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MOMENTUM *for future* GROWTH

COMMONWEALTH ENERGY SYSTEM

1993

summary annual report



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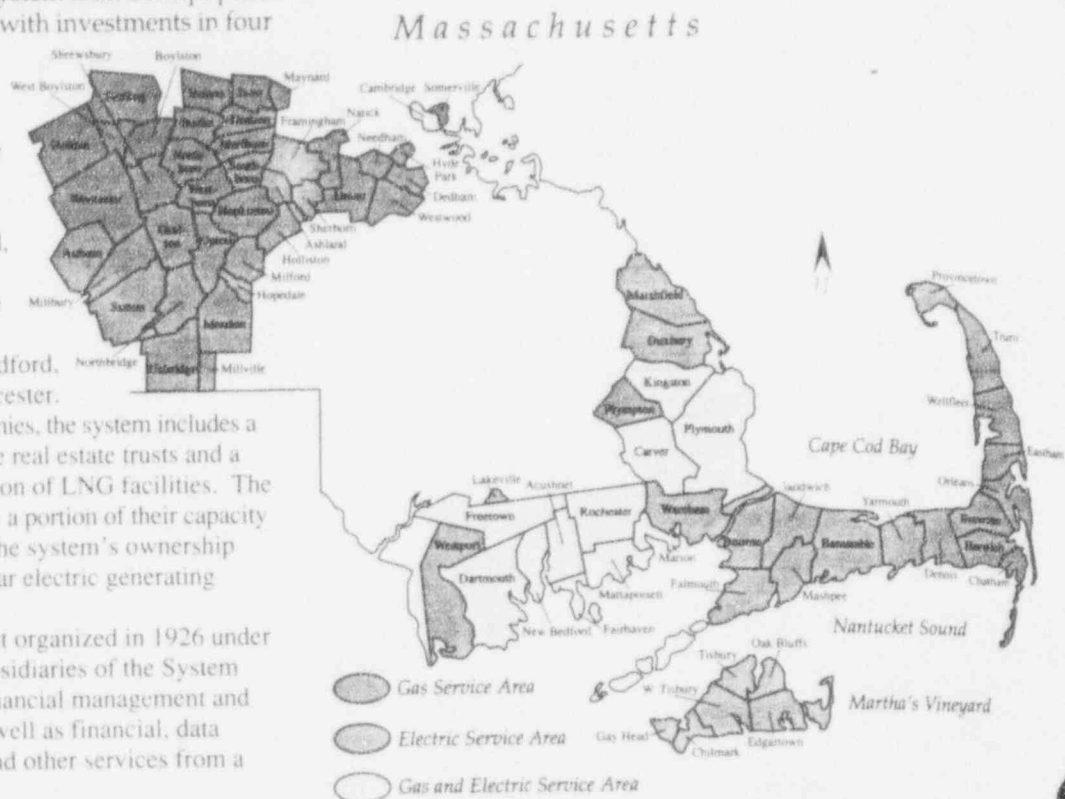
SYSTEM PROFILE

Commonwealth Energy System is an exempt public utility holding company with investments in four operating public utility companies located in central and eastern Massachusetts.

System electric operations are involved in the production and sale of electricity in 41 communities including New Bedford, Plymouth, Cambridge and the geographic area comprising Cape Cod. Gas operations serve 49 communities including New Bedford, Cambridge, Plymouth and Worcester.

In addition to the utility companies, the system includes a steam distribution company, five real estate trusts and a company engaged in the operation of LNG facilities. The retail electric subsidiaries receive a portion of their capacity and energy requirements from the system's ownership interests in four operating nuclear electric generating facilities and one oil-fired unit.

The System is a business trust organized in 1926 under the laws of Massachusetts. Subsidiaries of the System have common executive and financial management and receive technical assistance as well as financial, data processing, accounting, legal and other services from a service company subsidiary.



s y s t e m f a c t s

Electric

Cambridge Electric Light Company
Canal Electric Company
Commonwealth Electric Company

Gas

Commonwealth Gas Company
Hopkinton LNG Corp.

Other Companies

COM/Energy Services Company
COM/Energy Steam Company
COM/Energy Acushnet Realty
(leases land to Hopkinton
LNG Corp.)
COM/Energy Cambridge Realty
(organized to hold various
properties)
COM/Energy Freetown Realty
(organized to develop a parcel
of land)

COM/Energy Research Park

Realty (organized to develop
a research building in Cambridge)
Darvel Realty Trust (joint-owner of
the Riverfront Office Park complex)

In addition, the system has
a 1.4% interest in a jointly-owned
oil-fired generating unit and also
owns from 2 1/2% to 4 1/2% interests
in five nuclear power plants (located
in Massachusetts, New Hampshire,
Connecticut, Vermont and Maine).

Territory of Utility

Operating Companies

Electric Operations—1,112 square
miles covering 41 communities
with a population of 645,000

Gas Operations—1,067 square miles
covering 49 communities (including
12 served with electricity) with a
population of 1,128,000

Electric Plant

Capability—1,554 MW, including
sales under long-term contracts with
other utilities of 426.8 MW resulting
in a net capability of 1,127.2 MW
Peak demand—909 MW on
July 9, 1993

Gas Plant

Distribution lines—2,739 miles
Peak day send-out—314,114
MMBTU on December 27, 1993

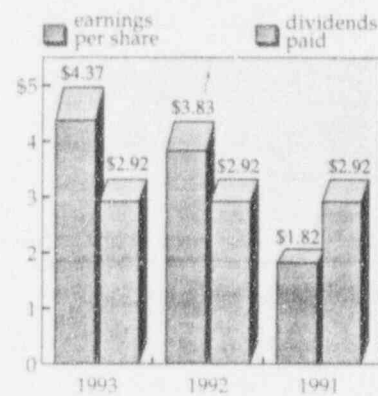
Employees and Shareholders at Year-End

Regular Employees—2,217
Shareholders—15,877

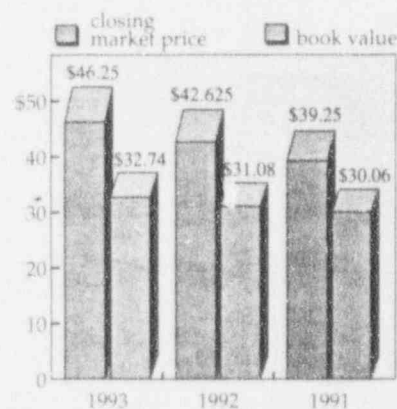
FINANCIAL and OPERATING HIGHLIGHTS

	1993	1992	%
Common Share Data			
Earnings	\$4.37	\$3.83	14.1
Dividend Rate at End of Year	\$2.92	\$2.92	—
Closing Price Range	\$50½–\$40½	\$43–\$34½	
Average Shares Outstanding	10,215,614	10,081,868	1.3
Operating Statistics			
Customers Served			
Electric	352,000	348,000	1.1
Gas	232,000	227,000	2.2
Regular Employees	2,217	2,414	(8.2)
Unit Sales			
MWH (Megawatthours)			
Residential	1,744,181	1,726,139	1.0
Commercial	2,008,213	1,951,228	2.9
Industrial	411,527	414,777	(0.8)
Other	392,103	377,728	3.8
Total Retail	4,556,024	4,469,872	1.9
Wholesale	3,665,089	3,898,924	(6.0)
Total	8,221,113	8,368,796	(1.8)
BBTU (Billions of British Thermal Units)			
Residential	22,252	22,392	(0.6)
Commercial	10,931	10,913	0.2
Industrial	4,205	4,717	(10.9)
Other	1,831	1,788	2.4
Total Firm	39,219	39,810	(1.5)
Interruptible	1,896	2,464	(23.1)
Total	41,115	42,274	(2.7)

Earnings and Dividends Paid Per Common Share



Market Price vs. Book Value

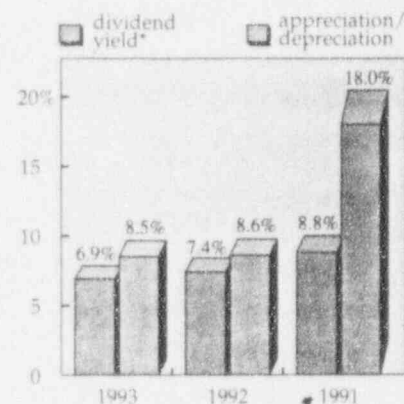


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Please note that detailed financial statements and other information, prepared in accordance with the rules and regulations of the Securities and Exchange Commission, are included in Exhibit A of the 1994 Proxy Statement.

Total Return On Investment



*Based on prior year closing price

To our SHAREHOLDERS

1993 was a year of continued improvement for Commonwealth Energy System, both financially and operationally.

Earnings per common share increased 14.1 percent;

Return on equity improved to 13.7 percent;

Common shares traded at a new record high; and

Cash dividends were paid for the 47th consecutive year.

However, we realize that we cannot rest on our accomplishments, but must move toward a well-defined vision—a vision focused on our long-term view of the energy world as it will look in the year 2000 and beyond. Responding to the imperative of change, we are rapidly adapting to an increasingly competitive and complex marketplace. We have built a powerful momentum that will serve us well in this new environment.

Our initiatives have been bold, far-reaching and, in some cases, painful. But they are necessary if COM/Energy is going to endure as a profitable, top-quality service provider. These actions have included: 1) Aggressive cost cutting and improvements in productivity; 2) Working more closely with regulators to foster a better understanding of, and appreciation for, common concerns; 3) Environmental and social initiatives that will improve the quality of life in the communities we serve; and 4) Investments in technology, coupled with important training and development, to build the leadership we need to provide superior customer service.

EARNINGS and SALES

Earnings per common share for 1993 rose 14.1 percent, increasing to \$4.37, compared to \$3.83 for the prior year.

Net income for 1993 was up 14.9 percent to \$45.8 million on consolidated revenues of \$941 million.

As the Massachusetts economy begins to grow again, the resultant demand for electricity increased with retail electric sales in 1993 improving by approximately 2 percent. Firm sales of natural gas increased by 3 percent during the heating season, when peak-period rates are in effect, and helped to produce record earnings for COM/Gas in 1993. Additionally, the benefit of converting 1,100 households to natural gas will be fully realized in 1994.

COMMON SHARES OUTPERFORM S&P 500

The market price of COM/Energy's shares reached a new all-time trading high of \$50.50 on August 18. During the year, we paid shareholders dividends totaling \$2.92 per share, a yield of approximately 7 percent. Total return, assuming dividends were reinvested, was 15.6 percent for the year while the return for the Standard & Poor's 500 index of stocks was 10.1 percent. During the past five years, COM/Energy's average annual total return was 17.7 percent, more than doubling an initial investment of \$1,000 to \$2,180.

REGULATORY DEVELOPMENTS

New electric rates went into effect June 1, 1993 for Cambridge Electric following authorization by the Massachusetts Department of Public Utilities (DPU) of an increase in retail revenues of \$7.2 million or 6.4 percent.

Together, Cambridge Electric and Commonwealth Electric filed to recover revenues lost by the companies' reduction in sales which have resulted from successful energy conservation programs. The companies filed a forward-looking DPU plan that would encourage the efficient use of electricity but not adversely affect utility company earnings—a commendable objective. The revenues lost by a utility are calculated according to the

actual number of kilowatthours saved. In June, regulators approved recovery, over a 12-month period, of \$3.6 million in lost base revenues for the two companies.

Initiatives to deregulate the natural gas industry under Federal Energy Regulatory Commission Order 636 have produced significant modifications to the structure of many pipeline systems and have led to a major restructuring of the entire industry, from the producer to the local distribution company.

COM/Gas responded proactively to Order 636 with meaningful enhancements to its gas supply and procurement areas. A highly trained staff and advanced technology drive the competitive advantage COM/Gas holds. Two integrated information systems support skilled employees with the real-time information they need to make incisive decisions in planning, analysis, delivery, regulatory compliance and transaction tracking to provide reliable, competitively priced gas services.

3-YEAR LABOR CONTRACT SIGNED

We must applaud the efforts of the men and women who worked so hard to reach a timely agreement for a three-year labor contract between COM/Gas and the United Steelworkers of America. We commend the COM/Gas management and union teams for their long hours and hard work to balance the needs of customers, employees and shareholders—so that we can do what we do best: provide customers with high-quality, reliable service.

STEAM OPERATIONS

COM/Energy Steam Company delivered yet another year of outstanding performance. Following completion of a steam line from Cambridge to Boston, we began service to Genzyme Corporation, a Cambridge-based biotechnology company which will soon grow to become our third largest steam customer. When in full operation, Genzyme will use an estimated 230 million pounds of steam

annually for heating, cooling and biopharmaceutical manufacturing. Genzyme's decision to use steam for air conditioning and process cooling avoids the need for refrigerants containing chlorofluorocarbons (CFCs), making steam both an environmental and economic winner.

Negotiations with Biogen, another Cambridge biotechnology firm, continue with the potential to increase steam sales to the company for a six-story facility now under construction. Plans for the building also call for gas and electric service from other system subsidiaries.

ENERGY CONSERVATION

Energy conservation will become as much a part of our future as it has been our past. Energy is finite, a precious commodity which must be used efficiently to assure supplies for future generations. System subsidiaries offer gas and electric conservation programs to all classes of customers. Load management and energy conservation measures are taken to flatten peak demand.

In a rather innovative move, COM/Electric launched *Green Saver*, a program projected to save customers approximately \$30 million in electricity costs. *Green Saver* marks the first time a Massachusetts utility has applied a competitive-bidding process for proposals for the development and implementation of conservation programs. The breadth of the program's unique approach expands nationwide, representing the first time a utility has competed against prospective vendors in its own request for proposals. *Green Saver* is designed to minimize program costs, while maximizing energy efficiency.

The efficient use of energy reduces the amount that we must produce or procure and has a significant economic benefit for customers who choose to conserve. We want our customers to use electricity in the most efficient manner possible, but we also seek to increase our unit sales to maximize the use of our facilities through economic development efforts to attract and retain people and businesses in our service territory.

ECONOMIC DEVELOPMENT

We have launched an alliance with the newly formed Cape Cod Economic Development Council. Both gas and electric subsidiaries are co-founders and active participants in the Massachusetts Alliance for Economic Development, which is committed to attracting new business to the state. We have also built a partnership with industry in the New Bedford area to conduct best-practices audits to investigate opportunities for businesses to become more competitive, more profitable and better informed on environmental regulations.

COST REDUCTION

Given the climate of today's energy marketplace, COM/Energy is setting a sharper focus on fiscal responsibility—for both our customers and shareholders. Our re-engineering of the System will include the thorough review of every business unit and department. We are working to generate more profit from every dollar of revenue and to encourage our employees to become more entrepreneurial in their approach to our business.

Restructuring of staffing levels during 1993 will save \$8 million annually in direct payroll costs going forward. The system work force has been trimmed by 15 percent over the past five years. At the same time, our customer base has grown by 14,000.

Working smarter at every level of the System has helped to produce a \$12 million reduction in other operation and maintenance expense. The application of new technology to read gas meters and implementation of an automated work management information system have improved customer service and reduced costs. We are calling upon the ingenuity of every employee to increase productivity and profitability in order to deliver energy value to our customers and build shareholder value for our investors.

ENVIRONMENTAL STEWARDSHIP

Canal Electric is moving swiftly with plans to convert one of its two generating units to use natural gas in addition to oil. The flexibility of dual fuel capability at Canal will improve air quality for Cape Cod—reducing our emissions by 25 percent—and give the company a competitive advantage in fuel purchases. The use of natural gas will allow Canal to be a better neighbor to residents of Bourne, Sandwich and other communities on Cape Cod.

Other environmental initiatives underscore our commitment to take a leadership role when it comes to protecting and preserving the quality of the air, land and water in our service areas. Environmental activities range from burning oil with a lower sulphur content to recycling paper; from rebuilding a sand dune that prevented the destruction of a town beach to providing energy for cooling without the need for CFCs and; from promoting the use of low- and no-emission vehicles to helping to re-establish southeastern Massachusetts as a nesting area for the osprey, a native fish hawk.

STRENGTH THROUGH LEADERSHIP, an ENDURING TRADITION

In January 1994, Sinclair Weeks Jr. was elected to succeed Robert E. Siegfried as chairman of the board of trustees upon Mr. Siegfried's retirement on February 1, 1994. (Please see CEO note following this letter.) Mr. Weeks has been a trustee since 1981, serving on the audit and executive compensation committees. He is presently chairman of the board of Reed & Barton Corporation and past president and chief executive officer. Mr. Weeks is a well respected leader in the business community and a member of several boards of directors.

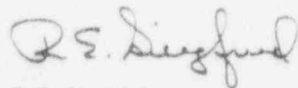
Calvin Siegal elected to retire from the the board, effective December 31, 1993. Mr. Siegal had been a member of our board since 1979, serving as a member of the audit

committee and its chairman since 1991. We are fortunate to have had the valuable support, counsel, and judgement of such a respected business leader. His commitment to the board has been strong and his contributions many. We wish the very best to Mr. Siegal in his retirement.

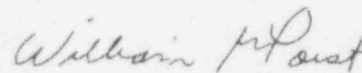
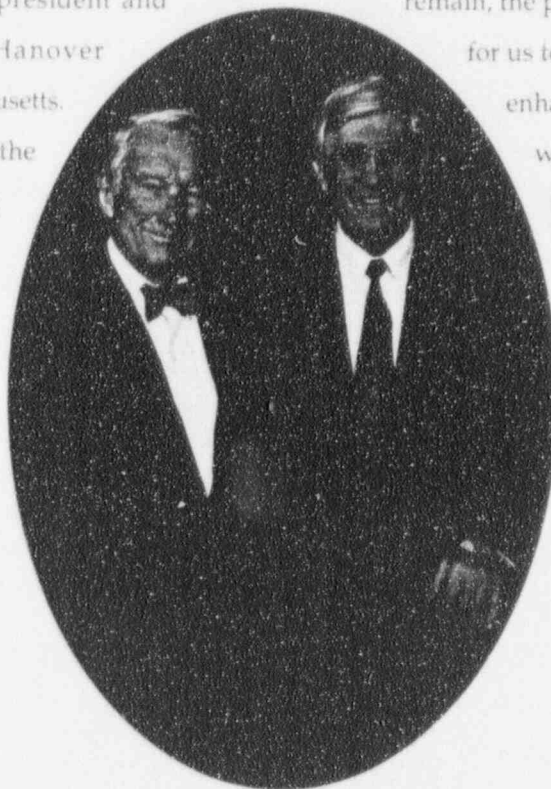
The board elected William J. O'Brien to succeed Mr. Siegal as a trustee of the System, effective March 24, 1994. Mr. O'Brien was formerly president and chief executive officer of The Hanover Insurance Co. in Worcester, Massachusetts. Following a distinguished career in the insurance industry, he brings strong

leadership and marketing abilities to the board. We are fortunate to have the opportunity to select an individual with Mr. O'Brien's experience from within our service territory.

In summary, 1993 was a strong year. Our employees produced significant accomplishments, and we thank them for their achievements. Although many challenges remain, the past year provides a good foundation for us to continue to build on in 1994 and to enhance value for you, our shareholder, whose continued support is crucial to COM/Energy's success. ☺



R. E. Siegfried
Chairman



William G. Poist
President and Chief Executive Officer

A NOTE from the CHIEF EXECUTIVE:

On February 1, 1994, Robert E. Siegfried retired as chairman of the board of trustees of Commonwealth Energy System, bringing to a close over 20 years of insightful counsel. On behalf of the board, our employees, shareholders and customers, I extend my most sincere thanks and appreciation for his immense contributions. He has served all of our constituencies well.

Bob joined our board in 1973 and subsequently served on the executive compensation and nominating committees. He became chairman of the board of trustees in 1985, the year following his retirement as chairman of the board and chief executive officer of the Badger Company, an international engineering and construction company.

Bob Siegfried served COM/Energy with distinction. A consummate businessman, he brought extensive engineering experience and strong leadership to the COM/Energy board, providing invaluable guidance for strategic decision making during a period of extraordinary change, challenge and uncertainty for public utilities.

During my two years as chief executive, Bob has been a valued counselor. I am grateful for his good advice. His mindful stewardship and unyielding commitment to excellence has helped build the foundation for steady growth in shareholder value.

Good luck in your retirement, Bob.

—W. G. Poist

MOMENTUM *for future* GROWTH

At the core of Commonwealth Energy System's business is the responsibility to provide a growing Massachusetts economy with reliable supplies of natural gas, electricity and steam. These forms of energy are essential ingredients of the lifeblood of our service area. They are necessary resources to create new jobs for our customers, to produce new products for the nation and to bring forth new technology for the world.

This responsibility presents a considerable challenge, and one that we take with utmost seriousness. For the 2,200 hard-working employees who accept this challenge every day of the year, meeting this responsibility is only part of the challenge; just as important is *how* we meet our responsibility. We are committed to delivering energy value to the consumer, while protecting the environment and working to improve the quality of life in the communities we serve.

1993 can best be described as a watershed year for the System, catapulting it into a strong forward motion toward strategically focused goals. This report to shareholders showcases COM/Energy employees who accept this responsibility and the initiatives we took during the recent past to build this momentum, which will help us fulfill our responsibility to employees, customers and shareholders.

GAS OPERATIONS

Record earnings marked a year of achievement during COM/Gas' 145th year of operation.

Faced with new challenges, new competition and new responsibilities, COM/Gas committed itself to a comprehensive strategic planning effort that reached deep into the organization. The result of this forward-looking, solution-driven planning effort created new initiatives and the implementation of additional advanced technology into our business. These aggressive actions helped achieve record earnings and, more importantly, positioned the company for continued future success.

The ultimate goal of this comprehensive plan is to encourage active participation at all levels of the organization to produce creative, visionary business solutions. These solutions ensure business growth and optimal



customer satisfaction. Planning to meet new challenges and opportunities is a wide-ranging and continuous effort that has become an integral part of the COM/Gas fabric.

Implementation of the Federal Energy Regulatory Commission's Order 636 produced considerable change to interstate pipeline services and created new forms of competition. Under Order 636, interstate pipelines shifted the responsibility for procurement, transportation and storage of natural gas supplies to local distribution companies.

Responding decisively, COM/Gas diversified its gas supply to include Appalachia, Gulf of Mexico sites and Canadian sources. Today, COM/Gas has more diversified storage capabilities than at any other time in its history, assuring a cost-effective and reliable portfolio of gas supplies. New gas supply planning technology and creative sales and marketing solutions culminate in an effort ultimately producing customer benefits and company growth.

A promising future awaits those who accept its challenges. By employing strategic thinking, creative solutions and new technologies throughout the organization, a successful future for COM/Gas is ensured. These solutions are implemented by a strong management team and entrusted employees committed to the achievement of outstanding performance.

ELECTRIC OPERATIONS

1993 was a year of strong operating results for the electric side of our business with growth in both earnings and sales. COM/Electric undertook a number of strategic initiatives to strengthen its financial and operating performance.

Many words in this overview begin with the prefix "re" which means "anew," a word that best describes how we are looking at every procedure and process of our electric operations today. We renegotiated power contracts which will lower future electric costs for customers. We refinanced securities to take advantage of lower long-term interest rates. We re-engineered the company and the way we operate to maximize productivity and efficiency. And we refocused our thinking to sharpen our competitive edge and to reaffirm our commitment to our communities and the environment. A new business environment demands that we look *anew* at every component of our operations.

Kilowatthour sales of electricity rose nearly 2 percent in 1993, making this the second consecutive year of increased sales. Supplies of electricity were in excess of demand, and we continue to seek innovative ways to market this



power to spread our fixed costs over a greater number of customers. In addition, we have been successful in reducing some future electricity costs to our customers, and initiatives to reduce them even more will continue.

CUSTOMER SERVICE

Many dimensions of customer service are considered when judging the quality of the job we do. We strive to meet our customers' expectations for excellent service. Success in meeting our customers' ever-changing needs is best achieved by listening, not by doing what is most convenient for business.



Large commercial gas meters are presently being adapted for automated meter reading to improve customer service.

A major enhancement to customer service instituted by COM/Gas was a new technology known as Automated Meter Reading (AMR). This cutting-edge system allows COM/Gas the ability to read indoor and outdoor meters from a vehicle while driving through a neighborhood. Natural gas use for the period is transmitted from the customer's meter and recorded by a computer in the vehicle using radio frequencies. Information is then transferred to a computerized billing system which calculates, prints, and applies postage to bills for mailing.

The benefits of AMR technology are two-fold. First, as with all new strategic changes, this technology increases customer satisfaction by virtually eliminating estimated bills. Secondly, the improved speed and efficiency of the meter reading process translates into improved cash flow and significant cost savings.

COM/Gas has converted over 90,000 residential customers to automated meter reading and is ahead of schedule in its implementation plan. In addition to residential customers, COM/Gas began the process of converting commercial customers to the AMR system in 1994.

One of the ways COM/Electric listens to its customers is by meeting with customer advisory panels and energy experts. A Planning Advisory Committee comprised of

approximately 40 residential, commercial and industrial customers from across the service territory provides valuable input for decision making during the planning stages of acquiring resources of electricity. The goal of the panel is to assign priorities and balance important factors, including the cost of new resources, the environment and the use of renewable forms of energy. A second group helps us best respond to public policy regarding energy efficiency matters.

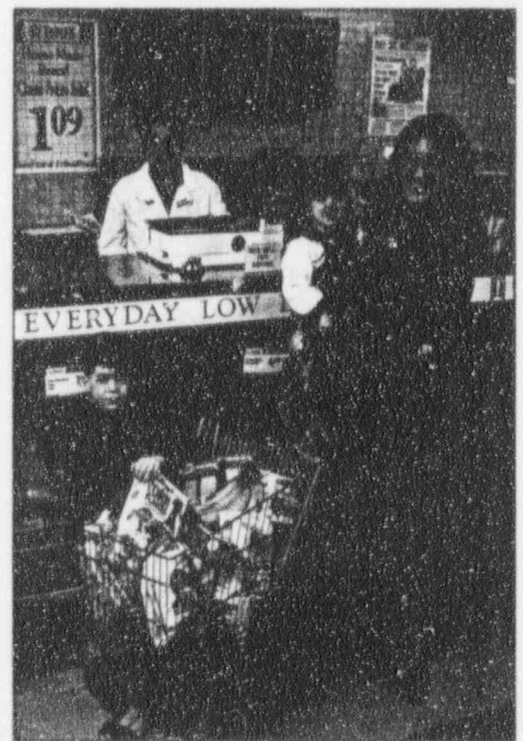
Another COM/Electric program brings customer service representatives out into the communities to train and educate advocates and public agencies on energy assistance programs available to their clients. They also discuss the company's credit policies and procedures and implementation of affordable payment plans.

COM/Electric's service area is one of ethnic, racial and economic diversity and the company strives to reach out to the various people of its area. Our Customer Inquiry Center provides Spanish- and Portuguese-speaking service representatives for improved communications. Telephone service for hearing and speech impaired customers enables two-way communications with customers who have similar equipment.

Diversity is a part of our customer classifications, too. One of our commercial customers, Tedeschi Food Shops, a growing 68-outlet Massachusetts-based convenience store chain, wanted to get a better handle on energy usage and to consolidate billing and simplify payment.

COM/Electric responded with "Summary Billing" which it now offers to commercial customers with multiple accounts.

Commercial customers in Cambridge, Massachusetts have benefited from the powerful synergies offered by COM/Energy subsidiaries, and available from no other single utility system in Massachusetts. Working with Cambridge biotechnology companies such as Genzyme



Summary Billing gives electric customers, like Tedeschi Food Shops, the opportunity to consolidate multiple accounts on one statement.

and Biogen, we have helped to maximize the efficient usage of electricity, natural gas, and steam in energy applications best suited to customer needs. This outstanding teamwork, shared technology and "one-stop" service enhance customer satisfaction and shareholder value.

ECONOMIC DEVELOPMENT

Just as we are committed to building shareholder value, we have a proud tradition of promoting economic development throughout our service areas. Over the years, we have built partnerships with the business community and municipalities to attract and retain business. Our participation in the development of commercial centers helps to create jobs that are an essential part of improving the quality of life in our service territory.

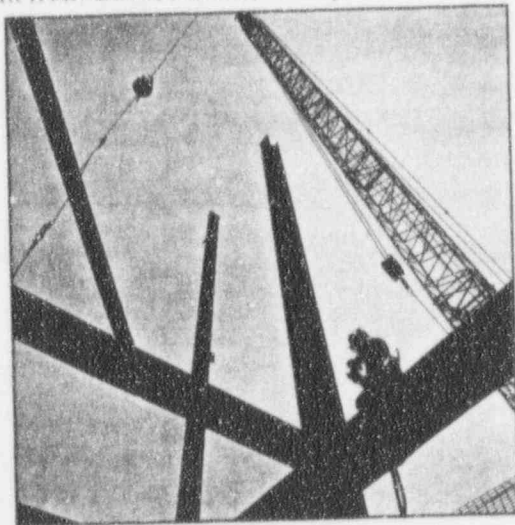
COM/Electric and COM/Gas are founding members of the Massachusetts Alliance for Economic Development and collaborate with the Massachusetts Office of Business Development. The principal goal of the Alliance is to promote a strong resurgence of the state's economy by attracting domestic and international business investments in Massachusetts.

Under a grant from COM/Electric, the Hyannis Area Economic Development Corporation conducted a comprehensive study and developed an ambitious action plan that will aid existing businesses and help establish new businesses on

Cape Cod. Highlights of the proposed plan include major improvements to the highway infrastructure, addition of a four-year college, development of a convention and exposition center, and implementation of an aggressive marketing plan to attract business and tourism to Cape Cod.

COM/Electric also works with the Cape Cod Lifestyle Council which reaches into off-Cape markets to attract potential retirees and vacation-home buyers.

We have launched an Industrial Competitiveness program for industry in the New Bedford area to provide



Three System companies worked closely with Biogen to maximize the use of gas, electricity and steam in its newest building in Cambridge Massachusetts.

work procedure audits. These audits, which began in the textile industry, identify how businesses can improve efficiency and become more competitive in global markets. The program involves the analysis and implementation of technology-based opportunities, process change and waste reduction in industrial facilities. Recommendations identify best-practice technologies and operational techniques.

This competitiveness program will add value to this area by making companies more profitable; better positioned to capitalize on new opportunities; and better informed about new technology, customer requirements and environmental regulations. We also offer Economic Development electric rates to qualified businesses to retain existing large users of electricity, to attract new business and to provide more jobs. Another innovative initiative awaiting regulatory approval seeks to stabilize the fuel and purchased power portion of customers' electric bills.

Economic development is an essential part of our corporate philosophy, and we are committed to stimulating it with technology, energy and good service.

ADVANCED TECHNOLOGY

Delivering reliable energy requires more than just underground pipes and overhead wires. We deploy technology to increase productivity, reduce operating costs and improve customer service. We also build technology partnerships with customers, sharing knowledge and research to help them compete globally. By successfully assisting customers to integrate technology, we add economic value to their business.

The success of COM/Electric's work management information system (WMIS) has exceeded all expectations. WMIS is an information management computer application which tracks the status and directs the progress of hundreds of service and construction jobs from the initial



Customer responsiveness is enhanced by a work management information system which tracks work in progress, reduces paperwork and saves time.

contact by the customer through completion by the company. This progressive system features real-time updating and generates accurate, expeditious responses to customer inquiries. Additionally, WMIS continues to be a valuable management tool to monitor work and district operations.



An automated mapping and facilities management system computerizes the labor-intensive task of documenting the location of gas facilities.

WMIS also automates the process of estimating construction time and cost and produces necessary reports for telephone and cable-TV companies as well as municipalities. WMIS streamlines work flow



A major benefit of the computerized system is the production of accurate gas facilities and land base maps for field personnel.

and has brought about some business process re-engineering within operations. The system simplifies the payroll procedure for line crews through an interface with the payroll mainframe computer system. Future plans for WMIS include integration with a

materials management computer system for real-time transfer of information for stock items used by line crews during construction.

The WMIS system has been marketed worldwide by a third-party consulting company. Utilities such as China Light & Power,

London Electric, Texas Utilities, Hawaiian Electric and Entergy Corp. have visited COM/Electric to view and discuss this leading-edge solution to managing electric construction work load. Commissions paid to COM/Electric resulting from such software sales will total \$1 million by the end of 1994 and will benefit COM/Electric customers.

The combination of teamwork and forward vision at COM/Gas can literally be seen on a computer monitor displaying the company's underground distribution system across the 49 communities it serves. This automated mapping and facilities management system replaces paper records documenting the location of gas facilities. Accurate, detailed maps required for construction crews are produced at the push of a button. This innovative step increases productivity by facilitating information access and ultimately improves responsiveness to customers.

A good example of an industry-technology-energy utility partnership is clearly evident with the recent approval of New England's first fuel cell. COM/Gas sales staff, working with the U.S. Army Research, Development and Engineering Center in Natick, Massachusetts, will install a fuel cell for the production of 200 kilowatts of electricity—quietly and virtually emission free. The fuel cell uses chemistry, not combustion to convert natural gas into electricity and heat.

The installation of this new technology is the first of 15 to be showcased nationwide by the U.S. Government. Selection of Natick as the first installation site is a proud achievement for COM/Gas and was driven by a concerted team effort by COM/Gas employees and the U.S. Army engineering staff.

ENVIRONMENTAL INITIATIVES

Working with the state's Department of Environmental Protection (DEP), Canal Electric met rigorous air quality standards for opacity of stack emissions from its two generating units in Sandwich, Massachusetts.

During the entire 26-week monitoring period, emissions were substantially better than that allowed by the state.



COM/Electric President Russell D. Wright (right) asks a proud Manny Rebello about some of the challenges faced during conversion of a vehicle from gasoline to electricity.

This outstanding result was achieved by careful operation of the plant by highly skilled employees, the use of lower-sulphur oil, new laser-designed burner tips and a \$1 million enhancement in the control room, replacing controls and instrumentation. We are proud of this accomplishment which translates to improved air quality for Cape Cod.

We will build on this good environmental track record and improve local air quality even more with the introduction of clean-burning natural gas as a fuel to generate electricity at one of Canal's two generating units. The \$22 million project includes the construction of a 3.8-mile pipeline by Algonquin Gas Transmission Company. The portion of the new line that will run beneath the Cape Cod Canal will be constructed by COM/Electric using an environmentally friendly technique called directional drilling which will result in virtually no impact on the waterway. The use of natural gas, scheduled to begin in 1996, will further reduce emissions by 25 percent.

The benefits of natural gas will contribute to improving air quality in Worcester, Massachusetts. Enlisting the technical and engineering expertise of COM/Gas employees, the Worcester Regional Transit Authority installed a compressed natural gas refueling station to power four new vans in the city's transit system. Using natural gas as a fuel source reduces approximately 50 percent of major pollutants produced by a motor vehicle, a factor especially beneficial in a metropolitan area. Along with tremendous environmental benefits, natural gas also produces many operational benefits for fleet operators such as reduced maintenance, extended engine life and lower fuel costs.

The market for natural gas vehicles (NGVs) shows great promise. More and more fleet operators look to natural gas as an environmentally beneficial answer to meet rigid requirements of the Clean Air Act. COM/Gas continues to follow advances in NGV technology through a pilot program at its headquarters in Southborough, Massachusetts, where a compressed natural gas refueling station is in operation. This on-site fueling station enables COM/Gas to participate in emerging technology as well as to position itself to maximize the opportunities this exciting new market will present.

The inherent advantages of natural gas will continue to play an important role in traditional markets as an environmentally desirable fuel. COM/Gas assists homeowners, industrial customers, schools and



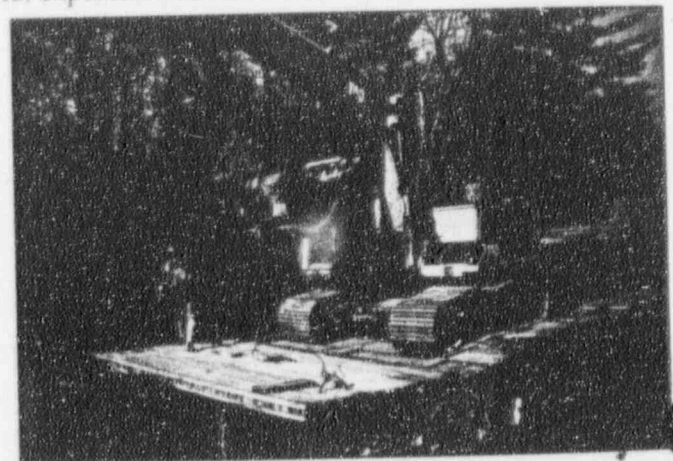
Natural gas as a motor fuel was introduced by the Worcester Regional Transit Authority in a move to begin using alternative fuels in its fleet.

municipalities to comply with increasing state environmental regulations for underground fuel storage tanks. Converting from oil to natural gas proves to be an environmental and economic solution that eliminates the potential of soil contamination from aging tanks.

COM/Electric is blazing its own trail with electric vehicle (EV) technology. Enthused by the challenge of converting a retired company pick-up truck from gasoline to electricity, employees in the transportation department constructed the company's first electric vehicle. The vehicle emphasizes the company's commitment to the environment and encourages others to work on improving (EV) technology.

COM/Electric continues its participation in a public/private sector electric vehicle program with the Massachusetts Division of Energy Resources (DOER), Massachusetts Bay Transportation Authority and other organizations. Initially, 20 vehicles will be used by commuters to travel from home to a mass transit terminal in the Greater Boston area. The electric vehicles will be recharged at the transit sites while commuters are working. The majority of funding for this first-of-its-kind program has come from the Federal Highway Administration. The balance will be funded by the DOER and four Massachusetts electric utilities, including COM/Electric. Additionally, COM/Electric will contribute monitoring devices for the equipment at charging stations in Cambridge and Braintree, Massachusetts, two of the transit sites being used for the program. Launching of the electric vehicle program is slated for April 1994.

In a first for New England, COM/Electric introduced construction techniques that minimized negative impacts on wetlands during construction of an eight-mile 115,000-volt transmission line running from Rochester to Carver, Massachusetts. The use of the vibrated caisson method for tower foundations and an innovative temporary road system for vehicle access proved to be an ecological and economical winner. Vibrated caissons eliminated the need for expensive drilled concrete foundations. The temporary



A temporary road system of interlocking wooden mats for vehicles minimized the effects on the environment during the construction of an eight-mile electric transmission line.

road system protected surroundings with a geo-textile fabric placed directly on the soil, a layer of gravel and an interlocking system of wooden mats for vehicular traffic. Upon completion, the road system is removed and the unharmed terrain returns to its previous natural state because of the minimal effects of this construction method.

This construction process eliminates the need for 35-ton cement trucks and heavy drilling equipment to travel over the terrain, reduces the amount of excavated soil by 90 percent, minimizes construction time and eliminates the need for a permanent road.

COM/Electric always goes the extra step to ensure responsible environmental management, and everyone wins! In this case, electric customers benefit from lower construction costs; the community benefits by reduced construction time and proper environmental management; and New England benefits from improved service reliability.

Some utility poles carry more than power. COM/Electric has set scores of used poles to provide osprey with nesting sites away from electric lines. A



sociable bird, showing no fear of man, the osprey is a magnificent fish hawk with wingspreads up to six feet and is re-establishing southeastern Massachusetts as a nesting area.

COM/Electric plays an important role in helping the species regain its habitat, while keeping our distribution system safe and reliable. Since beginning this osprey recovery project 13 years ago, the osprey population has grown from 45 pairs to over 240 pairs. Today only four nests are built in trees, many of the remainder enjoy COM/Electric man-made platforms.

All COM/Energy subsidiaries consider environmental stewardship a very high priority. Environmental solutions grow from environmentally aware employees. We educate our employees on all aspects of responsible environmental management from paper recycling to the safe handling of hazardous materials. We have also taken significant steps to reduce the variety of hazardous chemicals purchased.

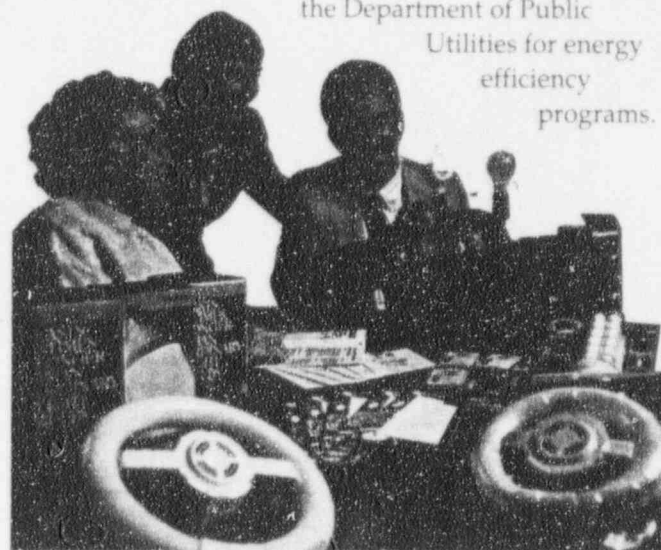
INTEGRATED RESOURCE PLANNING

Integrated Resource Planning uses the appropriate blend of traditional energy supplies and demand-side activities, such as energy conservation programs, to satisfy the demand for energy requirements in the most reliable, cost-efficient and environmentally responsible manner.

Both COM/Electric and COM/Gas offer a broad range of programs that help customers reduce energy consumption, improve comfort levels and conserve natural resources.

At COM/Electric, change was the watchword as 1993 ushered in a major shift in the way demand-side resources

are acquired. Previously, we sought pre-approval from the Department of Public Utilities for energy efficiency programs.



Elizabeth Farrell (center) and David Mann display a wide variety of energy efficient lighting options to a COM/Electric customer.

Now, under the Integrated Resource Management process, we will solicit demand-side resources by issuing a competitive solicitation to customers and energy service providers through a new \$30 million program called *Green Saver*. Another important change for COM/Electric was approval for the recovery of \$3.6 million of revenues "lost" because conservation programs reduce electricity sales as energy savings are realized.

A critical challenge to energy efficiency programs is the achievement of the cost efficient energy savings they promise. Effective control of program delivery to maintain cost effectiveness while staying within budget limits to minimize rate impacts is of the utmost importance. Comprehensive monitoring and verification standards have been established to ensure that we will achieve the savings of electricity planned.

Whether energy efficiency programs are implemented through the pre-approval process or the Integrated Resource Management process, the ultimate responsibility for balancing costs with savings, protecting the environment and ensuring customer satisfaction rests with COM/Electric.

A highly successful energy conservation program established and administered by COM/Gas is "The Big S.A.V.E.R." (Save America's Vital Energy Resources). By participating in this program, customers receive valuable energy-saving



Sheila Dixon ensures that the installation of energy efficiency measures meet rigorous COM/Gas standards under a comprehensive energy conservation program offered to customers.

education, products, and services. At no direct cost, eligible customers receive energy conservation measures including water heater tank insulation, low-flow shower heads, weatherstripping and caulking, and an insulation analysis. Additionally, qualified gas heating customers can save 50 percent of the cost of wall or attic insulation.

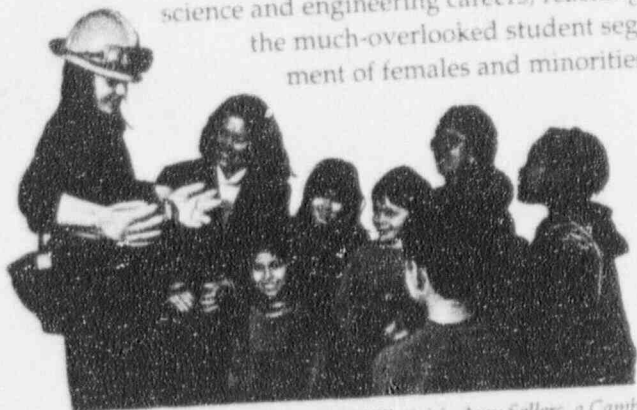
CORPORATE CITIZENSHIP

Although we may insulate our customers' homes, we are not insulated from the customers whom we serve. Community involvement is the cornerstone of the COM/Energy culture. This tradition was spawned from values that have endured since COM/Energy's earliest beginnings. Our responsibility to provide energy extends beyond the bottom line of our income statement. It reaches deep into the communities we serve through direct funding of programs, educational partnerships, in-kind donations, corporate sponsorships and employee volunteers.

COM/Gas and COM/Electric continue to facilitate and contribute to the Good Neighbor Energy Fund through the Salvation Army which raised \$635,000 last year and provided financial assistance for 3,400 families. With proposed federal budget reductions targeted at home energy assistance, the Good Neighbor program will become increasingly important to families in need.

Employees of COM/Gas and COM/Electric participate in *Gatekeeper*, a valuable program designed to help senior citizen customers. Employees keep alert for signs of potential problems and mishaps that could otherwise go unnoticed and are on hand for ready assistance. Another program to keep our communities safe and trouble-free is COM/Watch, which uses two-way radio-equipped vehicles to report accidents, medical emergencies or unusual activities. COM/Watch vehicles display eye-catching identification to alert those in need that help is immediately available.

COM/Gas sponsors *Math Counts*, an academic challenge for seventh and eighth-grade students, in cooperation with the Massachusetts Society of Professional Engineers. *Math Counts* heightens students' interest in science and engineering careers, reaching the much-overlooked student segment of females and minorities



At an electric safety presentation by COM/Electric's Amy Sellers, a Cambridge, Massachusetts third-grader dons 22 pounds of lineman's equipment.

in these two fields. In addition, COM/Gas employees participate on advisory councils for public and private schools to help align educational requirements with business needs and to share their expertise in other areas as well.

The programs offered by COM/Gas extend far into the community. In addition to schools, we sponsor *Kid's Fair*, a memorable and fun-filled day for our future customers. Another special program is *Celebrate Senior Expo*, an educational event designed to communicate with our senior citizens. As with all COM/Gas-sponsored programs, we seek to improve our community's quality of life.



COM/Gas President, Kenneth M. Margossian, explains the company's outreach programs to Mr. and Mrs. Avon Meyers of Worcester, Massachusetts at Celebrate Senior Expo '93, an informative and entertaining day sponsored by COM/Gas.

Active involvement in schools is nothing new at COM/Electric. Over 100,000 students have participated in interactive safety and energy education programs during the past two decades. Energy representatives visit classrooms and deliver exciting, high-quality programs, which are supported by teaching kits, energy-related software and tours of generating stations. Another innovative program called *Shadow for a Day* reverses the roles, bringing students from the classroom into the workplace where they are assigned a mentor.

Educating our customers and their children on the safe use of natural gas and electricity is another responsibility that we take seriously. Thousands of students have participated in a variety of quality educational programs in public and private school systems in our service territory. We also offer a number of informative presentations to community and professional groups, including a speaker's bureau. Along with gas and electric safety issues, topics include, fossil fuels, liquefied natural gas, energy efficiency, nuclear fuel, and the production and distribution of energy. At COM/Energy we make a discernible difference—the difference is quality.

OUR PLEDGE to SHAREHOLDERS

Commonwealth Energy System will continue to be guided by ethical and sound business principles. This philosophy enhances our ability to contribute to the quality of our neighborhoods, deliver good service to our customers and earn a fair return for our shareholders.

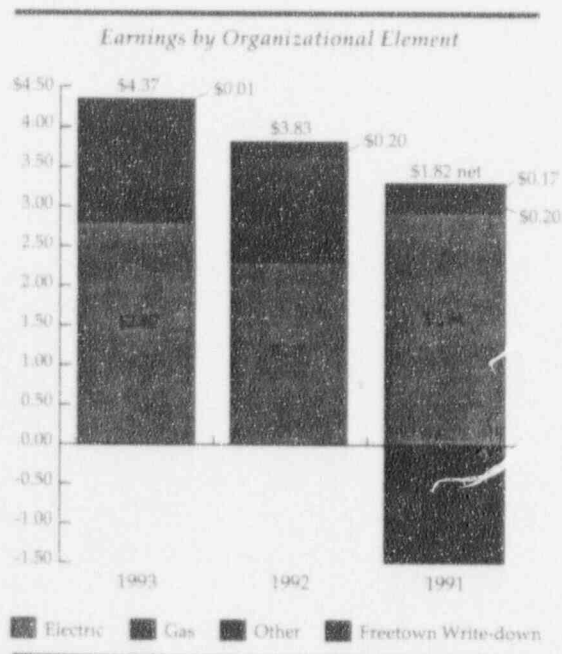
FINANCIAL SUMMARY

The following is a brief discussion and analysis of financial condition and results of operations for 1993. For more detailed information and analysis, please refer to Exhibit A of the 1994 Proxy Statement.

EARNINGS

1993 versus 1992

During 1993, the System's earnings per common share were \$4.37 representing a 14.1% increase from the \$3.83 experienced during 1992. Contributing to this increase were significant reductions in other operations expense reflecting the system's continued cost containment efforts which efforts included the late 1992 shutdown of the Cannon Street generating station and a 1993 work force reduction. Other factors contributing to improved earnings were: higher retail electric unit sales as well as an increase in firm gas sales during the heating season; new base rates for Cambridge Electric Light Company, effective June 1, 1993; the recognition of "lost base revenues" (\$2.4 million) relating to electric conservation and load management (C&LM) programs; a \$2.7 million decline in the provision for bad debt expense that resulted from improved collection experience; and the reversal of a reserve (\$3.8 million) related to the system's Seabrook investment. The system's earnings per share summary is presented below:



Return on Equity and Total Return

The System's return on average common equity was 13.7% compared to 12.5% for 1992. In addition, the System's 1993 market price per common share closed at \$46 1/4, up \$3%, or 8.5%. This appreciation coupled with dividends paid of \$2.92 per share during the year (a 6.9% return) provided a total return of 15.4%.

ELECTRIC OPERATING REVENUES and FUEL and PURCHASED POWER

In 1993, electric operating revenues increased \$26.8 million (4.5%). This change was due primarily to the net increase in fuel and purchased power costs of \$35.8 million or 11.4%. Also contributing to higher revenues in 1993 were the base rate increase for Cambridge Electric (\$7.2 million on an annualized basis) and a 1.9% increase in retail unit sales, which reflects the moderate growth in customers, primarily residential, and a greater demand for power from commercial and seasonal customers. The increased demand for power was due primarily to an improving economy and to a lesser extent, more extreme weather conditions requiring greater load for heating or air conditioning requirements. Somewhat offsetting the increases in fuel and purchased power costs was a lower level (\$9 million) of C&LM program costs.

The average cost of fuel and purchased power per KWH sold was 4.2¢ for 1993 compared to 3.7¢ for 1992 and reflects the impact of higher-cost power contracted for in the 1980s when the system's customer base grew dramatically and forecasts at that time predicted continued growth. The system is currently involved in negotiations to restructure or buy out certain of these long-term obligations.

In 1993, fuel and purchased power costs increased 11.4% due to higher unit sales and the aforementioned contractual obligations, including additional power purchases from certain gas-fired independent power producing (IPP) facilities. These costs also reflect reduced generation from Canal Electric Company's units and other oil-fired units. The increased costs for power from the IPPs and other sources were offset somewhat by a decline in Seabrook 1 costs. Also reflected in the 1993 cost of fuel and purchased power is approximately \$5.6 million for capacity-related costs associated with certain purchased power contracts which were not recovered in revenues due to the recovery mechanism established by the Massachusetts Department of Public Utilities (DPU) compared to \$3.9 million in 1992, and the continued greater use of a cleaner burning (1% sulphur) but more expensive fuel oil at Canal Electric.

GAS OPERATING REVENUES and COST of GAS

During 1993, gas operating revenues increased by approximately \$7.8 million due primarily to increases in the cost of

FINANCIAL SUMMARY

gas sold (\$2.4 million) and C&LM costs (\$4.8 million) that Commonwealth Gas began recovering through a Conservation Charge (CC) decimal in late 1992. Also contributing to the increase in revenues were transition costs of approximately \$1.4 million associated with the implementation of the Federal Energy Regulatory Commission's (FERC) Order No. 636 and an increase in firm transportation revenues of \$474,000. Offsetting these increases somewhat were lower unit sales. Firm unit sales decreased by 1.5% for 1993, including a 10.9% decline in sales to industrial customers, however, firm sales during the heating season increased by nearly 3%. During these periods, seasonal rates were in effect. These rates recognize the increased cost of providing gas service during the winter months. The total number of customers increased at a rate of 2.2% in 1993 due to new home construction and conversion activity.

OTHER OPERATION and MAINTENANCE EXPENSES

In 1993, other operation expense decreased \$12.6 million or 6.1% due, in part, to the absence in the current year of costs associated with Commonwealth Electric Company's Cannon Street generating station (\$2.2 million) which ceased operations in October 1992 and the net savings of \$1.6 million associated with the second quarter work force reduction. Also contributing to the decrease in costs in 1993 were: 1) the provision for bad debts expense which declined \$2.7 million or 22.8% due to improved payment experience; 2) lower liability insurance costs of \$1.7 million due to lower claims; 3) lower Seabrook operating costs of \$1.7 million; and 4) a decline in employee medical and life insurance costs of \$800,000. Somewhat offsetting these decreases was an increase in pension costs of \$1.2 million. Maintenance costs increased by \$700,000 or 1.9% due primarily to a scheduled major inspection and overhaul of the Canal 2 boiler, turbine and generator.

OTHER INCOME and INTEREST CHARGES

The substantial increase in other income during 1993 reflects the reversal of a reserve (\$3.8 million pretax) related to the system's Seabrook 1 investment. The decision to eliminate the reserve was prompted by the allowance of Seabrook 1 costs in base rates at the state level for Cambridge Electric. Offsetting this, in part, was the absence in the current year of the equity component of allowance for funds used during construction (AFUDC). The \$1.8 million in equity AFUDC for 1992

related to a final FERC settlement which provided for the full recovery of the system's Seabrook investment.

For 1993, total interest charges increased \$2.5 million or 6.1% due to a lower level of AFUDC debt resulting from the Seabrook settlement noted previously and an increase in interest on long-term debt of \$700,000 primarily due to the issuance of \$65 million in new long-term notes in the first quarter of 1993. Somewhat offsetting these increases was a \$300,000 decline in other interest charges resulting from lower interest rates and a lower average level of short-term borrowings (\$103 million versus \$126 million). Interest rates on short-term bank borrowings averaged 3.5% in 1993 as compared to 4% for 1992.

CANAL UNIT NO. 2 GAS CONVERSION

In October 1993, the system reached an agreement with Montaup Electric Company (a 50% owner of Canal Unit 2) and Algonquin Gas Transmission Company to build a natural gas pipeline that will serve the Canal Unit 2 generating station, subject to regulatory approvals. Unit 2 will be modified to burn gas as well as oil. The project will improve air quality on Cape Cod, enable the plant to exceed the stringent 1995 air quality standards established by the Massachusetts Department of Environmental Protection and strengthen the system's bargaining position as it seeks to secure the lowest-cost fuel for its customers. Plant conversion and pipeline construction are anticipated to be completed in 1996.

WORK FORCE REDUCTION

The system implemented a work force reduction during the second quarter of 1993. The payroll savings realized in 1993 exceeded \$5 million—more than offsetting the \$3.7 million in severance costs incurred to reduce the work force by approximately 8%. Payroll savings for 1994 should approach \$8 million. The total number of full-time employees has declined 11.7% since year-end 1991.

REGULATORY ISSUES

Retail Rate Proceeding

Cambridge Electric filed a petition with the DPU on November 16, 1992 requesting an increase in base revenues of approximately \$10.2 million—a 9% increase over its 1991 revenues. On May 28, 1993, the DPU issued an order increasing Cambridge Electric's retail revenues by approximately \$7.2 million, or 6.4%. The rates, based on a June 30, 1992 test year, became effective June 1, 1993 and provide an overall return of 9.95%, including an equity return of 11%. More than 80% of the increase related to: 1) plant additions since Cambridge Electric's last retail rate proceeding in 1989; 2) capacity costs

FINANCIAL SUMMARY

associated with certain long-term purchased power contracts; and 3) costs of postretirement benefits other than pensions determined in accordance with Statement of Financial Accounting Standards No. 106 (SFAS 106). The DPU authorized the recovery of these costs over a four-year period with carrying costs on the deferred portion. The new base rates also reflect costs associated with power from the Seabrook nuclear power plant which are billed to Cambridge Electric by Canal Electric. Previously these costs were recovered through Cambridge Electric's Fuel Charge decimal.

Power Cost Charge

Cambridge Electric and Commonwealth Electric have long-term contracts for the purchase of electricity from various sources. Generally, these contracts are for fixed periods and require payment of a demand charge for their capacity entitlement in each unit and an energy charge to cover the cost of fuel. Cambridge Electric and Commonwealth Electric recover a portion of these capacity-related costs through base rates. The recovery mechanism for these costs uses a per kilowatt-hour (KWH) factor that is calculated using historical (test-period) capacity costs and unit sales. This factor is then applied to current monthly KWH sales. Under this recovery method, when current period capacity costs and/or unit sales vary from test-period levels, Cambridge Electric and Commonwealth Electric experience a revenue excess or shortfall which can have a significant impact on net income. Undercollection of these costs resulted in negative impacts on net income of \$3.4 and \$2.5 million in 1993 and 1992, respectively. Cambridge Electric and Commonwealth Electric made a filing in late 1992 with the DPU seeking an alternative method of recovery. This request was denied in a letter order issued on October 6, 1993. However, Cambridge Electric and Commonwealth Electric were encouraged by the DPU's acknowledgement that the issues presented warrant further consideration. The DPU encouraged each company to continue to work with other interested parties, including the Attorney General of Massachusetts, to reach a consensus on the issue for consideration in each company's next base rate proceeding.

C&LM Programs

On June 30, 1993, the DPU allowed Commonwealth Electric and Cambridge Electric to recover a total of \$3.6 million in "lost base revenues" from customers over a twelve-month period ending June 30, 1994 due to the

successful implementation of C&LM programs. Approximately \$2.4 million was collected in 1993 based on KWH savings which resulted from these programs.

FINANCING ACTIVITY

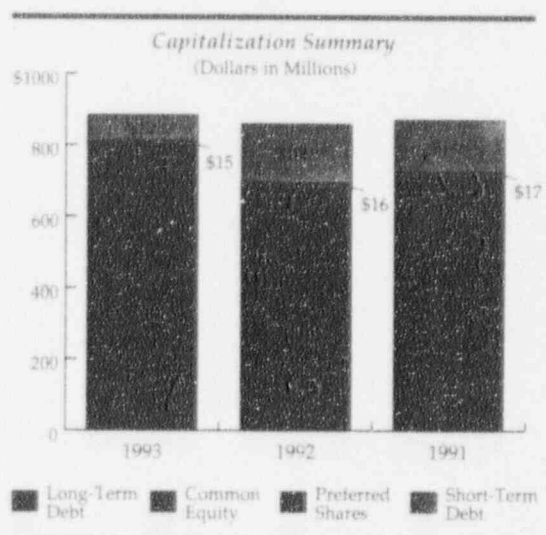
During 1993, the System and various subsidiaries issued a total of \$134 million in long-term debt as follows:

<i>Commonwealth Electric</i>	
10 Year, 7.43% Notes, Due 2003	\$ 15,000,000
15 Year, 7.70% Notes, Due 2008	10,000,000
20 Year, 7.98% Notes, Due 2013	25,000,000
30 Year, 8.47% Notes, Due 2023	15,000,000
	<u>65,000,000</u>
<i>Commonwealth Gas</i>	
40 Year, 7.11% First Mortgage Bonds, Due 2033	35,000,000
<i>Commonwealth Energy System</i>	
2 Year Term Loan, 4.7%, Due 1995	25,000,000
<i>Hopkinton LNG Corp.</i>	
5 Year, variable rate (4.03% in 1993), Due 1998	9,000,000
	<u>\$134,000,000</u>

The proceeds from these issues, together with the sale of common stock to the System by Commonwealth Electric (\$18 million) and Commonwealth Gas (\$35 million), were used primarily to repay outstanding short-term debt incurred to temporarily finance additions to property, plant and equipment and the early retirement of long-term debt. Retirements of long-term debt during 1993 were as follows:

<i>Commonwealth Electric</i>	Series E	8.125%	\$ 4,860,000
<i>Commonwealth Electric</i>	Series B	6.125%	4,440,000
<i>Commonwealth Electric</i>	Series F	8.375%	12,000,000
<i>Hopkinton LNG</i>	Term Loan	7.110%	7,000,000
<i>Canal Electric</i>	Series D	11.125%	9,300,000
			<u>\$37,600,000</u>

The system's capitalization structure is presented below:



CONDENSED STATEMENTS of INCOME

Commonwealth Energy System and Subsidiary Companies

Years Ended December 31,	1993	1992	1991
	(Dollars in Thousands, except per share amounts)		
OPERATING REVENUES			
Electric	\$624,020	\$597,269	\$607,371
Gas	302,644	294,874	252,239
Steam and other	14,035	14,307	13,824
	940,699	906,450	873,434
OPERATING EXPENSES			
Fuel and purchased power	348,836	313,067	282,720
Cost of gas sold	156,709	154,304	139,169
Other operation and maintenance	235,214	247,098	245,344
Depreciation and amortization	48,493	50,861	44,660
Conservation and load management	12,164	16,358	42,334
Taxes	53,282	44,837	39,751
	854,698	826,525	793,978
Operating Income	86,001	79,925	79,456
OTHER INCOME (EXPENSE)			
Allowance for equity funds used during construction	—	1,827	—
Freetown project write-down (Note 4)	—	—	(22,974)
Other, net	3,784	(417)	9,555
	3,784	1,410	(13,419)
Income Before Interest Charges	89,785	81,335	66,037
INTEREST CHARGES			
Long-term debt	37,416	36,722	37,657
Other interest charges	6,730	7,034	9,702
Allowance for borrowed funds used during construction	(195)	(2,318)	(794)
	43,951	41,438	46,565
NET INCOME	45,834	39,897	19,472
Dividends on preferred shares	1,230	1,291	1,352
EARNINGS APPLICABLE OF COMMON SHARES	\$ 44,604	\$ 38,606	\$ 18,120
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	10,215,614	10,081,868	9,944,433
EARNINGS PER COMMON SHARE	\$4.37	\$3.83	\$1.82

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

CONDENSED BALANCE SHEETS

Commonwealth Energy System and Subsidiary Companies

December 31,	1993	1992
	(Dollars in Thousands)	
ASSETS		
PROPERTY, PLANT AND EQUIPMENT, at original cost	\$1,398,908	\$1,376,757
Less—Accumulated depreciation and amortization	425,483	406,069
	973,425	970,688
Construction work in progress and nuclear fuel in process	11,089	7,877
	984,514	978,565
LEASED PROPERTY, net	16,150	18,388
EQUITY IN CORPORATE JOINT VENTURES	13,549	13,888
CURRENT ASSETS		
Cash	6,007	1,522
Accounts receivable, net	93,663	85,325
Unbilled revenues	43,279	47,656
Other current assets	51,333	53,497
	194,282	188,000
DEFERRED CHARGES	106,668	73,178
	\$1,315,163	\$1,272,019
CAPITALIZATION and LIABILITIES		
CAPITALIZATION		
Common share investment	\$ 337,070	\$ 315,219
Redeemable preferred shares, less current sinking fund requirements	15,480	16,300
Long-term debt, less current sinking fund requirements and maturing debt	448,893	361,092
	801,443	692,611
CAPITAL LEASE OBLIGATIONS	14,456	15,487
CURRENT LIABILITIES		
Interim financing—		
Notes payable to banks	71,975	165,600
Maturing long-term debt	10,000	7,000
Accounts payable	90,006	86,976
Accrued taxes	9,090	8,078
Other current liabilities	44,115	38,057
	225,186	305,711
DEFERRED CREDITS		
Accumulated deferred income taxes	156,851	146,328
Unamortized investment tax credits and other	117,227	111,882
	274,078	258,210
COMMITMENTS and CONTINGENCIES (Note 3)		
	\$1,315,163	\$1,272,019

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

CONDENSED STATEMENTS of CASH FLOWS

Commonwealth Energy System and Subsidiary Companies

Years Ended December 31,

OPERATING ACTIVITIES

	1993	1992	1991
	(Dollars in Thousands)		
Net income	\$ 45,834	\$ 39,897	\$ 19,472
Effects of non-cash items—			
Depreciation and amortization	53,337	58,883	59,489
Freetown write-down (Note 4)	—	—	22,974
Deferred income taxes and investment tax credits, net	15,559	(1,617)	(5,439)
Allowance for equity funds used during construction	—	(1,827)	—
Earnings from corporate joint ventures	(1,642)	(2,016)	(2,699)
Dividends from corporate joint ventures	1,981	2,157	1,626
Change in working capital, exclusive of cash	8,303	1,118	(29,345)
Uncollected Order 636 transition costs	(8,805)	—	—
Uncollected postretirement benefits costs	(8,910)	—	—
All other operating items	(18,965)	3,815	(4,180)
Net cash provided by operating activities	<u>86,692</u>	<u>100,410</u>	<u>61,898</u>

INVESTING ACTIVITIES

Additions to property, plant and equipment (exclusive of AFUDC)	(54,385)	(49,094)	(60,129)
Allowance for borrowed funds used during construction	(195)	(2,318)	(794)
Net cash used for investing activities	<u>(54,580)</u>	<u>(51,412)</u>	<u>(60,923)</u>

FINANCING ACTIVITIES

Sale of common shares	7,118	5,233	4,533
Payment of dividends	(31,101)	(30,770)	(30,428)
Proceeds from (payment of) short-term borrowings	(93,625)	19,800	2,375
Long-term debt issues	134,000	15,000	27,000
Long-term debt issues refunded	(37,600)	(51,632)	—
Sinking funds payments	(6,419)	(5,678)	(5,829)
Net cash used for financing activities	<u>(27,627)</u>	<u>(48,047)</u>	<u>(2,349)</u>
Net increase (decrease) in cash	4,485	951	(1,374)
Cash at beginning of period	1,522	571	1,945
Cash at end of period	<u>\$ 6,007</u>	<u>\$ 1,522</u>	<u>\$ 571</u>

SUPPLEMENTAL DISCLOSURES of CASH FLOW INFORMATION

Cash paid during the period for:			
Interest (net of capitalized amounts)	\$ 39,685	\$ 40,116	\$ 45,858
Income taxes	<u>\$ 13,528</u>	<u>\$ 14,460</u>	<u>\$ 15,478</u>

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

Notes to CONDENSED FINANCIAL STATEMENTS

Commonwealth Energy System and Subsidiary Companies

1) DETAILED INFORMATION

The detailed Consolidated Statements of Income, Statements of Cash Flows, Balance Sheets, Statements of Capitalization, Statements of Changes in Common Shareholders' Investment, Statements of Changes in Redeemable Preferred Shares, Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations are included in the Proxy Statement.

2) SIGNIFICANT ACCOUNTING POLICIES

Commonwealth Energy System, the parent company, is referred to in this report as the "System" and, together with its subsidiaries, is collectively referred to as "the system."

Regulated subsidiaries of the System have established various regulatory assets in cases where the Massachusetts Department of Public Utilities (DPU) and/or the Federal Energy Regulatory Commission (FERC) have permitted, or are expected to permit, recovery of specific costs over time. At December 31, 1993, principal regulatory assets included in deferred charges were: \$21.9 million for transition costs associated with FERC Order 636, \$15.5 million for unrecovered plant and decommissioning costs for the Yankee Atomic nuclear plant, \$15.5 million for abandonment and nonconstruction costs related to the Seabrook project, \$8.9 million for postretirement benefits costs, \$7.4 million in litigation costs associated with a settlement agreement with Boston Edison Company relative to the Pilgrim nuclear power plant and \$7.3 million related to deferred income taxes. The more significant regulatory liabilities, reflected in deferred credits, include \$17.9 million related to income taxes and \$15.5 million related to the Yankee Atomic nuclear plant.

3) COMMITMENTS and CONTINGENCIES

(a) Construction

The system is engaged in a continuous construction program presently estimated at \$358.3 million for the five-year period 1994 through 1998. Of that amount,

\$71.9 million is estimated for 1994. The program is subject to periodic review and revision.

(b) Seabrook Nuclear Power Plant

The system's 3.52% interest in the Seabrook nuclear power plant is owned by Canal Electric Company (Canal), a wholesale electric generating subsidiary, to provide for a portion of the capacity and energy needs of affiliates Cambridge Electric Light Company (Cambridge) and Commonwealth Electric Company (Commonwealth Electric). Canal is recovering 100% of its Seabrook 1 investment through a power contract with Cambridge and Commonwealth Electric pursuant to FERC and DPU approval.

Pertinent information with respect to Canal's joint-ownership interest in Seabrook 1 and information relating to operating expenses which are included in the accompanying financial statements are as follows:

	1993	1992	
	(Dollars in Thousands)		
Utility plant-in-service	\$233,140	\$233,651	Plant capacity (MW) 1,150
Nuclear fuel	18,514	17,083	Canal's share:
Accumulated depreciation and amortization	(34,771)	(25,382)	Percent interest 3.52%
Construction work in progress	881	623	Entitlement (MW) 40.5
	\$217,764	\$225,975	In-service date 1990
			Operating license expiration date 2026
	1993	1992	1991
Operating expenses:			
Fuel	\$ 3,853	\$ 3,952	\$ 4,337
Other operation	4,580	5,705	9,239
Maintenance	893	1,508	1,601
Depreciation	6,522	6,426	7,214
Amortization	1,319	1,320	(3,333)
	\$17,167	\$18,911	\$19,058

Canal and the other joint owners have established a Seabrook Nuclear Decommissioning Financing Fund to cover post-operational decommissioning costs. For the years 1993, 1992 and 1991, Canal paid \$259,000, \$235,000 and \$181,000, respectively, as its share of the cost of this fund. The estimated cost to decommission the plant is \$366 million. Canal's share, less its share of the market value of the decommissioning trust, would amount to approximately \$11.6 million.

(c) Power Contracts and Support Agreements

Cambridge and Commonwealth Electric have long-term contracts for the purchase of electricity from various

Notes to CONDENSED FINANCIAL STATEMENTS

sources. Generally, these contracts are for fixed periods and require payment of a demand charge for the capacity entitlement and an energy charge to cover the cost of fuel. Pertinent information with respect to life-of-the-unit contracts for power from operating nuclear units is as follows:

	Connecticut Yankee	Maine Yankee	Vermont Yankee	Pilgrim
Equity Ownership	4.50%	4.00%	2.50%	—
Plant Entitlement	4.50%	3.59%	2.25%	11.0%
Plant Capability (MW)	560.0	870.0	496.0	664.7
System Entitlement (MW)	25.2	31.2	11.2	73.1
Contract Expiration Date	1998	2008	2012	2012
1991 Actual Cost	\$ 9,692	\$5,900	\$3,383	\$ 3,210
1992 Actual Cost	9,508	6,671	3,970	37,516
1993 Actual Cost	10,016	7,050	4,076	40,578
1994 Estimated Cost	10,005	6,755	3,755	41,963

Cambridge and Commonwealth Electric pay their share of decommissioning expense to each of the operators of the nuclear facilities as a cost of electricity purchased for resale.

The system has also contracted to purchase power and transmission capacity from various other generating and transmission facilities as follows:

	1991		1992		1993		Estimated 1994	
	MW	Cost	MW	Cost	MW	Cost	MW	Cost
(Dollars in Thousands)								
Purchased Power -								
Nuclear	89.1	\$43,686	15.5	\$ 3,546	15.4	\$ 4,976	23.1	\$ 5,386
Hydro	35.4	14,214	20.3	13,161	23.2	12,370	29.6	14,477
Cogenerating	117.0	34,938	162.0	69,742	161.0	104,719	261.5	135,363
Waste-to-energy and other	123.0	38,084	114.1	35,944	84.1	38,965	91.0	40,256
Transmission - (Hydro-Quebec)	—	5,470	—	4,213	—	4,247	—	4,457

Costs under these and other contracts are included in electricity purchased for resale in the accompanying Condensed Statements of Income and are recoverable in revenues through either the Fuel Charge or in base rates.

(d) Yankee Atomic Nuclear Power Plant

On February 26, 1992, the Board of Directors of Yankee Atomic Electric Company agreed to permanently discontinue power operation of its plant, and, in time, decommission that facility. This plant provided less than 1% of system capacity. Cambridge's and Commonwealth Electric's respective 2% and 2.5% investment in Yankee Atomic is approximately \$1 million. Presently, purchased power costs, which include a provision for ultimate

decommissioning of the unit, are billed to Cambridge and Commonwealth Electric and collected from customers.

Cambridge and Commonwealth Electric have estimated their unrecovered share of all costs associated with the shutdown of the facility, recovery of their respective plant investment and decommissioning and closing the plant to be approximately \$15.5 million. This amount is reflected in the accompanying Condensed Balance Sheets as a liability and a corresponding regulatory asset at December 31, 1993.

(e) Environmental Matters

The system is subject to laws and regulations administered by federal, state and local authorities relating to the quality of the environment. These laws and regulations affect, among other things, the siting and operation of electric generating and transmission facilities and can require the installation of expensive air and water pollution control equipment. These regulations have had an impact upon the System's operations in the past and will continue to have an impact upon future operations, capital costs and construction schedules of major facilities.

(f) FERC Order No. 636

On April 8, 1992, the FERC issued Order No. 636 (Order 636), requiring interstate pipelines to unbundle (separate) existing gas sales contracts into separate components (gas sales, transportation and storage services). Order 636 provides mechanisms which will allow customers such as Commonwealth Gas Company (Commonwealth Gas) to reduce the level of firm services from pipelines and permits the "brokering" of excess capacity on a temporary or permanent basis. Order 636 also requires pipelines to provide transportation services which allow customers to receive the same level of service they had with bundled contracts. Pipelines were required to be operating under Order 636 by November 1, 1993.

As a result of implementing Order 636, each pipeline company is allowed to collect certain "transition costs" from their customers. Commonwealth Gas has been billed a total of approximately \$16.9 million from Tennessee Gas Pipeline Company, Algonquin Gas Transmission Company and Texas Eastern Transmission Company through December 31, 1993. It is anticipated that as much as \$45 million in transition costs could be

Notes to CONDENSED FINANCIAL STATEMENTS

sought by these suppliers through a series of FERC filings over the 12 to 24 month period which began on June 1, 1993. The largest element of the aforementioned transition costs results from the pipelines' need to buy out gas supply contracts entered into prior to Order 636. The total amount of such costs ultimately billed to Commonwealth Gas will vary depending on the success of the pipelines in negotiating settlements with their former suppliers, and final review by the FERC. Commonwealth Gas is actively reviewing the prudence of transition costs billed in order to minimize costs to its customers. Commonwealth Gas has recorded its estimated liability based on amounts incurred by the respective pipelines as of December 31, 1993.

On October 29, 1993, Commonwealth Gas received preliminary DPU authorization to recover these costs, with carrying charges, through the Cost of Gas Adjustment (CGA) over a four-year period which began in November 1993. As a result, a regulatory asset totaling \$21.9 million, net of \$400,000 recovered during the fourth quarter, was recorded as of December 31, 1993 and reflected in deferred charges. In addition, a related liability of \$13.1 million was reflected in deferred credits. Also, approximately

\$7.9 million of the amount paid to the pipeline companies relates to gas inventory costs being allocated new storage services under Order 636. The Company will recover these inventory costs through the CGA.

(g) Other Commitments

Other major commitments of System subsidiaries include construction expenditures, maturing debt issues, sinking fund payments and support payments as summarized below:

	1994	1995	1996	1997	1998
	(Dollars in Thousands)				
Construction expenditures	\$71,852	\$76,180	\$80,403	\$66,918	\$62,908
Maturing debt issues	10,000	25,000	33,230	14,260	19,000
Sinking fund requirements	5,973	5,973	8,283	7,653	7,653
Support payments	4,457	4,419	4,376	4,339	4,308

4) ENERGY PARK DEVELOPMENT

As a result of unsuccessful efforts to develop an energy park, the System announced on January 23, 1992 its decision to write down its investment in the Freetown Energy Park project. This action resulted in the recognition of a charge (net of tax) in 1991 of \$14.8 million recorded by COM/Energy Freetown Realty, a wholly-owned subsidiary of the System.

Report of INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees of Commonwealth Energy System

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheets and consolidated statements of capitalization of COMMONWEALTH ENERGY SYSTEM (a Massachusetts Trust) and subsidiary companies as of December 31, 1993 and 1992, and the related consolidated statements of income, changes in common shareholders' investment, changes in redeemable preferred shares and cash flows for each of the three years in the period ended December 31, 1993,

appearing in Exhibit A to the proxy statement for the 1994 annual meeting of shareholders of the System (not presented herein). In our report dated February 17, 1994, also appearing in that proxy statement, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 1993 and 1992, and the related condensed statements of consolidated income and cash flows for each of the three years in the period ended December 31, 1993, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Boston, Massachusetts
February 17, 1994.

Arthur Andersen & Co.

COMPARATIVE STATISTICAL DATA

Commonwealth Energy System and Subsidiary Companies

	1993	1992	1991	1990	1989
	(Dollars in Thousands)				
OPERATIONS					
Revenues	\$ 940,699	\$ 906,450	\$ 873,434	\$ 835,798	\$ 827,498
Operating Expenses -					
Operations	712,349	690,991	665,255	645,019	635,938
Maintenance	40,574	39,836	44,312	53,812	48,127
Depreciation and amortization	48,493	50,861	44,660	45,497	34,625
Taxes	53,282	44,837	39,751	28,072	37,667
	<u>854,698</u>	<u>826,525</u>	<u>793,978</u>	<u>772,400</u>	<u>756,357</u>
Operating income	86,001	79,925	79,456	63,398	71,141
Add—Other income (expense)	3,784	1,410	(13,419)	2,342	4,937
Less—Interest charges	43,951	41,438	46,565	43,104	34,460
Net income	45,834	39,897	19,472	22,636	41,618
Preferred dividends	1,230	1,291	1,352	1,412	1,473
Earnings applicable to common shares	<u>\$ 44,604</u>	<u>\$ 38,606</u>	<u>\$ 18,120</u>	<u>\$ 21,224</u>	<u>\$ 40,145</u>
Sources of Consolidated Net Income—					
Electric	\$ 30,301	\$ 28,415	\$ 32,874	\$ 24,953	\$ 26,975
Gas	16,299	14,855	3,120	(2,542)	12,386
Steam and other	(766)	(3,373)	(16,522)	- 225	2,257
Total	<u>\$ 45,834</u>	<u>\$ 39,897</u>	<u>\$ 19,472</u>	<u>\$ 22,636</u>	<u>\$ 41,618</u>
FINANCIAL					
Property, plant and equipment (including construction work in progress, net and nuclear fuel in process)	\$1,409,997	\$1,384,634	\$1,335,795	\$1,304,441	\$1,231,564
Accumulated depreciation and amortization	<u>425,483</u>	<u>406,069</u>	<u>372,987</u>	<u>338,054</u>	<u>316,007</u>
CAPITALIZATION					
Long-term debt (1)	\$ 458,893	\$ 368,092	\$ 409,582	\$ 412,211	\$ 342,803
Preferred shares	15,480	16,300	17,120	17,940	18,760
Common equity	337,070	315,219	300,859	307,282	310,566
Total	<u>\$ 811,443</u>	<u>\$ 699,611</u>	<u>\$ 727,561</u>	<u>\$ 737,433</u>	<u>\$ 672,129</u>

(1) Includes maturing long-term debt.

COMPARATIVE STATISTICAL DATA

Commonwealth Energy System and Subsidiary Companies

	1993	1992	1991	1990	1989
STATISTICS and RATIOS					
Unit Sales -					
MWH — Residential	1,744,181	1,726,139	1,694,445	1,741,260	1,849,225
Commercial	2,008,213	1,951,228	1,929,852	1,952,636	1,977,156
Industrial	411,527	414,777	419,940	455,795	480,961
Other	392,103	377,728	362,859	369,406	376,837
Total Retail	4,556,024	4,469,872	4,407,096	4,519,097	4,684,179
Wholesale	3,665,089	3,898,924	4,027,714	3,194,795	3,368,889
Total	8,221,113	8,368,796	8,434,810	7,713,892	8,053,068
BBTU — Residential	22,252	22,392	19,851	19,478	22,328
Commercial	10,931	10,913	9,575	9,113	10,160
Industrial	4,205	4,717	5,388	5,478	5,710
Other	1,831	1,788	1,581	1,383	1,504
Total Firm	39,219	39,810	36,395	35,452	39,702
Interruptible	1,896	2,464	2,937	2,993	3,671
Total	41,115	42,274	39,332	38,445	43,373
Capitalization Ratios -					
Long-term debt	56.6%	52.6%	56.3%	55.9%	51.0%
Preferred shares	1.9	2.3	2.3	2.4	2.8
Common equity	41.5	45.1	41.4	41.7	46.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Return on average common equity	13.7%	12.5%	6.0%	6.9%	13.3%
Common share dividend pay-out	66.8%	76.2%	160.4%	133.8%	67.6%
Average price/earnings ratio	10.4	10.2	19.2	15.8	8.2
Common Share Data -					
Earnings per share (1)	\$ 4.37	\$ 3.83	\$ 1.82	\$ 2.16	\$ 4.14
Dividends paid	2.92	2.92	2.92	2.89	2.80
Annual dividend rate at end of year	2.92	2.92	2.92	2.92	2.80
Book value	32.74	31.08	30.06	31.13	31.87
Closing price range					
High	50%	43	39%	38%	38%
Low	40%	34%	30	29%	29%

(1) Based on the average number of shares outstanding.

TRUSTEES and OFFICERS

- (2) *Sheldon A. Buckler*,
(3) Vice Chairman of the Board, Polaroid Corp.,
Cambridge, Massachusetts
- (2) *Henry Dormitzer*,
(4) formerly Executive Vice President, Wyman-Gordon
Company, Worcester, Massachusetts
- (1) *Betty L. Francis*,
Comptroller, Bank of Boston Corp., Boston, Massachusetts

- (3) *Franklin M. Hundley*,
(4) Member and a Managing Director, Rich. May, Bilodeau &
Flaherty, P.C., Boston, Massachusetts (Attorneys)

William J. O'Brien,
formerly President and Chief Executive Officer,
The Hanover Insurance, Co., Worcester, Massachusetts

William G. Poist,
President and Chief Executive Officer of the System
and Chairman and Chief Executive Officer of its
principal subsidiaries

- (1) *Sinclair Weeks, Jr.*,
(3) Chairman of the Board of Trustees of the System; Chairman
of the Board, Reed & Barton Corp., Taunton, Massachusetts
- (2) *Gerald L. Wilson*,
(4) Vannevar Bush Professor of Engineering, Massachusetts
Institute of Technology, Cambridge, Massachusetts

CORPORATE DIVISION

William G. Poist,
Chairman and Chief Executive Officer

James M. Brown,
Vice President—Chief Information Officer

Leonard R. Devanna,
Vice President—Systems, Planning and Development

James D. Rappoli,
Financial Vice President and Treasurer

Michael P. Sullivan,
Vice President, Secretary and General Counsel

John A. Whalen,
Comptroller

ELECTRIC DIVISION

Russell D. Wright,
President and Chief Operating Officer

Andrew S. Griffiths,
Vice President—Administration

James J. Keane,
Vice President—Power Supply and Transmission

Deborah A. McLaughlin,
Vice President—Customer Service

John R. Williams,
Vice President—Operations

GAS DIVISION

Kenneth M. Margossian,
President and Chief Operating Officer

Stephen H. Bryant,
Vice President—Marketing and Customer Relations

Samy H. Ibrahim,
Vice President—Gas Supply

Richard D. Johnston,
Vice President—Operations

(1) Member of Audit Committee (2) Member of Executive Compensation Committee (3) Member of Nominating Committee (4) Member of Benefit Review Committee

The sole purpose of this report is to give present security holders information about this System and its subsidiary companies and it is not a representation, prospectus or circular in respect to any security of this System or of its subsidiary companies.

The name "Commonwealth Energy System" means the trustees for the time being (as trustees but not individually) under a Declaration of Trust dated December 31, 1926, as amended, which is hereby referred to, and a copy of which has been filed with the Secretary of The Commonwealth of Massachusetts. Any agreement, obligation or liability made, entered into or incurred by or on behalf of said System binds only the trust estate, and no shareholder, director, trustee, officer or agent assumes, or shall be held to, any liability by reason thereof.

Shareholder INFORMATION

ANNUAL MEETING

All shareholders are invited to attend the next Annual Meeting which will be held on May 5, 1994 at the System's corporate headquarters at One Main Street in Cambridge, Massachusetts. A formal notice of the meeting together with a proxy statement, a form of proxy and financial information is enclosed for use by shareholders entitled to vote at the meeting.

CLOSING MARKET PRICE of COMMON SHARES and DIVIDENDS PAID

1993	High	Low	Dividends
1st Quarter	\$48 3/4	\$40 3/4	\$.73
2nd Quarter	48 3/4	43 3/4	.73
3rd Quarter	50 3/4	46 3/4	.73
4th Quarter	49 3/4	43	.73
1992	High	Low	Dividends
1st Quarter	\$39	\$36 3/4	\$.73
2nd Quarter	40	34 3/4	.73
3rd Quarter	43	39 3/4	.73
4th Quarter	43	40 3/4	.73

The System's Common Shares are listed on the Boston, New York, and Pacific stock exchanges:

Ticker Symbol "CES"

Daily Newspaper Quotation "ComES"

TRANSFER AGENTS and REGISTRARS

Shareholder communications regarding transfer of Common Shares or lost certificates should be directed to:

Common Shares -

Transfer Agent and Registrar:

The First National Bank of Boston
P.O. Box 644
Boston, MA 02102-0644

Preferred Shares -

Transfer Agent:

Commonwealth Energy System
P. O. Box 9150
Cambridge, MA 02142-9150

Registrar:

State Street Bank and Trust Company

DIVIDEND PAYMENTS

Dividends are paid by the System subject to declaration by the Board of Trustees. Common dividends are paid on the first day of February, May, August and November. Preferred dividends are paid on the first day of January, April, July and October.

SHAREHOLDER SERVICES

The System has a dividend reinvestment plan which provides holders of Common Shares with an economical and convenient method for purchasing additional Common Shares of the System without paying brokerage fees, service charges or other expenses.

The System also offers direct deposit to Common Shareholders so that dividends can be received faster. Dividends can be electronically credited to a checking, savings, credit union or thrift account.

A seasonal mailing address for your shareholder account(s) is also available for the period of time requested. This can help avoid lost interest on delayed deposits caused by forwarded mail.

For more information about these services or any other inquiries, please contact a Shareholder Services representative at the appropriate toll-free number listed below:

1-800-336-3773 (within Massachusetts)

1-800-447-1183 (outside Massachusetts)

FORMS 10-K and 10-Q

The System's annual report on Form 10-K and quarterly reports on Form 10-Q as filed with the Securities and Exchange Commission are available without charge upon request to:

Michael P. Sullivan
Vice President, Secretary and General Counsel
Commonwealth Energy System
P.O. Box 9150
Cambridge, MA 02142-9150

Many of the information requirements of Form 10-K are satisfied by the 1994 Proxy Statement.

BOND DATA

Trustees under indentures of trust are:

Citibank, N.A. -

Canal Electric Company Series B, E and F Bonds
State Street Bank and Trust Company -

Other Subsidiary Companies' Long-term Debt

COMEnergy®

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One Main Street
Post Office Box 9150
Cambridge, Massachusetts 02142-9150
Telephone (617) 225-4000*