel beginning no later than January 1998. However, the DOE has announced that its first high level waste repository will not be in operation earlier than 2010 and possibly not earlier than 2013, notwithstanding the DOE's statutory and contractual responsibility to begin disposal of high-level radioactive waste and spent fuel beginning not later than January 31, 1998.

The DOE also announced that, absent a repository, the DOE has no statutory obligation to begin taking high level wastes and spent nuclear fuel for disposal by January 1998. However, numerous utilities and states have obtained a judicial declaration that the DOE has a statutory responsibility to take title to and dispose of high level wastes and spent nuclear fuel beginning in January 1998, and that the contracts between the DOE and the plant owners and generators of such waste will provide a potentially adequate remedy for the latter if the DOE fails to fulfill its contractual obligations

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by that date. The DOE is contesting these judicial declarations; and it is unclear at this time whether the United States Congress will enact legislation to address spent fuel/high level waste disposal issues.

Until the federal government begins receiving such materials, nuclear generating units will need to retain high level wastes and spent nuclear fuel on-site or make other provisions for their storage. Storage facilities for the Connecticut Yankee Unit are deemed adequate, and storage facilities for Millstone Unit 3 are expected to be adequate for the projected life of the unit. Storage facilities for Seabrook Unit 1 are expected to be adequate until at least 2010. Fuel consolidation and compaction technologies are being considered for Seabrook Unit 1 and may provide adequate storage capability for the projected life of the unit. In addition, other licensed technologies, such as dry storage casks, may satisfy spent nuclear fuel storage requirements.

Disposal costs for low-level radioactive wastes (LLW) that result from operation or decommissioning of nuclear generating units have increased significantly in recent years and may continue to rise. The cost increases are a function of increased packaging and transportation costs, and higher fees and

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surcharges imposed by the disposal facilities. Currently, the Chem Nuclear LLW facility at Barnwell, South Carolina, is open to the Connecticut Yankee Unit, Millstone Unit 3, and Seabrook Unit 1 for disposal of LLW. The Envirocare LLW facility at Clive, Utah, is also open to these generating units for portions of their LLW. All three units have contracts in place for LLW disposal at these disposal facilities.

Because access to LLW disposal may be lost at any time, Millstone Unit 3 and Seabrook Unit 1 have storage plans that will allow on-site retention of LLW for at least five years in the event that disposal is interrupted. The Connecticut Yankee Unit, which has been retired from commercial operation, has a similar storage program, although disposal of its LLW will take place in connection with its decommissioning.

The Company cannot predict whether or when a LLW disposal site will be designated in Connecticut. The State of New Hampshire has not met deadlines for compliance with the Low-Level Radioactive Waste Policy Act and has stated that the state is unsuitable for a LLW disposal facility. Both Connecticut and New Hampshire are also pursuing other options for out-of-state disposal of LLW.

NRC licensing requirements and restrictions are also applicable to the decommissioning of nuclear generating units at the end of their service lives, and the NRC has adopted comprehensive regulations concerning decommissioning planning, timing, funding and environmental reviews. UI and the other owners of the nuclear generating units in which UI has interests estimate decommissioning costs for the units and attempt to recover sufficient amounts through their allowed electric rates, together with earnings on the investment of funds so recovered, to cover expected decommissioning costs. Changes in NRC requirements or technology, as well as inflation, can increase estimated decommissioning costs.

New Hampshire has enacted a law requiring the creation of a government-managed fund to finance the decommissioning of nuclear generating units in that state. The New Hampshire Nuclear Decommissioning Financing Committee (NDFC) has established $497 million (in 1999 dollars) as the decommissioning cost estimate for Seabrook Unit 1, of which the Company's share would be approximately $87 million. This estimate assumes the prompt removal and dismantling of the unit at the end of its estimated 36-year energy producing life. Monthly decommissioning payments are being made to the state-managed decommissioning trust fund. UI's share of the decommissioning payments made during 1998 was $2.1 million. UI's share of the fund at December 31, 1998 was approximately $16.5 million.

Connecticut has enacted a law requiring the operators of nuclear generating units to file periodically with the DPUC their plans for financing the

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decommissioning of the units in that state. The current decommissioning cost estimate for Millstone Unit 3 is $560 million (in 1999 dollars), of which the Company's share would be approximately $21 million. This estimate assumes the prompt removal and dismantling of the unit at the end of its estimated 40-year energy producing life. Monthly decommissioning payments, based on these cost estimates, are being made to a decommissioning trust fund managed by Northeast Utilities (NU). UI's share of the Millstone Unit 3 decommissioning payments made during 1998 was $487,000. UI's share of the fund at December 31, 1998 was approximately $6.5 million. The current decommissioning cost estimate for the Connecticut Yankee Unit, assuming the prompt removal

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and dismantling of the unit commencing in 1997, is $476 million, of which UI's share would be $45 million. Through December 31, 1998, $85 million has been expended for decommissioning. The projected remaining decommissioning cost is $391 million, of which UI's share would be $37 million. The decommissioning trust fund for the Connecticut Yankee Unit is also managed by NU. For the Company's 9.5% equity ownership in Connecticut Yankee, decommissioning costs of $2.4 million were funded by UI during 1998, and UI's share of the fund at December 31, 1998 was $25 million.

The Financial Accounting Standards Board (FASB) has issued an exposure draft related to the accounting for the closure and removal costs of long-lived assets, including nuclear plant decommissioning. If the proposed accounting standard were adopted, it may result in higher annual provisions for decommissioning to be recognized earlier in the operating life of nuclear units and an accelerated recognition of the decommissioning obligation. The FASB will be deliberating this issue, and the resulting final pronouncement could be different from that proposed in the exposure draft.

(N) FAIR VALUE OF FINANCIAL INSTRUMENTS (1)

The estimated fair values of the Company's financial instruments are as follows:

	1998	1997

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	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(000's)		(000's)	
Cash and temporary cash investments	$101,445	$101,445	$32,002	$32,002
Long-term debt (2)(3)(4)	$606,342	$611,524	$620,457	$624,192
Interest rate swaps (5)	$225,000	$220,877	$225,000	$223,547
Fuel price management instruments(6)	-	-	-	($817)

(1) Equity investments were not valued because they were not considered to be material.

(2) Excludes the obligation under the Seabrook Unit 1 sale/leaseback agreement.

(3) The fair market value of the Company's long-term debt is estimated by brokers based on market conditions at December 31, 1998 and 1997, respectively.

(4) See Note (B), Capitalization - Long-Term Debt.

(5) The fair value of the interest rate swaps is calculated by the counterparty to the swap agreements using mid-market models and proprietary models.

(6) The fair value of the fuel price management instruments at December 31, 1997 was calculated as the difference between the fuel price within the swap agreements and the prevailing market price at December 31, 1997 multiplied by the forward swap agreement volumes.

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(O) QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for 1998 and 1997, as originally reported

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and restated, are set forth below:

<TABLE>
<CAPTION>

QUARTER	OPERATING REVENUES (000's)	OPERATING INCOME (000's)	NET INCOME (000's)	EARNINGS PER SHARE OF COMMON STOCK (1) Basic	Diluted
<S>	<C>	<C>	<C>	<C>	<C>
1998					
First-Originally Reported	$162,474	$22,677	$ 8,962	$0.64	$0.64
Provision - APS accounts receivable	-	-	-	-	-
Unbilled revenue	-	-	-	-	-
Deferred Taxes-Fossil Decommissioning	-	-	-	-	-
First-As Restated	$162,474	$22,677	$ 8,962	$0.64	$0.64
Second-Originally Reported	$159,792	$21,174	$ 5,497	$0.39	$0.39
Provision - APS accounts receivable	-	-	2,882	0.21	0.21
Unbilled revenue	-	-	-	-	-
Deferred Taxes-Fossil Decommissioning	-	-	-	-	-
Second-As Restated	$159,792	$21,174	$ 8,379	$0.60	$0.60
Third-Originally Reported	$198,601	$37,462	$26,236	$1.87	$1.87
Provision - APS accounts receivable	-	-	-	-	-
Unbilled revenue	-	-	-	-	-
Deferred Taxes-Fossil Decommissioning	-	-	-	-	-
Third-As Restated	$198,601	$37,462	$26,236	$1.87	$1.87
Fourth-Originally Reported	$165,324	$15,013	$ 1,495	$0.10	$0.10
Provision - APS accounts receivable	-	-	-	-	-

EXHIBIT C

Unbilled revenue	-	-	-	-	-
Deferred Taxes-Fossil Decommissioning	-	-	-	-	-
Fourth-As Restated (2)	$165,324	$15,013	$ 1,495	$0.10	$0.10

</TABLE>

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

<TABLE>
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QUARTER	OPERATING REVENUES (000's)	OPERATING INCOME (000's)	NET INCOME (000's)	EARNINGS PER SHARE OF COMMON STOCK (1) Basic	Diluted
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1997					
First-Originally Reported	$180,325	$22,150	$ 7,710	$0.54	$0.54
Provision - APS accounts receivable	-	-	(548)	(0.04)	(0.04)
Unbilled revenue	592	331	331	0.02	0.02
Deferred Taxes-Fossil Decommissioning	-	5,683	5,683	0.41	0.41
First-As Restated (3)	$180,917	$28,164	$13,176	$0.93	$0.93
Second-Originally Reported	$163,774	$22,692	$ 8,542	$0.61	$0.61
Provision - APS accounts receivable	-	-	(548)	(0.04)	(0.04)
Unbilled revenue	826	463	463	0.03	0.03
Deferred Taxes-Fossil Decommissioning	-	(3,611)	(3,611)	(0.27)	(0.27)
Second-As Restated	$164,600	$19,544	$ 4,846	$0.33	$0.33

EXHIBIT C

Third-Originally Reported	$196,563	$38,351	$23,402	$1.68	$1.68
Provision - APS accounts receivable	-	-	(547)	(0.04)	(0.04)
Unbilled revenue	652	365	365	0.03	0.03
Deferred Taxes-Fossil Decommissioning	-	(1,036)	(1,036)	(0.07)	(0.08)
Third-As Restated	$197,215	$37,680	$22,184	$1.60	$1.59
Fourth-Originally Reported	$169,605	$21,380	$ 6,137	$0.44	$0.44
Provision - APS accounts receivable	-	-	-	-	-
Unbilled revenue	(3,308)	(1,850)	(1,850)	(0.14)	(0.14)
Deferred Taxes-Fossil Decommissioning	-	(1,036)	(1,036)	(0.07)	(0.07)
Fourth-As Restated	$166,297	$18,494	$ 3,251	$0.23	$0.23

</TABLE>

----

(1) Based on weighted average number of shares outstanding each quarter.

(2) Operating income, net income and earnings per share for the fourth quarter of 1998 included an after-tax charge of $8.3 million, associated with a property tax settlement. See Note (L), "Commitments and Contingencies - Property Taxes".

(3) Operating income, net income and earnings per share for the first quarter of 1997 included an after-tax credit of $6.7 million, or $.48 per share, to provide for the cumulative tax benefits associated with future fossil generation decommissioning. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations for a more detailed explanation.

(P) SEGMENT INFORMATION

The Company has one reportable operating segment, that of regulated generation, distribution and sale of electricity. The accounting policies used for that segment do not differ from those used for nonreportable operating segments. Revenues from inter-segment transactions are not material and all of the Company's revenues are derived in the United States.

EXHIBIT C

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THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The revenues from external customers, interest income, interest expense and depreciation charges of the one reportable segment are identical to the amounts shown on the Consolidated Statement of Income for each year presented. Income before taxes of the reportable segment is not materially different from that of the Company as a whole.

The following table reconciles the total assets of the reportable segment with the total assets shown on the Consolidated Balance Sheet at December 31:

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<S>	1998 <C>	1997 <C>	1996 <C>
Total Assets - Regulated Utility	$1,892,822	$1,881,883	$1,951,954
Total Assets - Unregulated Subsidiaries	136,062	116,830	101,498
Total Assets - Elimination	(85,474)	(80,179)	(76,712)
Total Consolidated Assets	$1,943,410	$1,918,534	$1,976,740

</TABLE>

(Q) RESTATEMENT OF FINANCIAL RESULTS

AMERICAN PAYMENT SYSTEMS, INC. (APS) RESTATEMENTS

During the third quarter of 1999, the Company has restated its financial statements for 1998, 1997 and 1996 for matters related to the timing of American Payment Systems ("APS") agency collection reserves, for certain line loss factors that affect the calculation of unbilled revenues and for cash, accounts receivable and accounts payable amounts related to APS's collection agent network. The Company had consultations with the staff of the Securities and Exchange Commission and its independent accountants in determining these restated amounts.

EXHIBIT C

During 1997 and 1996, APS agent bank accounts were not fully reconciled at the time APS balance sheet items were prepared to allow for the identification, measurement and enforcement of material claims for recovery from APS agents for defalcated amounts or from APS customers for checks returned by banks due to insufficient funds. As a result, losses associated with collection agent errors and defaults went undetected for extended periods of time. In the second quarter of 1998, the Company performed a review of the accounting records at APS and identified significantly past due agent collections of $4.9 million ($2.8 million, after-tax) that represented agent deposit shortfalls and uncollectible agent check deposits. Pursuant to the result of this review, APS increased its provision against their receivable balance by $4.9 million ($2.8 million, after-tax) in the second quarter of 1998. The Company applied similar procedures during 1996 and, based on the results, recorded a $4.5 million ($2.6 million, after-tax) increase in its provision in the fourth quarter of 1996. Due to the fact that these adjustments related to losses incurred in both current and prior periods, the Company has restated the effects of these adjustments back to the periods in which the losses occurred as shown below. The impact of the adjustments described above was to reduce retained earnings as of January 1, 1996 by $497.

The restatement of cash, accounts receivable and accounts payable amounts related to APS's collection agent network was recorded so as to include on the Company's consolidated balance sheet amounts that had previously been recorded on a net basis.

UNBILLED REVENUE RESTATEMENT
- ---------------------------

During the third quarter of 1999, the Company reviewed an adjustment of $2.7 million ($1.6 million, after-tax) made to retail operating revenues in the fourth quarter of 1997 related to the reversal of prior period overestimates of transmission line losses. The Company uses an estimated line loss factor, based upon a 24 month-moving historical line loss factor, to calculate the amount of revenue from electricity sales that is unbilled during the period and therefore should be accrued. This loss factor is applied to the known amount of electricity delivered to the Company's transmission grid from internal and external sources. Historically, this methodology provided a reasonable estimate of the amount of unbilled revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Beginning in the first quarter of 1996, the outages of four nuclear generating units resulted in the Company purchasing power from other sources. The electricity from other sources followed different transmission paths and exhibited different line loss characteristics than the electricity generated by the nuclear generating units. During this period of time, the Company continued to utilize the 24 month-moving average loss factor in order to smooth the impact of changes in the line loss factors in the calculation of unbilled revenue amounts.

Based upon a review of the actual New England Power Pool line loss factors during this period and the pattern of when they occurred, the Company has restated the $1.2 million ($0.7 million, after-tax) of the adjustment made to retail operating revenues, originally recorded in the fourth quarter of 1997, to 1996.

The following tables summarize the restatements that the Company has made on net income, earnings per share and retained earnings.

Increase (decrease) in net income:

DESCRIPTION	FOR THE YEAR ENDED DECEMBER 31, 1998	1997 (000'S)	1996
1998 APS charge	$2,882	$(1,643)	$(1,239)
1997 unbilled revenues	-	(691)	691
1996 APS charge	-	-	497
Net increase (decrease) to net income	2,882	(2,334)	(51)
Net income applicable to common shareholders, as originally reported	42,010	45,634	40,606
Net income applicable to common shareholders, as restated	$44,892	$43,300	$40,555

DESCRIPTION	FOR THE YEAR ENDED DECEMBER 31, 1998	1997	1996
Earnings per share, as originally reported			
- Basic	$3.00	$3.27	$2.88
- Diluted	$3.00	$3.26	$2.87

EXHIBIT C

Earnings per share, as restated			
- Basic	$3.20	$3.10	$2.88
- Diluted	$3.20	$3.09	$2.87

	AS OF DECEMBER 31,		
	1998	1997	1996
DESCRIPTION		(000'S)	
Retained earnings, as originally reported	$163,847	$162,226	$156,847
Net effect of restatements, described above	-	(2,882)	(548)
Retained earnings, as restated	$163,847	$159,344	$156,299

Included in restricted cash at December 31, 1998, 1997, and 1996 are amounts of $23,056, $21,063 and $16,682, respectively, representing collections by APS agents that are held in APS agent accounts prior to transmittal to the respective APS customers. In addition the Company has included in other accounts receivable at December 31, 1998, 1997 and 1996 amounts of $26,768, $23,284 and $19,903, respectively, which represent collections by APS agents not yet deposited into APS bank accounts. A corresponding accounts payable has been recorded to reflect the portions of these collections owed to APS customers, as well as the amount of restricted cash presented above. The Company had previously presented its consolidated balance sheet net of these accounts receivable and accounts payable amounts.

<PAGE>

THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The following table summarizes the effect of the restatements described above to restricted cash, other accounts receivable, and accounts payable - APS utility customers:

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	AS OF DECEMBER 31,		
	1998	1997	1996
		(In Thousands)	

EXHIBIT C

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Restricted cash, as originally reported	$ -	$ -	$ -
Effect of restatement, described above	23,056	21,063	16,681
	------	------	------
Restricted cash, as restated	$23,056	$21,063	$16,681
	======	======	======
Other accounts receivable, as originally reported (1)	$37,472	$27,914	$38,367
Effect of restatement, described above			
Additional accounts receivable for APS agents	26,768	23,284	19,903
Additional APS agent collection reserves	-	(4,900)	(2,075)
	------	------	------
Other accounts receivable, as restated	$64,240	$46,298	$56,195
	======	======	======
Accounts payable-APS utility customers, as originally reported	$ -	$ -	$ -
Accounts payable-APS utility customers reclassed from accounts payable	4,691	6,147	7,588
Effect of restatement, described above			
Restricted cash	23,056	21,063	16,681
Additional amounts owed to APS customers	26,768	23,284	19,903
	------	------	------
Accounts payable -APS utility customers, as restated	$54,515	$50,494	$44,172
	======	======	======

</TABLE>

(1) Includes accounts receivable from APS agents originally included in other accounts receivable of $4,691,000, $6,147,000 and $7,588,000 as of December 31, 1998, 1997 and 1996, respectively.

In addition, the Company has revised Schedule II on page S1 to reflect the restatement of additional reserves for uncollectible accounts related to APS agent collections.

<PAGE>

[LETTERHEAD OF PRICEWATERHOUSECOOPERS LLP]

REPORT OF INDEPENDENT ACCOUNTANTS

EXHIBIT C

To the Board of Directors and Shareholders
of The United Illuminating Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of retained earnings and of cash flows present fairly, in all material respects, the financial position of The United Illuminating Company and its subsidiaries (the "Company") at December 31, 1998, 1997 and 1996 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As described in Note Q, the Company revised its December 31, 1998, 1997 and 1996 consolidated financial statements with respect to certain previously recorded charges.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, NY
February 12, 1999, except for Note Q,
as to which date is November 29, 1999.

<PAGE>

[LETTERHEAD OF PRICEWATERHOUSECOOPERS LLP]

EXHIBIT C

REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders
of The United Illuminating Company:

Our audits of the consolidated financial statements referred to in our report dated February 12, 1999, except as to the restatement of certain expense amounts described in Note Q, which is as of November 29, 1999 appearing in the 1998 Annual Report on Form 10-K/A-3 of The United Illuminating Company also included an audit of the Financial Statement Schedule on page S-1 of this Form 10-K/A-3. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, NY
February 12, 1999, except for Note Q,
as to which the date is November 29, 1999.

<PAGE>

[LETTERHEAD OF PRICEWATERHOUSECOOPERS LLP]

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in these Registration Statements on Form S-3 (No. 33-50221, No. 33-50445, No. 33-55461 and No. 33-64003) of our report dated February 12, 1999, except as to the restatement of certain expense amounts described in Note Q, which is as of November 29, 1999, relating to the financial statements appearing in The United Illuminating Company's Annual Report on Form 10-K/A-3 for the year ended December 31, 1998.

EXHIBIT C

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, NY
November 29, 1999

<PAGE>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, as amended, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE UNITED ILLUMINATING COMPANY

Dated: 11/30/99 By: /s/ Robert L. Fiscus

Robert L. Fiscus
Vice Chairman of the Board of Directors
and Chief Financial Officer

<PAGE>

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SCHEDULE II
VALUATION AND
QUALIFYING ACCOUNTS

THE UNITED ILLUMINATING COMPANY
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

EXHIBIT C

(Thousands of Dollars)

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
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1998	$7,197	$5,745	-	$10,511 (A)	$2,431
1997	$8,929	$9,832	-	$11,564 (A)	$7,197
1996	$7,133	$16,080	-	$14,284 (A)	$8,929
RESERVE DEDUCTION FROM ASSET TO WHICH IT APPLIES: Reserve for uncollectible accounts (American Payment Systems, agent collections					
1998	$5,392	$361	-	$5,208 (A)	$545
1997	$6,545	$3,425	-	$4,578 (A)	$5,392
1996	$796	$6,179	-	$430 (A)	$6,545

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NOTE:
(A) Accounts written off, less recoveries.

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EXHIBIT C

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EXHIBIT C

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EXHIBIT C

-----END PRIVACY-ENHANCED MESSAGE-----

EXHIBIT C