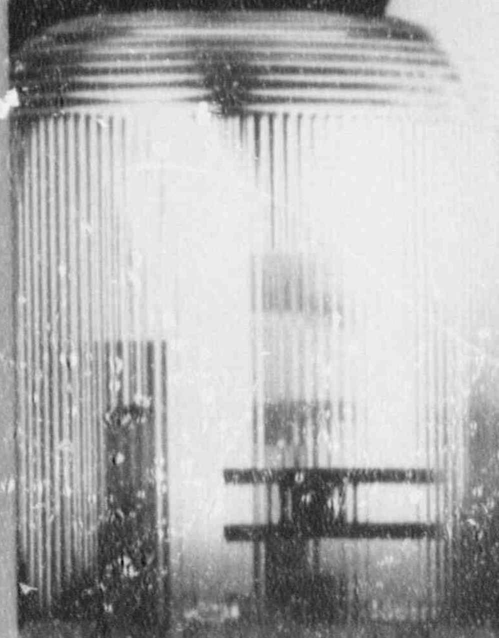
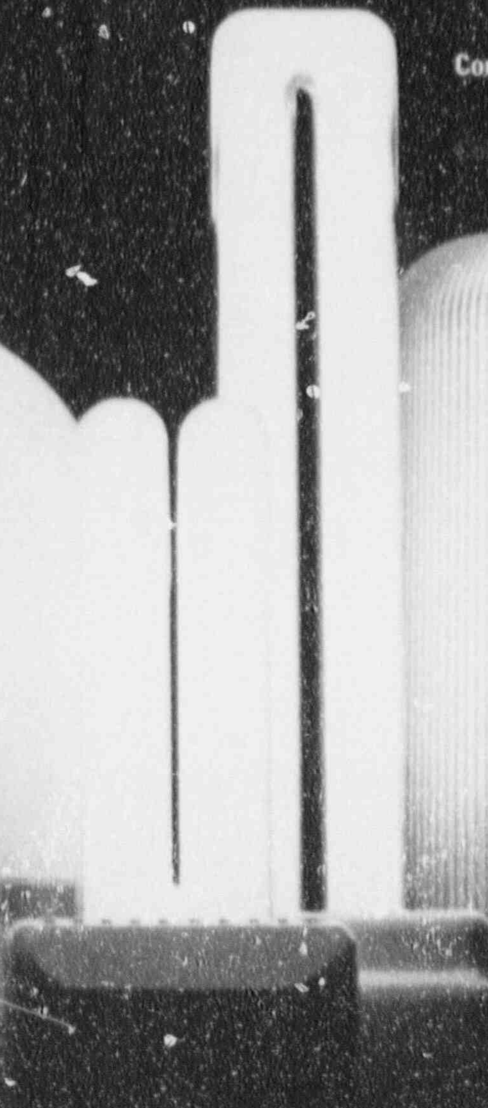
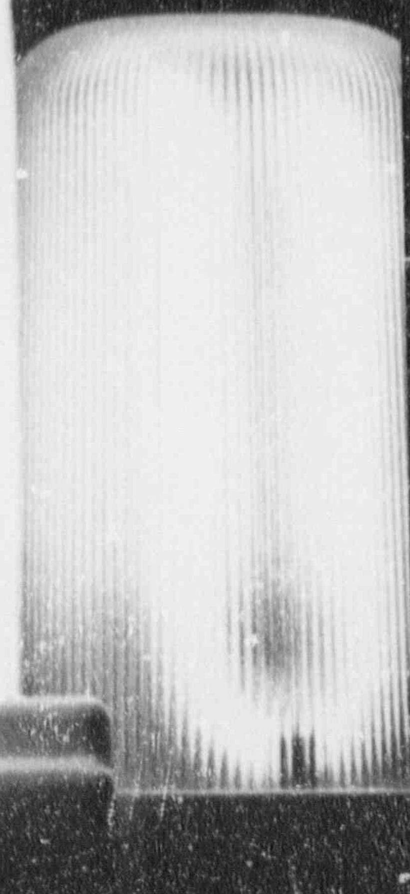
United Illuminating

Commitments Made



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Contents

Page

1 Financial Highlights

2 Letter to Shareowners

[illegible] Executive Management

[illegible] 1990 Performance Highlights

[illegible] Operating Performance

[illegible] Marketing Our Services

[illegible] Business Development

[illegible] Subsidiary Development

[illegible] 1990 Officers

[illegible] 1990 Board of Directors

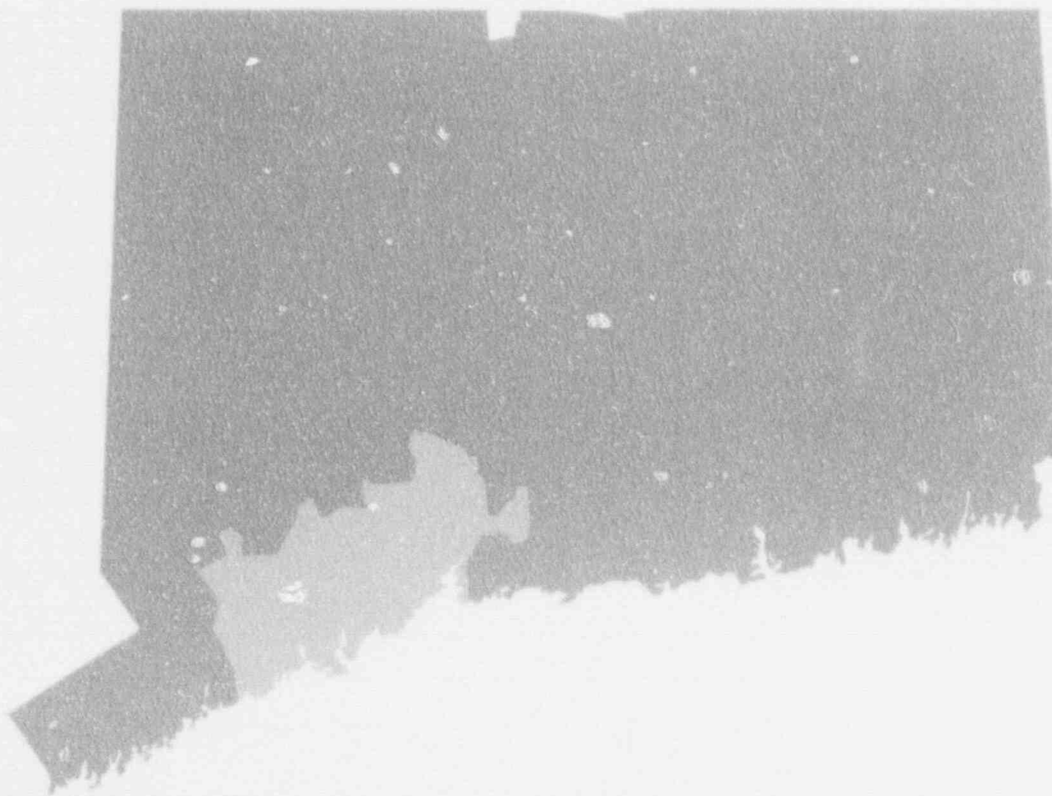
[illegible] Financial Review

[illegible] Investor Information

Financial Highlights

	1990	1989
Operating Revenues (000)	$593,663	$564,377
Net Income (loss) (000)	$ 54,048	$ (73,350)
Earnings (loss) per Share of Common Stock	$ 3.53	$ (5.87)
Dividends Declared per Share of Common Stock	$ 2.32	$ 2.32
Payout Ratio	65%	—
Average Return on Equity	13.4%	(18.9%)
Book Value per Share	$ 27.35	$ 26.11
Equity Capitalization	27.3%	27.5%
Common Stock Shares Outstanding	13,887,748	13,887,748
Sales of Energy — (MWH)	5,204,804	5,307,008
Peak Load (MW)	1,054.6	1,094.4
Total Customers (average)	307,116	307,374
Number of Employees	1,587	1,627

The United Illuminating Company is an operating electric public utility company, incorporated under the laws of the State of Connecticut in 1899. It is 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 population of this area is approximately 726,000, or 21% of the population of the State. The service area, largely urban and suburban in character, includes the principal cities of Bridgeport and New Haven 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.



We are very pleased to report that 1990 was an outstanding year for United Illuminating and its shareowners.

Two very major milestones — the commercial operation of the Seabrook Unit 1 nuclear power plant and the Company's impressive return to strong financial profitability — marked the fulfillment of commitments made to you when our recovery strategy first took shape five years ago.

Seabrook's performance, together with our confidence that continued profitability can be realized, prompted the Board of Directors, in February 1991, to approve a new indicated annual dividend of $2.44 per share, a 5.2% increase over the previous rate. This represents the first dividend increase since November 1985.

Earnings per share were $3.55 and return on common equity was 13.4%. Our return, which was above average for the industry, surpassed the 12.9% level set in our 1990 rate decision, but was within the range allowed in our rate settlement agreement. In addition, book value per share rose to $27.35, a five percent increase over 1989. Net cash flow from operating activities amounted to $5.49 per share, up 4% from 1989.

Gerald W. Edwards Jr.

Richard J. Grossi

None of last year's outstanding accomplishments occurred by chance. During the mid-1980s, UI's management initiated a comprehensive plan to chart the Company's future. This plan was not a vague outline, but a concrete set of corporate goals and fully developed strategies which would move us toward those desired ends.

Seabrook's operation was at the heart of our plan. But, we also set goals relating to fuel diversity, the environment, operating efficiencies, reliability, public and governmental affairs, cost containment, financial operations and business development. In other words, we were already looking beyond Seabrook and developing a scenario that would maximize the Company's future growth potential.

We made commitments and we have kept them.

We said that we would get Seabrook into commercial operation, and we have. Seabrook is now fully operational and its rate treatment settled. The unit's generation was 82% of capacity for 1990, an outstanding achievement for any generating plant, and especially one in the early months of its operating life.

We said that we would free the Company of its 92% reliance on oil for generation, and we have. By year-end, UI's oil dependency had dropped to 24% and, during 1991, it will fall even further to 16%. Our rich fuel blend of coal, nuclear, gas, trash-to-energy and oil affords our customers price stability.

We said that we would operate our generating plants in an environmentally responsible manner, and we have. It is especially noteworthy that UI's fossil-fuel operations today emit far less sulfur dioxide than is allowed under the new Clean Air Act. This is expected to yield excess emissions credits or "allowances," which can be sold to other utilities. Consequently, whereas many utilities and their customers will spend billions of dollars over the next 10 years to comply with new sulfur dioxide standards, UI will likely find itself in the advantageous position of being able to enhance shareowner value because it already complies with the new standards.

Our management team has now turned its attention to the future and has formulated specific long-range goals, marshaling both internal and external resources, maintaining tight control over costs and streamlining operations to take maximum advantage of emerging opportunities.

Unlike the mid-1980s, we are now operating from a position of strength. Whereas we were driven by the need to survive, today we are driven by opportunity. Our 1990 rate decision is an excellent example of the improved prospects of the Company. It provides us with a number of performance incentives to enhance our revenues through 1992. We plan to take full advantage of every opportunity.

While we fully realize that our industry is experiencing significant change, UI is a forward-looking company. We do not, and will not, simply react to events and conditions. We do and will, plan in such a way as to shape and control our future. Every goal we set, every decision we make and every challenge we undertake will be directed toward producing superior value for our shareowners and customers.

Our principal goal is to increase shareowner wealth by regular, predictable increases in common stock dividends, and by achieving growth in common equity capitalization and book value. By taking advantage of the performance incentives provided in the 1990 rate decision, we expect to earn higher than our "allowed" returns, an accomplishment we achieved in 1990.

However, our primary strategy for reaching our financial goals is to direct our efforts toward providing maximum value to our customers. We are dedicated to performance excellence and the effective utilization of every asset and resource at our command to provide our customers with energy products and services of a kind and quality not available from other energy companies.

We believe that the most effective means of maintaining a positive working relationship with our regulators, thereby increasing our opportunities to earn enhanced performance-related returns, is by consistently demonstrating excellence and efficiency in operations, conserving resources and providing value-added services to our customers. We plan to use our 1990 rate decision as a model in the future, in order to expand our customer-related programs and services and to allow us maximum flexibility in our operations.

The entire Company is involved in achieving these goals. Every employee has been challenged with both individual and team goals that are directly tied to operational efficiencies, customer service performance and financial profitability. Every employee has a financial incentive to help achieve the goals.

Also, since virtually every employee is a UI shareowner, shareowner interests and employee interests are increasingly allied and every individual decision and action is driven by Company-wide targets and goals.

Most of this year's Annual Report is devoted to a discussion of how we are utilizing performance excellence in each area of the Company to increase the value and quality of our shareowners' investment through strategic planning, efficient operations and an unblinking focus on total customer service. We urge you to read it carefully, so that you may better understand how we measure our own performance and come to a better appreciation of the strength of your Company.

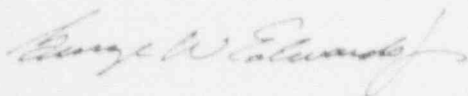
One additional point: UI operates in a political environment, as does every public utility. Even a strong company can only succeed to the extent that its regulators and other public officials support its actions.

UI management has always been cognizant that no success is possible without strong allies. Throughout the 1980s, we worked *with* regulators, *with* state and local public officials, *with* consumer and environmental groups, *with* business and trade associations, *with* the news media and *with* every other constituency we could identify. Productive relationships, based on mutual trust and respect, were developed with all these groups.

Our effective efforts have won us the support of our customers, as evidenced by their 95% favorable rating of our quality of service. Our three-year rate decision, the first of its kind in Connecticut, was an outgrowth of the Company's credibility. And our collaborative efforts with both public and private entities to promote conservation and efficient energy use have gained us widespread praise from groups typically suspicious of the commitment of utilities to those goals.

Neither last year's results, nor projections for the period ahead, ought to be attributed to luck or wishful thinking. It was, and will be, a matter of doing whatever is necessary to meet the financial, operational and governmental commitments we have made all along. It has not been easy, nor will it be easy. The effects of the economic recession have been felt by UI and other area utilities. Issues relating to increased competition and demand-side marketing must be addressed in ways that will benefit the Company, its shareowners and its customers. But our track record in overcoming adversity and developing opportunities for growth has been excellent and, we believe, will continue to get even better.

The success we have achieved through keeping to a steady, well-considered plan makes us confident about your Company's future. We firmly believe that the same formula that kept UI a strong, viable Company through the difficult 1980s, will bring it continued success and growth as we move through this new decade.



George W. Edwards, Jr.
Chairman of the Board
and Chief Executive Officer, UI

Richard J. Grossi
President and
Chief Operating Officer, UI

George W. Edwards, Jr.
Chairman of the Board and Chief Executive Officer

James F. Crowe
Senior Vice President — Marketing

Roland W. Comstock
Senior Vice President — Corporate Affairs

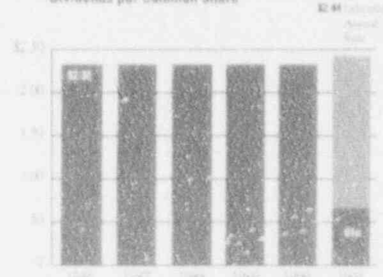
Robert L. Fiscus
Executive Vice President and Chief Financial Officer

Richard J. Grossi
President and Chief Operating Officer

Everything the Company does is directed toward enhancing value — value to shareowners and to customers. Success depends on integrating all aspects of Company activities, from strategic planning to program implementation, into one focused, fully coordinated effort.

Formed in 1986, UI's executive management team is essential to this process. Representing every function of the Company, the team both defines the corporate strategy and facilitates the process by which all departments move toward the final goal of providing maximum value.

BRIDGEPORT HARBOR STATION



1990 Performance Highlights

Financial Performance

- Sales — 5,204,804 MWH
- Earnings per share — $3.55
- Return on common equity — 13.4%
- Equity capitalization — 27.3% of total capital
- Book value per share — $27.35

Seabrook

- Commercial operation — June 30, 1990
- Superior operating performance — 82% capacity factor
- U.S. Appeals Court decided in New Hampshire Yankee's favor on all remaining planning contentions as of January 27, 1991
- Excellent "Systematic Assessment of Licensee Performance" (SALP) ratings from Nuclear Regulatory Commission
- On-site and off-site emergency exercises rated superior by Nuclear Regulatory Commission and Federal Em rgency Management Agency

System Operations

Generation

- Efficiency — 9,850 BTU per KWH (UI fossil units ranked 7th most efficient r..ionally)
- Availability — 89.14% (Best in UI history — above NEPOOL targets resulting in 70MW reduction in reserve margin)

Transmission and Distribution

- Reliability — 99.9865%
- Average Outage D..ration — 67 minutes (be**er than targe*)

Fuel Mix

- Coal — 43%
- Nuclear — 20%
- Oil — 24%
- Cogeneration — 9%
- Gas — 3%
- Hydro — 1%

Environmental Operations

- Clean Air — UI plants emit less sulfur dioxide than allowed under new Clean Air Act

Three-year Rate Decision, 1990-92

- $117 million of additional cumulative revenues (9% in three steps)
- Seabrook recovery of $640 million phased in over five years, 75% during first thr.. years
- Sales Provision Adjustment — provides automatic rate adjustment to cover shortfall in retail sales and is equivalent to an additional 3.4% rate increase
- Three-year opportunity to earn premium returns by retaining benefits of:
  - Proceeds from additional capacity sales
  - Property sales
  - Operating cost reductions
  - Interest savings from refinancings and improved credit ratings
  - Margin benefits of superior nuclear performance

Improved Financial Flexibility

Higher Credit Ratings

- ☐ Moody's upgraded UI credit rating to Baa3
- ☐ Standard & Poors maintained BBB— rating
- ☐ Fitch Investor's Service upgraded UI debentures to BBB-
- ☐ Duff & Phelps maintained rating at BB+

Seabrook Sale and Leaseback

- ☐ $250 million in proceeds used to retire bonds and short-term debt at rates that ranged from 10.25% to 12.00%

Cost Containment

Interest Savings

- ☐ $6 million borrowing cost reduction (1991) due to low-cost proceeds from Seabrook Sale and Leaseback [illegible] to retire high-cost debt
- ☐ Additional 1991 savings from new $75 million revolving credit agreement and renegotiated fuel financing agreements

Health Care

- ☐ Adoption of managed benefits program
- ☐ Expanded employee health and safety programs

Transmission

- ☐ Agreement with Northeast Utilities on access to transmission lines for selling and buying at advantageous rates

Insurance

- ☐ Seabrook operation reduced liability insurance premiums by $1.2 million
- ☐ UI's self-insured program has saved Company $1.5 million over five years

Workforce Reduction

- ☐ Continued commitment to reduce employee base through attrition and job streamlining
- ☐ 1990 — 1,587 employees; 1989 — 1,627 employees

High Customer Approval

- ☐ 95% approval of UI's quality of service

Economic Development

- ☐ Successful programs and initiatives at state and local levels to improve business development
- ☐ Aggressive and flexible rate design and marketing programs which emphasize business retention and expansion

Increased Subsidiary Activities

- ☐ Computerized bill payment systems
- ☐ Energy and demand management centers for commercial buildings
- ☐ Electrical systems for businesses needing ultra-clean filtered electric power

Improved Investor Relations Program

- ☐ Significantly expanded financial information
- ☐ Increased coverage by equity analysts

SEABROOK UNIT 1

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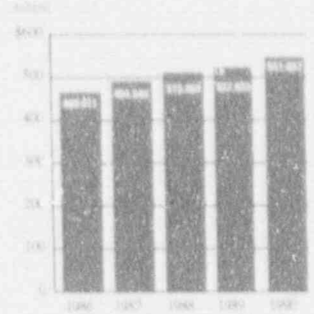
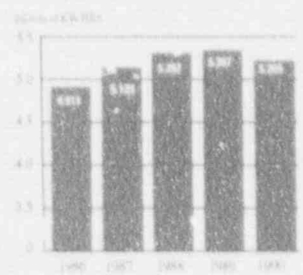
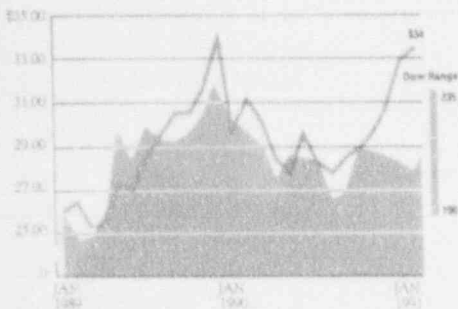
DIRECTOR FINANCIAL PLANNING AND INVESTOR RELATIONS


UI Retail Sales
$600
500
0
1986
1987
1988
1989
1990


UI Retail Kilowatt-Hour Sales
5.5
5.0
4.5
4.0
3.5
0


UI Common Stock Price
$35.00
33.00
31.00
29.00
27.00
25.00
0
$34
Dow Range
JAN
1989
JAN
1990
JAN
1991

At the very heart of any electric utility's plans to enhance the investment of its shareowners and the service to its customers is a commitment to operate and maintain its generating facilities and its transmission and distribution system at optimal levels. By extracting the maximum value from its physical assets, a company can better position itself to keep its prices down and earn performance incentives.

UI is just such a company, as our 1990 operations performance demonstrates. A number of our achievements rank among the very best in the industry not only in performance, but in utilizing that performance to gain greater financial returns and support from our key constituencies.

Efficient Systems Operation

UI power plants achieved a heat rate efficiency of 9,850 BTUs per KWH. This is a measure of how much fuel (BTUs) we burn to produce saleable electricity. This year's heat rate was the second best in UI's history and earned us the distinction of being ranked as the seventh most efficient company in the nation at operating fossil fuel plants. The Company has been in the top ten in eight of the last ten years.

We recorded an equivalent availability of 89.14 percent, the best in our history. Equivalent availability is the percentage of time a company's generating units are available at full load. The performance of our units consistently exceeds the targets set for them by the New England Power Pool (NEPOOL). As a result, UI's requirements to provide power to NEPOOL has been reduced by more than 70 MW due to incentive arrangements which recognize better than expected performance.

This performance becomes all the more significant in light of the fact that productive and efficient generation, along with stringent cost controls, are key elements in assuring that we are able to attain the financial operating margins allowed in our last rate case.

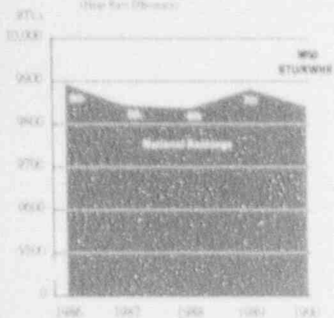
In 1990, our system reliability was 99.9865 percent, which exceeded the Company's goal. The average duration of the outages that did occur was 67 minutes, also significantly better than our own tough target expectations.

Capacity

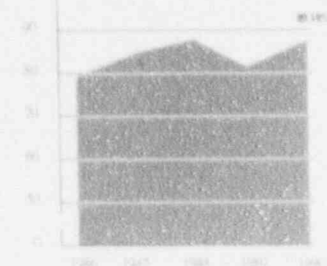
UI finds itself in the enviable position of having ample capacity to serve its customers well into the next century without having to plan and build any expensive new plants. While the recent economic slowdown has led to a softer-than-usual wholesale sales market, over the long term, utilities in the Northeast will need additional power to serve their customers. UI is well-positioned to serve this market and special provisions within its 1990 rate decision will allow the Company to retain the benefits of any sales in the next two years.

On June 30, 1990, the Seabrook Unit 1 nuclear power plant went into commercial operation, adding 201 MW to our total capacity. The Connecticut Department of Public Utility

Fuel Needed to Produce a Kilowatt-Hour of Electricity

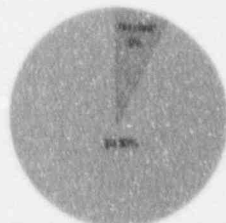


UI Power Plant Availability

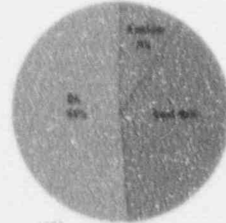


A UI CREW INSTALLS A 115,000-VOLT CIRCUIT BREAKER AT THE NEW MILL RIVER SUBSTATION, WHICH IS PART OF A LARGE-SCALE PROJECT TO BETTER MEET THE ENERGY NEEDS OF THE GREATER NEW HAVEN AREA.

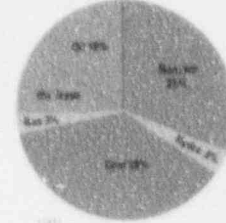
UI Fuel Mix



1973

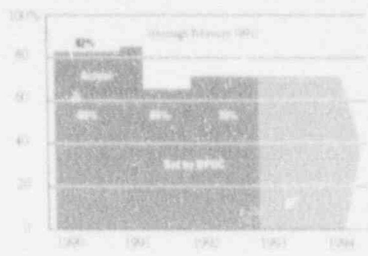


1985



1991
Projected

Seabrook Performance



Control (DPUC) established "ramp-up" capacity factor targets for Seabrook of 60 percent in 1990, 65 percent in 1991 and 70 percent in 1992. Typically, 70 percent is considered standard performance for a plant like Seabrook once it has gotten through the difficult break-in stage.

Seabrook's capacity factor in 1990 was 82 percent, far exceeding all estimates. That performance significantly benefitted both shareowners and customers by allowing us to reduce the use of our fossil-fuel units. We also expect similar benefits to be derived from a return to operational health of Connecticut Yankee and the continued excellent performance of Millstone Unit 3 in 1991.

The Company in 1990 used the superior performance of its generating units and the excellent reliability of its transmission system as assets to help it attain above industry average returns. We are committed to continuing to utilize these assets in much the same way to key superior returns in 1991 and beyond.

Fuel Mix

In terms of long-term overall significance, few assets are any more important to an electric utility in the northeast than the diversity of its fuel mix. During the early years of the 1980s, UI was 92 percent reliant on oil to produce electricity. That over-reliance exposed the Company to substantial fuel price fluctuations and even, potentially, to inadequate supply. Acknowledging the weakness of such a situation from both financial and customer service perspectives, UI undertook a comprehensive effort to expand its fuel options.

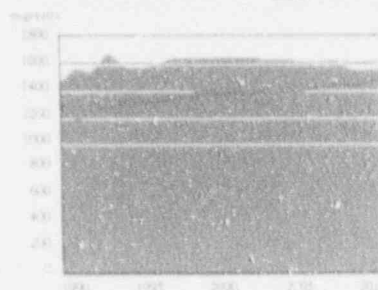
Our success in achieving our goal is illustrated by the fact that after Phase II of the Hydro-Quebec project comes on-line in 1991, UI's dependence on oil will have diminished to less than 16 percent. Moreover, our total mix will include an excellent blend of coal, nuclear, hydro, gas and refuse.

This secure and flexible fuel mix, along with the high reliability of our plants, has created greater price stability for our customers, a major benefit for our local area during difficult economic times. It has also increased dramatically the potential for additional revenues from wholesale capacity sales. Retail price stability and the potential for wholesale capacity sales provide for stability in returns on equity, as well. Recognizing the significance of our achievements, in August the *New York Times* highlighted UI as a utility which had already made the prudent switch away from an over-reliance on oil.

Environment

All the while we were reshaping the Company's generation capabilities and capacity mix, we were careful to maintain an environmentally sound operation. That has paid off. Because of our strict adherence to the environmentally sound management of our operations, UI will not have to retrofit its plants with expensive scrubbers. Our fossil-fuel plants already emit less sulfur dioxide than called for in the recently passed Clean Air Act or even the toughest acid rain proposals ever proposed in the U.S. Congress.

We take great pride in the fact that our operational performance is fully integrated with our financial strategies and that together they work to the benefit of our shareowners and customers. You can be assured that UI will continue and even improve upon its 1990 performance in the years to come.



KENNETH L. [illegible], AREA MANAGER, PLANT SERVICES OF THE BIC CORPORATION, HAS HELPED BIC GAIN SUBSTANTIAL ENERGY SAVINGS THROUGH THE INSTALLATION OF ENERGY-EFFICIENT TECHNOLOGY.

A PORTION OF THE CIRCUIT BOARD WHICH EFFICIENTLY CONTROLS THE CYCLING OF BIC'S COOLING EQUIPMENT.

Central to UI's mission to enhance shareowner wealth is a commitment to provide superior value to customers. For UI, providing value entails a Company-wide effort, which includes dedication to system reliability, efficient power plant operations, prudent cost controls, innovative financial operations, focused public affairs programs and, of course, excellent customer service. Then, utilizing the benefits accrued through top performance in each area, we continually seek to improve, develop new and expand programs which effectively respond to customer needs and desires.

All of our customer programs are based on the premise that UI is not satisfied to be simply a producer and distributor of electricity, but seeks to be a provider of energy and energy-related services that are highly valued by our customers.

A primary means by which we are accomplishing this objective is through marketing efforts which help our customers make the best, most efficient use of our product. For residential customers that includes helping them to use and conserve electricity in ways that will enhance the quality of their lives. For commercial and industrial customers, it means helping them obtain the maximum benefit out of every kilowatt-hour they use so that they can better remain competitive in their own marketplaces.

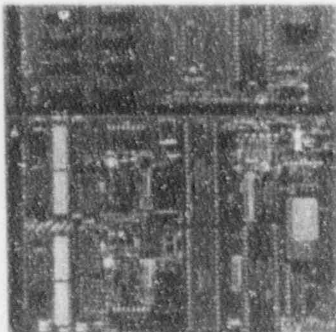
Specifically, in 1990, UI offered a variety of programs that addressed the needs of a vast diversity of customers — residential and business, large users and small users.

Residential

On the residential side, our Homeworks program made energy products and services available to selected homeowners and apartment-dwellers. The program's major emphasis is on demonstrating to residential customers that substantial energy savings can be achieved through simple, low-cost techniques, like replacing conventional lighting with energy-efficient bulbs, and wrapping water heaters and pipes. A similar program, Smart Energy, addresses the needs of high-use, all-electric customers.

UI's Good Cents Home program also promotes energy efficiency to residential customers. This program recruits area developers and builders by convincing them of the many advantages of incorporating energy-efficient materials, equipment and building techniques into new home construction. Currently, more than 50 contractors are participating. Notable among the program's successes in 1990 was the start of construction of Evergreen Woods, a 230-unit retirement community, which is being built to UI's Good Cents standards.

These programs, along with others involving the retailing of energy-efficient light bulbs and the promotion of efficient freezers, refrigerators and room air conditioners, will be expanded in 1991. UI is dedicated to using its resources to help promote Connecticut energy policy, and our marketing people continually work with state officials and representatives of consumer interest groups to design and implement programs that inspire wise energy use.



Commercial and Industrial

UI also has an impressive array of programs tailored to meet the needs of its commercial and industrial customers. Our Energy Opportunities program is designed to help existing facilities re-design, re-model or utilize state-of-the-art equipment to lower energy usage. During the past year, manufacturers such as Pratt & Whitney, Bic and Textron, as well as retailers like Caldor and Finast, achieved dramatic savings through Energy Opportunities. These savings will help keep these important customers financially sound and in our service territory.

Energy Blueprint is a similar program, but designed to help new facilities or buildings undergoing extensive re-modeling. Construction on the New Haven Medical Hotel was completed at year-end, and incorporates many energy-efficient features, thanks to UI's program. In addition, a new community center facility in Shelton, which utilized the Energy Blueprint program, neared completion.

The Company also continued its promotion of specialized equipment and programs to help its business customers. Cool storage, a UI-sponsored technology which serves as a money-saving alternative to conventional air conditioning, was adopted at a U.S. Surgical facility, as well as at large office buildings in Bridgeport, Shelton and New Haven. UI's Standby Generation program, which allows qualifying facilities to profit from selling UI power from their own generators during periods of high electricity use, also had a productive year. American Frozen Foods, Yale-New Haven Hospital, Yale's Sterling Library and water treatment facilities in New Haven, Fairfield and Ansonia all signed contracts to participate.

Marketing Benefits

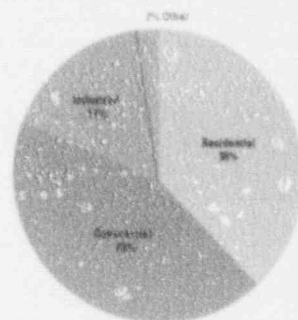
Beyond forging stronger relationships with our customers, UI's marketing programs also help strengthen the Company in a number of essential ways.

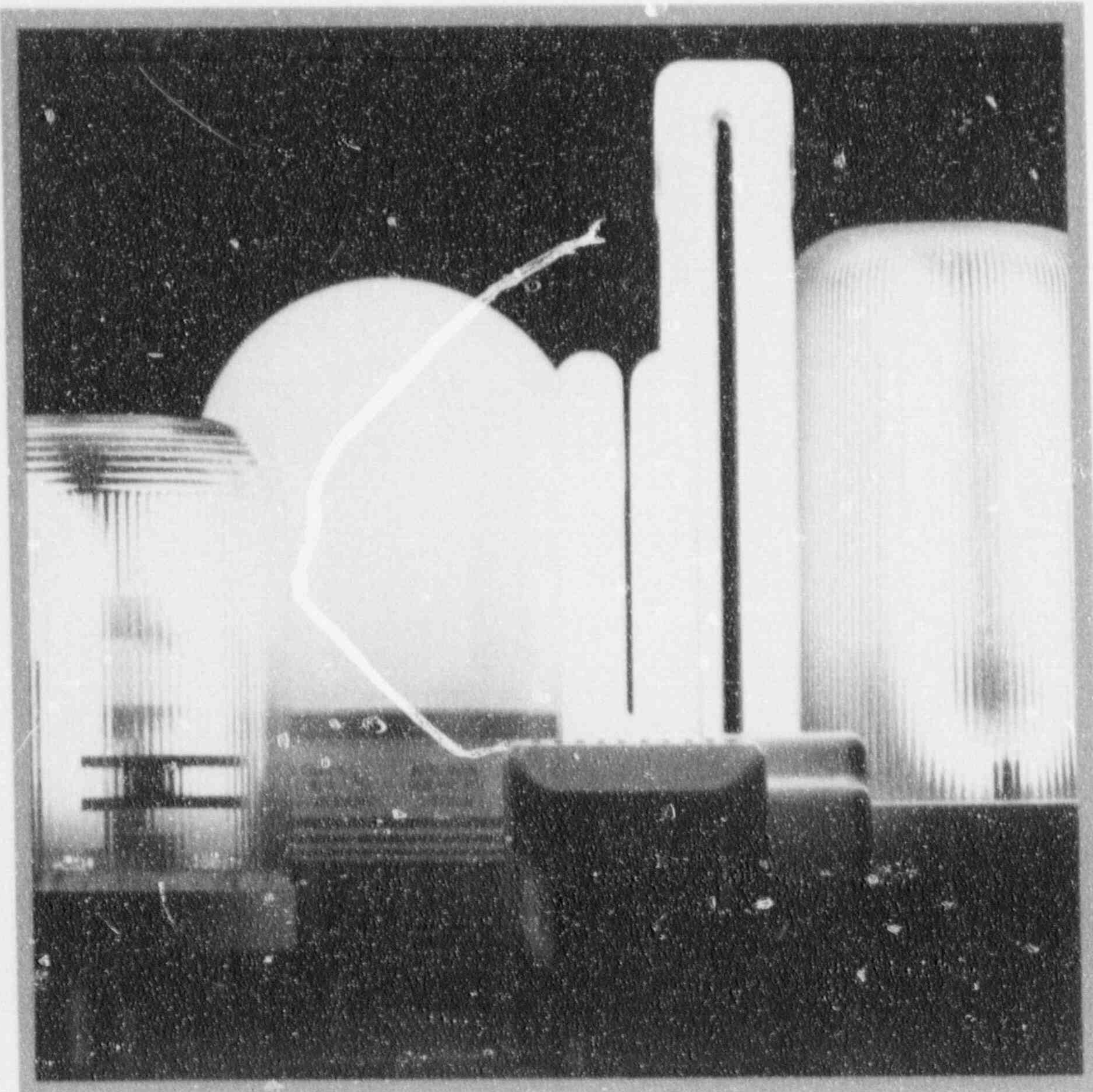
First, by reducing the demands on our electric system, especially during peak-use times, these programs help us further delay into the future the need to build any new generating facilities or buy power from someone else. In addition, the capacity we save by helping our customers use our product more efficiently, should be viewed as a source of additional revenues through the wholesale capacity sales market. Moreover, in recognition of the sincerity of UI's conservation and demand-side programs, and in view of its own efforts to promote state energy policy, the Connecticut DPUC has granted UI the right to earn a premium return on all money it spends to promote wise and efficient energy use.

And finally, and most importantly, these programs all help UI provide superior value to its customers. Through them, we are able to demonstrate in real ways our concern for their welfare and our desire to keep them as our cherished customers.

SIGNIFICANT ENERGY SAVINGS CAN BE ACHIEVED THROUGH THE UTILIZATION OF COMPACT FLUORESCENT LIGHTING. UI PROMOTES ITS USE THROUGH MARKETING PROGRAMS DIRECTED TOWARD RESIDENTIAL, COMMERCIAL AND INDUSTRIAL CUSTOMERS.

UI Retail Revenues





United Illuminating prospers when businesses thrive in its service territory. So do its shareowners and customers. Acknowledging the importance of a strong business environment and its special relationships with both governmental and business sectors has prompted UI to take an expanded role in organizing economic and business development initiatives on both the local and state-wide levels. Our efforts have targeted:

- Expanding the link between government and the private sector;
- Encouraging energy policies that support economic growth;
- Developing initiatives that will provide increased employment opportunities in our service territory.

"Taking Care of Business"

Central to UI's determination to expand and strengthen cooperation between local governments and business is its "Taking Care of Business" program. This initiative works on the partnership principle, uniting municipalities with businesses in totally focused, community-based economic development programs.

In only four years, "Taking Care of Business" has been utilized in approximately half of the municipalities in our service territory. In every case, the program has been successful in better integrating the concerns of local businesses into the overall municipal planning structure. New channels of communications have been opened between public and private groups resulting in many new and dynamic pro-active business initiatives.

Manufacturing

UI is also endeavoring to exercise a positive influence on the state of manufacturing in southwestern Connecticut. Our efforts in this area have been two-fold.

First, as valued customers, UI offers manufacturers a host of incentive programs for carrying out energy efficiency improvements at their facilities. These improvements inevitably result in significant energy savings and help participating companies compete in their own markets and remain financially sound.

UI has also established a variety of rate options and riders which allow commercial and industrial customers to choose the pricing program that best suits their individual, specialized needs. We also have special economic development rates to assist companies trying to establish or expand their operations in our service territory. In addition, we have developed a business recovery rate, which has proven extremely useful in addressing the needs of industrial customers experiencing severe economic difficulties.

Our second primary effort focuses on the state governmental level. The Company is working with manufacturers to encourage state level policies and initiatives that support business growth and development. Last year, UI worked closely with two state legislative committees, one studying business opportunities in the state and the other looking at energy costs to manufacturers. UI made a strong case for the creation of more economic development incentive rates, the availability of low-cost capital to manufacturers implementing energy efficiency improvements and for an overall review of the state's business tax structure.

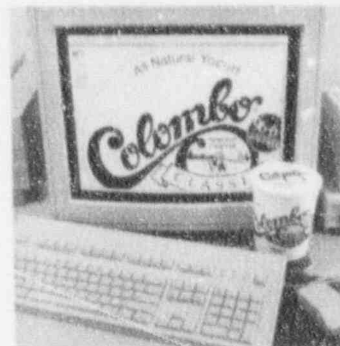
In 1991, the Company will be a key participant in a new legislative committee composed of representatives from the public and private sectors seeking to advance a comprehensive business policy agenda for Connecticut.

Building Partnerships

Because of its unique relationships with both government and business, UI finds itself in the position of being a primary force in bringing representatives from these two groups together. Our success in doing so has been a result of the high degree of respect with which we are held. Our business customers

respect us because of our demonstrated record of working with them both individually and collectively in support of their interests. We have also gained credibility with our state regulators and representatives, as well as local municipal elected and appointed officials, by consistently tying their mandates and our corporate goals together into meaningful packages that serve multiple audiences.

Over the next year and beyond, UI people will continue to work tirelessly to help the state, and particularly the municipalities in our service territory, to develop the kind of commercial and industrial mix which enhances the general quality of life and assures the Company of steady and sustained business revenues. We are committed to making maximum utilization of the credibility we have worked so hard to earn to benefit our shareowners and our customers.



United Illuminating has four wholly owned subsidiaries. Bridgeport Electric Company (BEC) is a single-purpose financial vehicle which owns and leases to UI a generating unit at Bridgeport Harbor Station. Research Center, Inc. (RCI) has been formed to participate in large power production projects associated with cogenerators and independent power producers which are subject to some degree of state and/or federal regulation. United Energy International, Inc. (UEI) has been organized to pursue energy-related opportunities outside of the United States.

DAVID GRABOWY, MANAGING DIRECTOR OF UNITED RESOURCES INC., AT THE OG [illegible] CENTER ENERGY CENTER IN DOWNTOWN NEW HAVEN.

EAST COAST [illegible] WITH EQUIPMENT STRATEGY CLIENTS OF AMERICAN PAYMENT SYSTEMS INC.

Unregulated Subsidiaries

The fourth direct subsidiary of UI, United Resources, Inc. (URI) serves as the parent corporation for UI's unregulated businesses, each of which is incorporated separately to participate in power-related business ventures which complement and enhance UI's electric business and serve the interests of the Company, its shareowners and its customers.

Currently, four subsidiaries of URI have been formed. Thermal Energies, Inc. (TEI) was incorporated in 1988 for the purpose of owning and operating facilities which produce and distribute thermal energy in the form of hot and chilled water to provide heating and air conditioning service to commercial and industrial buildings.

TEI is presently involved in two energy center projects in downtown New Haven. One of the projects supplies thermal energy to New Haven's new City Hall, the Hall of Records and the twenty-five story Connecticut Financial Center. TEI's short-term objective is to connect the two energy centers to form a district heating and cooling system and sell thermal energy to additional customers.

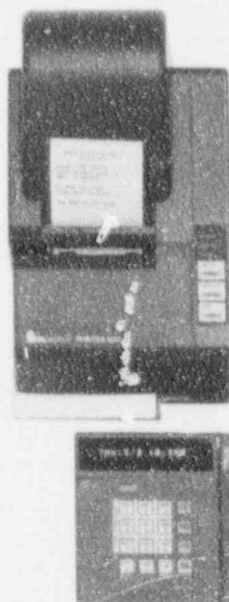
Souwestcon Properties, Inc. (SPI) was formed in 1988 to enter into a real estate development project. SPI is a partner in the New Haven Medical Hotel, a new concept in health care which bridges the gap between hospital and out-patient care and which opened for operation in January 1991.

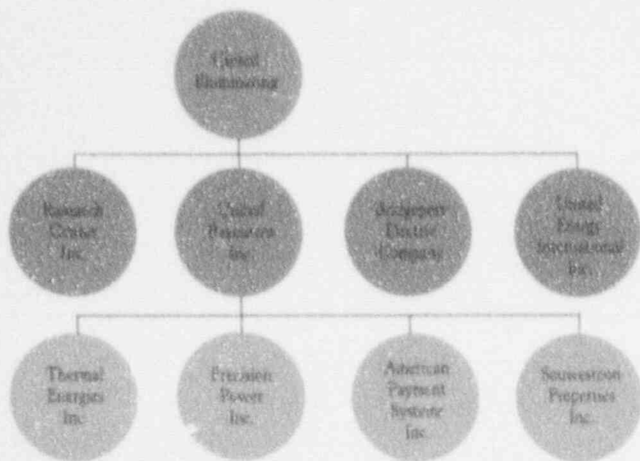
Precision Power, Inc. (PPI), also incorporated in 1988, sells and installs power conditioning equipment to commercial and industrial customers. PPI's customers require a higher level and quality of power for their sensitive electronic equipment. PPI is equipped to offer both separate services and complete turnkey packages. The type of services include evaluation and diagnostic audits of problems, engineering services, writing specifications, purchasing equipment and permits and supervising construction and training. All these services are available with flexible financial options provided by the equipment manufacturers.

American Payment Systems, Inc. (APS) was formed in 1990 to sell an automated, in-person agency payment system to utilities. Many utility customers pay their bills at agencies such as pharmacies and convenience stores located within their service territory. APS provides agents with a small computer terminal which records the customer's payment, provides a receipt, summarizes daily transactions by type and provides the capability to wire transfer daily payments and data to the utility.

Enhancing Our Business

UI is looking to its subsidiaries to show steady growth during the decade, significantly enhancing total revenues by the year 2000. UI is only interested in subsidiary ventures which enhance its core electric business, are able to make use of many of the resources its core business provides and demonstrate strong potential to increase the value of our shareowners' investment.




Thermal
Energies
Inc.
Precision
Power
Inc.
American
Payment
Systems
Inc.
Properties
Inc.

Richard J. Gross
President and
Chief Operating Officer

Robert L. Fiscus
Executive Vice President and
Chief Financial Officer

Roland W. Comstock
Senior Vice President
Corporate Affairs

James F. Crowe
Senior Vice President
Marketing

Leon A. Morgan
Senior Vice President
Finance and Accounting

David W. Hoskinson
Senior Vice President
Generation Engineering and Operations

Walter E. Barker
Vice President
Transmission and Distribution
Engineering and Operations

Richard H. Bornemann
Vice President
Governmental Affairs and
Corporate Communications

Stephen F. Goldschmidt
Vice President
Planning

ALBERT HABARY
Vice President
Management Services

ALBERT N. HENRICKSEN
Vice President
Human and Environmental Resources

ROBERT H. HYDE
Vice President
Customer Services

E. JON MAJKOWSKI
Vice President
Public Affairs

JAMES L. BENJAMIN
Controller

WILLIAM A. ELDER
Treasurer

MARY ELLEN MANTHEY
Corporate Secretary

1990 Board of Directors

George W. Edwards, Jr. (1985)
Chairman of the Board
and Chief Executive Officer, UI

Richard J. Gross (1988)
President and
Chief Operating Officer, UI

Leland W. Miles (1978)
President Emeritus
University of Bridgeport

Frank R. O'Keefe, Jr. (1989)
Independent
Business Consultant

John F. Crowleak (1987)
Chairman of the Board, President and
Chief Executive Officer
Blue Cross & Blue Shield
of Connecticut, Inc.

J. Hugh Devlin (1986)
Managing Director and
Consultant, Kerr Beatty Devlin & Co., Inc.

J. Robert Gunther (1980)
Chairman of the Board,
George Schmitt & Co., Inc. and
President, Fabian Printing Company

William S. Warner (1986)
Chairman of the Board,
The Hydraulic Company

John D. Fassett (1972)
Former Chairman of the Board, UI

Norwick R. Goodspeed (1974)
Chairman of the Board,
People's Mutual Holdings

Betty Henley-Cohn (1989)
Chairman of the Board,
Joseph Cohn & Son, Inc.
and President
Atlantic Fleet Company, Inc.

F. Patrick McFadden, Jr. (1987)
Chairman of the Board and Chief Executive
Officer, The Bank of New Haven and
BNH Bancshares, Inc.

Five Year Summary of Selected Financial and Statistical Data

Management's Discussion and Analysis of Financial Condition and Results of Operations

Consolidated Statement of Income

Consolidated Balance Sheet

Consolidated Statement of Cash Flows

Consolidated Statement of Retained Earnings

Statement of Accounting Policies

Notes to Consolidated Financial Statements

Report of Independent Accountants

Investor Information

Five Year Summary of Selected Financial and Statistical Data

	1990	1989	1988	1987	1986
Financial Results of Operation ($000's)					
Sales of electricity:					
Retail					
Residential	$ 211,331	$ 205,183	$ 200,170	$ 188,740	$ 178,268
Commercial	234,704	219,852	208,801	195,972	180,888
Industrial	94,526	[illegible]	96,663	100,354	99,939
Other	10,536	[illegible]	9,732	9,480	9,516
Total Retail	551,657	[illegible]	515,368	494,546	468,611
Wholesale (1)	32,674	33,196	21,819	13,691	7,074
Other operating revenues	3,332	2,338	3,570	3,077	2,508
Total operating revenues	593,663	564,377	544,757	511,314	478,193
Fuel and interchange energy — net					
Retail — own load	144,415	153,919	140,973	151,471	126,778
Wholesale	22,401	18,279	16,393	10,394	5,530
Capacity purchased — net	17,430	24,727	15,917	17,746	15,028
Depreciation	36,526	35,618	24,069	37,160	22,112
Other operating expenses, excluding tax expense	180,592	155,282	143,822	138,315	131,448
Gross earnings tax	25,595	24,306	23,948	22,997	21,838
Other non-income taxes	24,648	20,294	21,695	17,194	17,991
Total operating expenses, excluding income taxes	451,607	432,625	386,817	375,277	340,725
Deferred return Seabrook Unit I	21,305	0	0	0	0
AFUDC	3,443	65,443	75,656	81,419	78,044
Other non-operating income	18,605	(6,368)	22,807	22,620	26,290
Before-tax effect of SFAS No. 90	4,049	(213,374)	(46,176)	(120,306)	(101,670)
Interest expense:					
Long-term debt	94,056	91,126	90,022	88,700	88,610
Other	15,468	22,849	12,069	9,228	2,223
Total	109,524	113,975	102,091	97,928	90,833
Income tax expense:					
Operating income tax	43,493	37,963	44,045	50,633	51,419
Effect of SFAS No. 90	1,745	(61,227)	(13,262)	(33,778)	(31,885)
Non-operating income tax	(19,154)	(39,908)	(1,286)	(3,662)	(1,999)
Total	26,084	(63,172)	29,497	13,193	17,535
Net income (loss)	54,048	(73,350)	78,639	8,649	31,764
Preferred and preference stock dividends	4,751	8,233	11,348	11,953	18,969
Income (loss) applicable to common stock	$ 49,297	$ (81,583)	$ 67,291	$ (3,304)	$ 12,795
Operating income	$ 98,565	$ 93,789	$ 113,895	$ 85,404	$ 86,049
Financial Condition ($000's)					
Plant in service — net	$1,223,006	$ 570,771	$ 560,930	$ 563,210	$ 571,349
Construction work in progress	50,257	675,831	812,246	737,169	742,585
Plant-related regulatory asset	0	81,768	88,339	68,603	55,497
Other property and investments	76,173	83,350	83,860	76,032	70,927
Current assets	161,068	170,823	166,270	122,075	107,399
Deferred debits	741,924	605,696	653,418	610,913	607,294
Total Assets	$2,252,426	$2,188,239	$2,365,063	$2,178,002	$2,155,251
Common stock equity	$ 379,812	$ 362,584	$ 473,674	$ 438,564	$ 476,108
Preferred and preference stock					
Not subject to mandatory redemption	69,700	70,000	70,000	70,000	70,000
Subject to mandatory redemption	0	0	34,000	40,000	63,000
Long-term debt excluding current portion	896,993	868,884	862,287	767,559	661,548
Noncurrent liabilities	99,933	107,781	111,971	93,070	81,263
Current portion of long-term debt	41,667	18,667	3,667	28,667	18,667
Notes payable	15,000	45,000	0	0	25,675
Other current liabilities	149,090	142,878	122,237	117,009	100,666
Deferred credits	597,231	572,445	687,227	621,133	658,324
Total Capitalization and Liabilities	$2,252,426	$2,188,239	$2,365,063	$2,178,002	$2,155,251

(1) Operating Revenues include wholesale power sales, reclassified from Operating Expenses in accordance with Federal Energy Regulatory Commission requirements.

	1990	1989	1988	1987	1986
Common Stock Data					
Average number of sl ares outstanding	13,887,748	13,887,748	13,887,748	13,887,634	13,827,431
Number of shares outstanding at year-end	13,887,748	13,887,748	13,887,748	13,887,748	13,886,366
Earnings (loss) per share (average)					
Befor effect of SFAS No. 90	$2.38	$5.08	$7.22	$3.99	$5.97
After effect of SFAS No. 90	$3.33	($5.87)	$4.83	($0.24)	$0.93
Book value per share	$27.33	$26.11	$34.11	$31.58	$34.29
Average return on equity					
Total	13.39%	−18.88%	14.73%	−0.72%	2.64%
Utility	13.97%	20.21%	32.91%	15.34%	16.81%
Dividends declared per share	$2.32	$2.32	$2.32	$2.32	$2.32
Market Price					
High	$34.125	$34.25	$27.50	$34.00	$36.25
Low	$26.875	$24.75	$19.125	$21.25	$26.625
Year-end	$31.125	$34.25	$26.875	$26.875	$29.25
Net cash provided by opera'ing activities, less dividends ($000's)	$39,139	$31,437	$40,607	$37,086	$16,796
Capital expenditures, excluding AFUDC	$64,018	$77,041	$83,735	$73,253	$116,124
Other Financia' and Statistical Data					
Sales by class (MWH's)					
Residential	1,826,700	1,883,363	1,870,318	1,780,333	1,700,302
Commercial	2,259,540	2,254,099	2,174,200	2,046,289	1,914,889
Industrial	1,09 ,751	1,109,119	1,186,336	1,236,151	1,232,209
Other	58,913	60,427	61,303	62,246	65,533
Total	5,204,804	5,307,008	5,292,157	5,125,019	4,912,933
Number of customers by class (average)					
Residential	275,637	276,385	274,884	271,302	267,509
Commercial	29,808	29,526	28,826	28,103	27,215
Industrial	319	347	367	369	372
Other	1,352	1,316	1,267	1,191	1,179
Total	307,116	307,574	305,344	300,965	296,275
System r ,uirements (MW)	5,501,495	5,603,502	5,581,897	5,403,519	5,182,516
Peak load — kilowatts	1,054,500	1,094,400	1,132,100	1,039,600	983,710
Generating capability — peak	1,449,600	1,289,800	1,271,500	1,236,000	1,309,700
Fuel generation mix percentages					
Coal	43	39	37	42	37
Oil	24	37	41	37	53
Nuclear	20	11	11	10	9
Cogeneration	9	9	7	1	0
Gas	3	3	0	5	0
Hydro	1	1	4	5	1
Revenues — retail sales ($000's)					
Base	$589,348	$577,611	$574,422	$558,060	$537,147
FCA	(45,900)	(49,778)	(59,054)	(63,514)	(68,536)
SPA	8,211	0	0	0	0
Total	$551,657	$527,833	$515,368	$494,546	$468,611
Revenue — retail sales per KWH (cents)					
Base	11.52	10.88	10.87	10.89	10.93
FCA	(0.88)	(0.93)	(1.11)	(1.24)	(1.39)
SPA	0.16	0	0	0	0
Total	10.60	9.95	9.74	9.65	9.54
Fuel and energy cost per KWH (cents)	2.63	2.78	2.53	2.54	2.45
Fossil	2.89	2.98	2.74	2.58	2.58
Nuclear (fuel only)	1.55	0.89	0.87	0.94	1.02
Number of employees	1,587	1,627	1,620	1,604	576
Total payroll ($000's)	$69,237	$63,175	$60,387	$57,207	$52,782

Major Influences on Financial Condition

The Company's financial condition has been chiefly dependent on the timely achievement of commercial operation status by Seabrook Unit 1, which occurred on June 30, 1990. This event has permitted full realization of the benefits of the 1989 agreement among the Company and Connecticut officials representing the public (the Seabrook Settlement Agreement) regarding the ratemaking treatment and the recoverable amount of the Company's investment in Seabrook Unit 1, and the benefits of the rate relief granted by the Connecticut Department of Public Utility Control (DPUC) in January 1990 based on this agreement. The Company's financial condition also reflects the benefit of the commencement in August 1990 of wholesale power sales that were conditioned on the commercial operation of Seabrook Unit 1.

Liquidity and Capital Resources

The Company presently estimates that its capital requirements will exceed its net cash provided by operating activities in 1991; and to the extent that the difference exceeds the Company's cash and temporary cash investments at December 31, 1990, it will have to be provided by external financing.

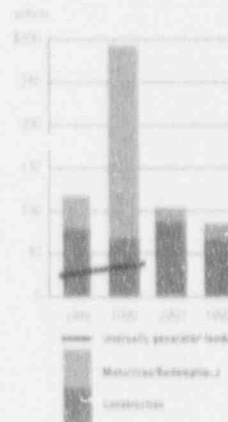
At December 31, 1990, the Company had $16.9 million of cash and temporary cash investments, a decrease of $21.9 million from the balance at December 31, 1989. The components of this decrease, which are detailed in the Consolidated Statement of Cash Flows, are summarized as follows:

	(Millions)
Balance, December 31, 1989	$ 38.8
Net cash provided by operating activities	76.3
Net cash (used in) financing activities, including payment of dividends	(34.2)
Cash invested in plant, including nuclear fuel	(64.0)
Net decrease	$(21.9)
Balance, December 31, 1990	$ 16.9

The Company has sale and leaseback arrangements with a financial institution providing for nuclear fuel financing up to $70 million for Seabrook Unit 1 and up to $10 million for Millstone Unit 3. Under these arrangements, the Company is paying rent for the fuel based on the direct costs to the lessor of the fuel, plus the lessor's financing costs. In addition, a fuel reserve and supply agreement with the same financial institution provides for financing fossil fuel purchases up to an aggregate of $165 million, less the outstanding nuclear fuel lease obligations and all other outstanding obligations to the financial institution. The term of the fuel reserve and supply agreement extends to September 30, 1991. The Company has also entered into a revolving credit agreement with the same financial institution. This agreement enables the Company to borrow up to $75 million for general corporate purposes until August 31, 1991, within the aggregate $165 million limit on all outstanding financing obligations to the financial institution. The financial institution may decline to lend funds under this revolving credit agreement if one of several conditions is not satisfied at the time of a requested borrowing. In April 1987, the Company entered into a lease with the same financial institution providing for the financing of the purchase price and capitalized carrying charges of real property on which the Company plans to construct a service center facility.

At December 31, 1990, the aggregate outstanding financial obligations of the Company to this financial institution under these arrangements were approximately $116.5 million, consisting of:

	(Millions)
Nuclear fuel	
Seabrook	$ 60.0
Millstone	4.0
Fossil fuel	34.0
Revolving credit agreement	15.0
Real property financing lease	3.5
Balance, December 31, 1990	$116.5



The Company has entered into a new revolving credit agreement with a group of banks, effective as of February 5, 1991. The borrowing limit of this facility, which currently extends to January 31, 1992, is $75 million. The agreement affords the banks an opportunity to decline to lend funds in the event of a material adverse change in the business, operations, affairs, assets or condition, financial or otherwise, or prospects of UI and its subsidiaries on a consolidated basis.

The Company has formed a subsidiary to serve as the parent corporation for several companies organized for the purpose of entering into business ventures that will complement and enhance the Company's electric utility business and serve the interests of the Company and its shareholders and customers. Another subsidiary has been formed to participate in the development of one or more regulated power production ventures, including possible participation in arrangements for the future development of independent power production and cogeneration facilities. In addition, the Company has formed a third subsidiary to facilitate participation in a

proposed joint venture relating to power production plants abroad. The Board of Directors of the Company has authorized the investment of up to $10 million in one or more subsidiary or affiliated corporations for these purposes.

Results of Operations

Earnings per share for 1990 were $3.55 per share, compared to a loss of $5.87 per share for 1989. This difference was due principally to the non-cash write-off in August 1989, required by Statement of Financial Accounting Standards (SFAS) No. 90, to reduce the recoverable amount of the Company's investment in Seabrook Unit 1, pursuant to the Seabrook Settlement Agreement, and to other provisions of that agreement. Furthermore, earnings per share for 1990 include 29 cents per share as a result of recording in the second quarter the Company's share of the Seabrook Unit 1 material and supplies inventory coincident with the Unit's commercial operation. In addition, 1990 earnings were increased by 25 cents per share in the third quarter and 6 cents in the fourth quarter due to the refund of amounts previously advanced by the Company to fund the Seabrook project, during the construction period.

Earnings per share for 1989, before giving effect to SFAS No. 90 adjustments, were $5.08 per share, a decrease of $2.14 from 1988. This decrease was due principally to higher fuel and energy costs, higher maintenance expense, lower non-cash allowance for funds used during construction and non-cash charges that were ordered by the DPUC to reduce UI's projected 1989 regulated earnings to the 16.4% level authorized in its last rate decision in 1984 without affecting current revenues or cash flows. In accordance with this DPUC order, the Company wrote off a total of $14.8 million in 1989, consisting of bond repurchase premiums amounting to $4.6 million, net of income taxes, and $10.2 million of additional depreciation charges related to Millstone Unit 3.

Retail kilowatt-hour sales for 1990 were 1.9% below 1989, due to milder weather and a weakening regional economy. In 1989 there was a modest increase over the prior year, due to improved commercial activity and higher residential use. Both years experienced a substantial decrease in industrial activity.

Operating revenues for 1990 increased from their 1989 level, due primarily to the 1990 rate increase and an accrual of the entire benefit allowable for 1990 under a limited sales provision adjustment that was designed to compensate for variations from projected retail sales levels, as provided in the DPUC's rate increase decision. Operating revenues also increased in 1989 compared to the prior year, due to higher sales volume and higher fossil fuel and energy costs that were passed on to customers through the fossil fuel adjustment clause.

Fuel and energy expense in 1990 decreased as compared to 1989, primarily because of higher nuclear generation resulting from the availability of Seabrook Unit 1, which more than offset the effect of the reduced availability of other nuclear units in 1990. Fuel and energy expense in 1989 increased over 1988, due to higher kilowatt-hour sales and an increase in purchases of power generated by a regional waste-burning facility at prices considerably higher than the Company's average cost per kilowatt-hour. Reduced availability due to scheduled outages for overhaul of the Company's two most efficient fossil-fired generating units also contributed to higher energy costs in 1989.

Capacity purchased expense decreased in 1990 from the 1989 level, due to the termination of a large capacity purchase agreement with another utility. Capacity purchased expense increased in 1989 from the 1988 level, due to the above-mentioned purchase agreement and increased costs attributable to an overhaul at the Connecticut Yankee Unit.

Other operation and maintenance expenses increased in 1990 over 1989, due principally to the recording of Seabrook Unit 1 operation and maintenance expenses beginning January 1, 1990. Other operation and maintenance expenses increased in 1989 over 1988, due principally to a non-recurring expense of $3.5 million to replace defective building siding at a generating station, storm damage repair expense of $2.7 million, and higher payroll costs.

Depreciation expense increased in 1990 over 1989, due primarily to the commencement of Seabrook Unit 1 depreciation, which began in mid-1990. This increase more than offset the absence of additional Millstone Unit 3 depreciation charges recorded in 1989 pursuant to a DPUC order to reduce UI's projected 1989 earnings to the level authorized in its 1984 rate decision by means of non-cash charges. Depreciation expense increased in 1989 over 1988, due to this additional Millstone Unit 3 depreciation.

Income taxes charged to operating expense increased in 1990 and decreased in 1989, principally as a result of changes in taxable income.

Allowance for funds used during construction (AFUDC) decreased in 1990 compared to the preceding year, due primarily to the discontinuance of AFUDC on Seabrook Unit 1 coincident with the commencement of the phase-in of the unit into rate base, effective January 1, 1990. Concurrently, the Company began recording a non-cash deferred return on the portion of the recoverable Sea-

brook Unit 1 investment not included in rate base during 1990. Lower AFUDC in 1989 compared to 1988 was due to a lower AFUDC rate and lower Construction Work in Progress balances resulting from SFAS No. 90 write-down.

Other income and deductions, excluding AFUDC and the deferred return on Seabrook Unit 1, increased in 1990 over the 1989 period, due to the following factors: the recording of the Company's share of Seabrook Unit 1 material and supplies inventory coincident with the unit's commercial operation on June 30, 1990 and amortization of gains on dispositions of property previously sold. In addition, 1990 benefited from the recording of a refund of amounts previously advanced by the Company to fund the Seabrook project during the construction period, and from the absence of the 1989 write-off of costs incurred in connection with the DPUC's Seabrook Unit 1 prudence audit. Other income and deductions, excluding AFUDC, increased in 1989 over 1988, mainly as a result of Seabrook Unit 1 investment tax credits of $21.7 million that were recorded as income in accordance with the terms of the Seabrook Settlement Agreement that more than offset recorded deductions, including primarily the write-off of Unit 1 prudence audit expenses.

Other interest charges decreased in 1990 from the comparable 1989 period, due primarily to the absence of the accelerated amortization of bond redemption premiums recorded in the first quarter of 1989 pursuant to the DPUC's order to reduce UI's projected 1989 earnings by means of non-cash charges. The absence of these charges was partially offset in 1990 by higher interest expense on short-term borrowings. In 1989, other interest charges increased from their 1988 level, due to the accelerated amortization of bond redemption premiums recorded in the first quarter of 1989 pursuant to the DPUC's order.

Dividends on preferred stock decreased in 1990 by $3.5 million, and in 1989 by $3.1 million, as a result of redemptions. These redemptions were made as part of the Company's program of refinancing high cost securities at lower rates.

Outlook

Prior to 1990, the Company's earnings included a large amount of non-cash AFUDC. As a result of the January 29, 1990 DPUC rate decision, beginning January 1, 1990, AFUDC related to Seabrook Unit 1 was discontinued, except for minor amounts related to new construction. Concurrently, the Company's earnings began to reflect a cash return on its recoverable investment in Seabrook Unit 1 that was phased into rate base, through the increased customer rates allowed by the DPUC and a non-cash deferred return on the portion of the recoverable investment that is excluded from rate base during the period when the investment is being phased into rate base. Over the scheduled five-year phase-in period ending December 31, 1994, cash returns will improve as the non-cash deferred return diminishes.

Achievement of commercial operation status by Seabrook Unit 1 has provided and is expected to continue to provide important benefits to the Company. Among these benefits are earnings from (i) decreased interest costs resulting from the retirement of high-cost debt with funds provided by the sale/leaseback of a portion of the Company's investment in the unit, (ii) lower fuel costs associated with operation of the unit, particularly if it continues to operate at a high availability factor, and (iii) increased wholesale power sales contracts that became effective upon commercial operation of the unit. These wholesale power sales, the bulk of which extend through 1992, amounted to approximately $16 million in 1990 and are projected to be approximately $20 million in 1991 and $16 million in 1992. Subsequent to 1992 the Company has commitments, at this time, for approximately $3 million in annual wholesale power sales through 1993.

Although the Company believes that its financing outlook and plans are unlikely to be adversely affected by further developments with respect to Seabrook Unit 1, 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, the level of the Company income and cash flow, and legislative and regulatory developments, including the cost of compliance with increasingly stringent environmental legislation and regulations.

Inflation

As a result of inflation and increased environmental and regulatory requirements, the estimated cost of replacing the Company's productive capacity today would substantially exceed the historical cost of such facilities reported in the financial statements. Since the Company's rates for service to its customers have been based in the past on the cost of providing such service and have been revised from time to time to reflect increased costs of service, the Company believes that any higher replacement costs it may experience in the future will be recovered through the normal regulatory process.

Consolidated Statement of Income

For the Years Ended December 31, 1990, 1989 and 1988

(Thousands except per share amounts)	1990	1989	1988
Operating Revenues*	$593,661	$564,377	$544,757
Operating Expenses			
Operation			
Fuel and energy — net	166,816	172,198	157,586
Capacity purchased — net	17,433	24,727	13,917
Other	115,968	105,441	102,715
Maintenance	40,456	39,426	30,602
Depreciation	36,520	35,618	24,006
Amortization of deferred fossil fuel costs	(6,242)	—	—
Amortization of cancelled nuclear projects	10,415	10,415	10,415
Income taxes	43,493	37,980	44,045
Other taxes	50,241	44,800	43,643
Total	495,100	470,588	430,862
Operating Income	98,561	93,789	113,895
Other Income and Deductions			
Allowance for equity funds used during construction	1,083	35,968	48,605
Deferred return — Seabrook Unit 1	21,503	—	—
Other — net	37,763	16,936	5,011
Total	60,349	52,904	53,616
Application of SFAS No. 90			
Disallowed plant costs	—	(217,803)	(80,595)
Accretion of Seabrook Unit 2 disallowed return	4,049	4,429	4,419
Applicable income taxes	(1,745)	61,227	43,262
Net Effect of SFAS No. 90	2,304	(152,147)	(32,914)
Income (Loss) Before Interest Charges	161,214	(5,454)	134,597
Interest Charges			
Interest on long-term debt	94,056	91,126	90,022
Other interest	15,468	22,849	12,069
Allowance for borrowed funds used during construction	(2,358)	(26,473)	(27,051)
Income tax benefits attributable to the allowance for borrowed funds	—	(19,604)	(19,082)
Net Interest Charges	107,166	67,898	55,958
Net Income (Loss)	54,048	(73,352)	78,639
Dividends on Preferred Stock	4,751	8,233	11,348
Income (Loss) Applicable to Common Stock	$ 49,297	$(81,585)	$ 67,291
Average Number of Common Shares Outstanding	13,888	13,888	13,888
Earnings (Loss) per Share of Common Stock	$3.55	$(5.87)	$4.85
Cash Dividends Declared per Share of Common Stock	$2.32	$2.32	$2.32

*Operating Revenues include wholesale power sales, reclassified from Operating Expenses in accordance with Federal Energy Regulatory Commission requirements.

The accompanying Statement of Accounting Policies and Notes to Consolidated Financial Statements are integral parts of the financial statements.

Consolidated Balance Sheet

December 31, 1990, 1989 and 1988

Assets (Thousands of dollars)	1990	1989	1988
Utility Plant at Original Cost			
In service	$1,535,365	$ 894,608	$ 858,702
Less accumulated provision for depreciation	312,359	323,837	297,772
	1,223,006	570,771	560,930
Construction work in progress	50,257	675,831	812,246
Nuclear fuel	64,017	73,729	74,984
Plant-related regulatory assets	–	81,768	88,339
Net Utility Plant	1,337,280	1,402,099	1,536,499
Other Property and Investments	12,136	9,621	8,876
Current Assets			
Cash and temporary cash investments	16,918	38,767	59,918
Accounts receivable			
Customers, less allowance for doubtful accounts of $3,100, $2,130 and $1,580	57,345	54,309	50,665
Other	23,203	24,346	11,125
Accrued utility revenues	22,026	24,912	21,880
Fuel, materials and supplies, at average cost	39,768	24,709	20,246
Prepayments	1,685	3,780	2,436
Other current assets	121	–	–
Total	161,066	170,823	166,270
Deferred Debits			
Unfunded deferred income taxes	437,608	334,292	383,476
Unamortized cancelled nuclear projects	47,110	53,461	59,970
Unamortized redemption costs	37,999	31,524	47,996
Deferred income taxes	177,480	176,821	145,771
Deferred return — Seabrook Unit 1	21,503	–	–
Deferred fossil fuel costs	5,041	–	–
Sales adjustment revenues	6,211	–	–
Other	8,972	9,598	16,205
Total	741,924	605,696	653,418
	$2,252,406	$2,188,239	$2,365,063

The accompanying Statement of Accounting Policies and Notes to Consolidated Financial Statements are integral parts of the financial statements.

Consolidated Balance Sheet

December 31, 1990, 1989 and 1988

Capitalization and Liabilities (Thousands of Dollars)	1990	1989	1988
Capitalization			
Common stock equity			
Common stock	$ 277,968	$ 277,968	$ 277,968
Capital stock expense	(3,202)	(3,204)	(5,665)
Retained earnings	105,046	87,820	201,371
	379,812	362,584	473,674
Preferred stock			
Not subject to mandatory redemption	69,700	70,000	70,000
Subject to mandatory redemption	—	—	34,000
Long-term debt	899,993	868,884	862,287
Total	1,349,505	1,301,468	1,439,961
Noncurrent Liabilities			
Obligations under capital leases	98,383	106,831	111,171
Other	1,550	950	800
Total	99,933	107,781	111,971
Current Liabilities			
Current portion of long-term debt	41,667	18,667	3,667
Accounts payable	66,213	60,077	42,953
Notes payable	15,000	45,000	—
Dividends payable	9,107	9,243	10,858
Taxes accrued	18,721	22,502	21,929
Pensions accrued	10,617	9,419	7,194
Interest accrued	20,303	27,713	27,512
Obligations under capital leases	3,472	3,015	1,714
Other accrued liabilities	12,858	10,817	10,277
Total	205,757	206,545	125,904
Deferred Credits			
Customers' advances for construction	3,247	3,114	2,840
Accumulated deferred investment tax credits	21,012	21,773	52,125
Unfunded deferred income taxes	51,379	53,902	67,554
Deferred income taxes	515,960	474,593	526,329
Deferred gain on sale of utility plant	5,633	10,437	10,230
Deferred fossil fuel costs	—	8,626	8,149
Total	597,231	572,445	667,227
Commitments and Contingencies	—	—	—
	$2,252,426	$2,188,239	$2,345,063

The accompanying Statement of Accounting Policies and Notes to Consolidated Financial Statements are integral parts of the financial statements.

Consolidated Statement of Cash Flows

For the Years Ended December 31, 1990, 1989 and 1988

(Thousands of Dollars)	1990	1989	1988
Cash Flows From Operating Activities			
Net Income (Loss)	$ 54,048	$ (73,350)	$ 78,639
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	48,315	68,977	43,781
Deferred income taxes	12,923	(6,154)	4,133
SFAS No. 90 writeoffs — net	(2,204)	152,147	52,914
Seabrook prudence costs	—	21,257	—
Deferred investment tax credits — net	(761)	(22,738)	(1,029)
Allowance for funds used during construction	(3,445)	(65,444)	(75,656)
Deferred return — Seabrook Unit 1	(21,503)	—	—
Sales adjustment revenue	(9,211)	—	—
Total non-cash income and expense items	25,036	148,008	4,145
Changes in current assets and liabilities:			
Accounts receivable	(1,893)	(16,865)	(10,360)
Accrued utility revenues	2,886	(3,032)	(588)
Fuel, materials and supplies	(13,039)	(4,463)	12
Accounts payable	6,136	17,124	(10,487)
Taxes accrued	(4,371)	663	(632)
Interest accrued	1,587	403	11,464
Other — net	5,037	928	6,054
Changes in noncurrent balance sheets items	2,890	3,840	6,084
Total Adjustments	22,257	146,603	5,672
Net cash provided by Operating Activities	76,293	73,252	84,311
Cash Flows from Financing Activities			
Seabrook sale/leaseback proceeds	250,005	—	—
Long-term debt	30,000	25,000	170,000
Lease obligations	(8,962)	(1,040)	16,722
Securities retired and redeemed, including premiums:			
Preferred stock	(300)	(31,400)	(6,000)
Long-term debt	(255,977)	(1,667)	(98,667)
Notes payable	(30,000)	45,000	—
Expenses of issues	(3,752)	(,440)	(4,096)
Dividends			
Preferred stock	(4,887)	(11,597)	(11,485)
Common stock	(32,219)	(32,219)	(32,219)
Net cash provided by (used in) Financing Activities	(34,126)	(17,363)	34,255
Net cash flows from Operating and Financing Activities	42,160	55,890	118,566
Cash Invested in Plant, including nuclear fuel	(64,015)	(77,041)	(83,735)
Cash and Temporary Cash Investments:			
Net change for the period	(21,849)	(21,151)	34,831
Balance at beginning of period	38,767	59,918	25,087
Balance at end of period	$ 16,918	$ 38,767	$ 59,918
Cash paid during the period for:			
Interest (net of amount capitalized)	$ 79,319	$ 50,471	$ 41,260
Income Taxes	$ 16,231	$ 21,715	$ 14,881

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

The accompanying Statement of Accounting Policies and Notes to Consolidated Financial Statements are integral parts of the financial statements.

Consolidated Statement of Retained Earnings

For the Years Ended December 31, 1990, 1989 and 1988

(Thousands of Dollars)	1990	1989	1988
Balance January 1	$ 87,820	$201,571	$166,303
Net Income (Loss)	54,048	(73,550)	78,639
Discount applicable to redemption of preferred stock	148	—	—
Expenses associated with preferred stock redeemed	—	—	(4)
	142,016	128,021	244,938
Deduct Cash Dividends Declared			
Preferred Stock	4,751	7,982	11,348
Common Stock	32,219	32,219	32,219
Total	36,970	40,201	43,567
Balance December 31	$105,046	$ 87,820	$201,571

The accompanying Statement of Accounting Policies and Notes to Consolidated Financial Statements are integral parts of the financial statements.

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).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bridgeport Electric Company (BEC), United Resources Inc., United Energy International, Inc. and Research Center, Inc. Intercompany accounts and transactions have been eliminated in consolidation.

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. 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.

Abandonments and Disallowances of Plant Costs

In 1988, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 90, "Regulated Enterprises — Accounting for Abandonments and Disallowances of Plant Costs", and elected to restate prior periods. SFAS No. 90 requires that, for completed plant facilities, all costs disallowed for ratemaking purposes must be recognized as losses against income as soon as the disallowance becomes probable and can be reasonably estimated. SFAS No. 90 also requires that a loss be recorded for any disallowance of the investment in an abandoned plant facility, and for the disallowance of a return on investment, regardless of the fact that regulators have provided for recovery of the full investment. The loss to be recorded for the disallowance of a return is measured by the difference between the recoverable investment and the present value of such investment. As this difference decreases over the period of recovery of the original investment, the loss is reversed through accretion, which is recognized as income.

Phase-in Plan

In order to ease the impact on rates that may result from the addition to rate base of the cost of major new facilities, such additions may be added to rate base by regulatory authorities gradually via a phase-in plan. The January 24, 1990 decision of the DPUC implementing the Seabrook Settlement Agreement includes a phase-in plan for recovery of the Company's investment in Seabrook Unit 1 that complies with SFAS No. 92. SFAS No. 92, "Regulated Enterprises — Accounting for Phase-in Plans", establishes criteria for a phase-in plan and requires, among other things, that costs deferred for future recovery under a phase-in plan can be capitalized for financial reporting purposes only if the rate regulators allow recovery of these deferred costs within a ten-year period of time, and that the percentage increase in rates scheduled under the plan can be no greater than the percentage increase in rates scheduled under the plan for each preceding year.

Allowance for Funds Used During Construction

In accordance with the applicable regulatory systems of accounts, the Company capitalizes an allowance for funds used during construction (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 semi-annually the allowance applicable to major construction projects.

Prior to 1987, the Company accounted for the portion of the allowance applicable to borrowed funds on a net-of-tax basis for all construction projects because interest charges associated with construction projects were expensed currently for tax purposes. However, effective January 1, 1987, the Tax Reform Act of 1986 has required the capitalization for tax purposes of interest charges associated with construction projects, except for projects such as Seabrook Unit 1 that were begun prior to March 1, 1986. In 1988 and 1989 and for the first five months of 1990, AFUDC for Seabrook Unit 1 was computed on a net-of-tax basis, and AFUDC for all other projects was computed on a before-tax basis. Coincident with the tax in-service date for Seabrook Unit 1 of June 1, 1990, the AFUDC rate for all eligible plant additions has been computed on a before-tax basis.

AFUDC rates in effect during 1988-1990 are shown below:

	Before-Tax Basis	Net-of-Tax Basis
1988	12.7%	10.0%
1989	12.5%	9.5%
1990	11.75%	8.0%

Depreciation

Provisions for depreciation on utility plant for book purposes, excluding costs associated with the 1984 reconversion of BEC's plant to a dual-fired capability, 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. During the years 1985-1989, depreciation associated with BEC's reconversion costs was computed on an annuity basis over the original ten-year period that this plant was being leased to the Company by BEC. Commencing January 1, 1990, the reconversion costs are being depreciated on a straight-line basis over a period ending July 2000. The aggregate annual provisions for depreciation for the years 1988, 1989 and 1990 were equivalent to approximately 2.99%, 4.31%, and 3.06%, respectively, of the original cost of depreciable property, as restated for the effect of SFAS No. 90. The aggregate provision for 1989 includes a one-time increase of $10.2 million in Millstone Unit No. 3 depreciation charges as prescribed in a 1989 DPUC order. This earnings reduction measure was initiated in order to lower the Company's return on Common Stock equity for rate-making purposes without impacting revenues or cash flows. See Note (C), "Rate-related Regulatory Proceedings".

Income Taxes

In accordance with SFAS No. 96, "Accounting for Income Taxes", which was adopted in the first quarter of 1988, 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 principles for regulated industries, the Company has established assets and liabilities that reflect anticipated future ratemaking effects of deferred tax provisions arising from the implementation of SFAS No. 96.

The Company has elected to take investment tax credits (ITC) applicable to long-term construction projects on a progress-of-construction basis, which has accounted for the major portion of the ITC generated. For accounting purposes, the Company practices full normalization for all ITC related to recoverable plant investments except for the ITC related to the recoverable plant investment in Seabrook Unit 1. ITC related to nonrecoverable plant investments, i.e. those investments written off in accordance with the provisions of SFAS No. 90, were taken into income when the related SFAS No. 90 write-offs were recorded.

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.

Sales Adjustment Revenues

The Company's 1990 rate decision granted by the DPUC allows the Company to adjust revenues for deviations (within prescribed limits) from the kilowatt-hour sales levels upon which rates were established. These revenues are accrued in the year in which the deviation occurred and billed to customers in the subsequent year, subject to regulatory approval by the DPUC.

Investments

The Company's investment in the Connecticut Yankee Atomic Power Company joint venture, a nuclear generating company in which the Company has a 9½% stock interest, is accounted for on an equity basis.

Fossil Fuel Costs

The amount of fossil fuel costs that cannot be reflected currently in customers' bills pursuant to the fuel adjustment clause (FCA) in the Company's rates is 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 rate-making treatment of the Company's existing deferred fossil fuel cost balances.

Research and Development Costs

Research and development costs, including environmental studies, are capitalized if related to specific construction projects and depreciated over the lives of the related assets. Other research and development costs are charged to expense as incurred.

Notes to Consolidated Financial Statements

(A) Capitalization at December 31, 1990

	Shares Authorized	Shares Outstanding	Amount ($000's)
Common Stock Equity			
Common stock, no par value at December 31 (a)			
1988	17,500,000	13,887,748	
1989	17,500,000	13,887,748	
1990	30,000,000	13,887,748	$277,968
Capital stock expense			(3,202)
Retained earnings (b)			105,046
Total common stock equity			379,812
Preferred and Preference Stock (c)			
Cumulative preferred stock, $100 par value	1,350,000		
4.35%, Series A		50,000	
4.72%, Series B		75,000	
4.64%, Series C		72,000	
5⅝%, Series D		75,000	
7.60%, Series E		125,000	
7.60%, Series F		150,000	
		547,000	54,700
Cumulative preferred stock, $25 par value 8.80%, 1976 Series	2,400,000	600,000	15,000
Cumulative preference stock, $25 par value	5,000,000	—	—
Total preferred stock not subject to mandatory redemption			69,700
Long-term Debt (d)			
Long-term debentures:			
4¾%, 1991 Series, due July 15, 1991			$ 10,000
10½%, 1995 Series, due October 1, 1995 ($80,400 repurchased in 1990)			69,600
5¾%, 1996 Series, due August 15, 1996			15,000
6%, 1997 Series, due June 15, 1997			22,500
7%, 1999 Series, due January 15, 1999			15,000
10¾%, 2000 Series, due June 15, 2000 ($11,819 repurchased in 1990)			18,181
7¾%, 2002 Series, due October 1, 2002			25,000
8¾%, 2003 Series, due December 15, 2003			30,000
12%, 2017 Series, due August 1, 2017 ($97,922 repurchased in 1990)			2,078
Serial debentures:			
8½%, maturing serially as to $1,667 principal amount on November 15 in each of the years 1991 to 1997, inclusive ($1,667 matured in 1990)			11,666
			219,025
First Mortgage Bonds — Bridgeport Electric Company:			
9.44%, Series B, maturing serially as to $10,800 principal amount on February 15 in each of the years 1995 to 1999			$ 54,000
10.32%, Series C, maturing serially as to $60,000 principal amount on January 15 in each of the years 1993 to 1995			180,000
Other long-term debt:			
Pollution Control Revenue Bonds:			
14⅜%, 1984 Series, due October 1, 2009			40,000
14½%, 1984 Series B, due December 1, 2009			28,400
9½%, 1986 Series, due June 1, 2016			7,500
9⅛%, 1987 Series, due July 1, 2012			25,000
10⅜%, 1987 Series, due November 1, 2012			43,500
8%, 1989 Series A, due December 1, 2014			25,000
Solid Waste Disposal Revenue Bonds:			
Adjustable rate (currently 6.3%), 1990 Series A, due September 1, 2015			30,000
Long-term bank loans:			
12.9% ($20,000) and 13.1% ($20,000), maturing as to $15,000 in 1992, $15,000 in 1993 and $10,000 in 1994			40,000
Obligation under the Seabrook Unit 1 sale/leaseback agreement			250,000
			942,425
Unamortized debt discount less premium at December 31, 1990			(765)
Total long-term debt			941,660
Less current portion included in Current Liabilities (d)			41,667
Total long-term debt included in Capitalization			899,993
Total Capitalization			$1,349,505

(a) Common Stock

At the 1990 Annual Meeting, shareowners approved an increase in the Company's authorized common stock, no par value, from 17,500,000 shares to 30,000,000 shares.

Common stock, no par value, authorized at December 31, 1990, included 400,000 shares reserved for the Company's Employee Stock Ownership Plan (ESOP). There were no additions to ESOP in 1988, 1989 or 1990 since income tax credits allowable for ESOP ended at December 31, 1987. There were no shares of common stock issued in 1988, 1989 or 1990.

The Company purchased on the open market, on behalf of shareholders participating in the Dividend Reinvestment Plan, 192,152 shares in 1988, 150,683 shares in 1989 and 141,486 shares in 1990.

In 1990, the Company's Board of Directors and the shareowners approved a stock option plan for officers and key employees of the Company. This plan is subject to DPUC approval. 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 exercise price of each option cannot be less than the market value of the common stock on the date of the grant. Options to purchase 590,000 shares of common stock at an exercise price of $30.75 per share, 7,000 shares of common stock at an exercise price of $28.31 per share and 3,000 shares of common stock at an exercise price of $31.1875 have been granted by the Board of Directors and remain outstanding at January 31, 1991.

In addition, certain executive officers can earn shares of the Company's common stock, based upon the dividend and market performance of the common stock compared to a peer group of electric utilities over four-year periods, under the Company's long-term incentive program. This plan is also subject to DPUC approval. The total number of shares of common stock that may be earned under the long-term incentive program is limited to 25,214. No shares have been awarded under this program to date. The Board of Directors has voted to phase this program out over the next two-year period.

(b) Retained Earnings Restriction

The indenture under which all of the Company's debentures are issued places limitations on the payment of cash dividends on the common stock of the Company and on the amounts that can be expended to purchase or redeem shares of common stock. An amount equal to the Company's retained earnings at December 31, 1990 can be used for the payment of cash dividends and the purchase or redemption of shares of stock, without exceeding these limitations.

(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 December 1990, the Company purchased and retired 3,000 shares of its $100 par value 4.64% Preferred Stock, Series C, at a discount of approximately $50 per share, resulting in a non-taxable addition to common equity of approximately $148,000.

There are no redemption requirements for preferred stock outstanding at December 31, 1990.

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 some other event of default occurs, preferred shareholders are entitled to elect a majority of the Board of Directors, until all preferred dividend arrears 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 or minimum capital and surplus requirements governing the issuance of preferred stock. There were no shares of preference stock outstanding at December 31, 1990.

(d) Long-Term Debt

On June 28, 1990, the Company borrowed from the Industrial Development Authority of the State of New Hampshire the proceeds of the Authority's issuance of $30 million of tax-exempt adjustable rate Solid Waste Disposal Revenue Bonds, 1990 Series A, due September 1, 2015. For financial reporting purposes, these bonds are classified as a current liability because the investors have the right to elect to have their bonds repurchased semiannually unless the bonds are converted to fixed rate securities. The effective annual interest rate, 5.95% originally, was changed to 6.3% on September 4, 1990, the first such semiannual remarketing date. The net proceeds were used to reimburse the Company for a portion of its share of expenditures, including financing costs, relating to certain solid waste disposal facilities constructed and required for the operation of Seabrook Unit 1.

On August 9, 1990, the Company sold to and leased back from an owner trust established for the benefit of a financial institution a portion of the Company's undivided ownership interest in Seabrook Unit 1, for approximately $250 million. Although the transaction constitutes a sale and leaseback for tax purposes and for purposes of the indenture under which all of the Company's debentures are issued, it is treated as a long-term financing for both financial reporting and ratemaking purposes. The effective annual interest rate on the financing is 8.41%. The

Company used the net proceeds in part to reduce short-term borrowings and to repurchase outstanding debentures. Such repurchases consisted of:

$80,400,000 principal amount of 10½% Debentures, 1993 Series

$11,819,000 principal amount of 10¾% Debentures, 2000 Series

$97,922,000 principal amount of 12% Debentures, 2017 Series

Premiums paid and expenses incurred in connection with these debenture repurchases amounted to approximately $7 million, which amount is being amortized over the 31 year term of the sale/leaseback arrangement.

The Company also used a portion of the remainder of the sale/leaseback transaction proceeds to redeem the $18 million principal amount of its 11% Serial Debentures remaining outstanding on November 15, 1990 after a serial maturity of $2 million on that date.

Maturities and mandatory redemptions/repayments and annual interest expense on existing long-term debt are set forth below:

	1991	1992	1993	1994	1995
			($000's)		
Long-term debt (beginning of period) (1)	$912,425	$893,259	$876,592	$802,425	$735,759
Maturities	10,000	0	0	0	69,600
Mandatory redemptions/repayments	9,166	16,667	74,167	66,666	72,467
Long-term debt (end of period) (1)	$893,259	$876,592	$802,425	$735,759	$593,692
Annual interest associated with existing debt (1) (2)	$ 87,539	$ 86,066	$ 77,454	$ 70,019	$ 55,513
Annual amortization of issuance expense and repurchase premiums associated with existing debt	$ 8,354	$ 8,609	$ 6,676	$ 5,093	$ 3,398

(1) Does not include $30 million of tax-exempt adjustable rate Solid Waste Disposal Revenue Bonds, 1990 Series A, due September 1, 2015, classified on the Company's books as a current liability (interest rate for September 1990-March 1991 is 6.3%.)

(2) Does not include interest on any new financings that may be required to fund maturities, redemptions or plant additions in any given year.

(B) Rate-Related Regulatory Proceedings

On February 22, 1989, the DPUC issued a decision in a proceeding that it commenced on October 11, 1988 to investigate the operational and financial status of the Company. The decision ordered the Company to reduce its 1989 return on equity for rate-making purposes to 16.4%, the level authorized in its then most recent rate case in 1984. Accordingly, in 1989, the Company wrote off a total of $14.8 million, consisting of bond repurchase premiums amounting to $4.6 million, net of related income taxes, and $10.2 million of additional depreciation charges related to Millstone Unit 3. In its decision, the DPUC stated that it continues to be sensitive to the need to maintain the Company's financial integrity and therefore had approved earnings reduction measures that did not affect revenues or current cash flows.

In a decision dated January 24, 1990, the DPUC granted base rate increases of 3.72%, 2.69% and 2.53% for the years 1990, 1991 and 1992, respectively. These rate increases, which are effective January 1 of each year, were designed to raise revenues by $22.1 million in 1990, $16.9 million in 1991 and $16.7 million in 1992. The rate decision was based on a July 6, 1989 agreement (the Seabrook Settlement Agreement) among the Company and the "Connecticut Public Parties" (consisting of the Connecticut Office of Consumer Counsel, the Connecticut Attorney General and the Prosecutorial Division of the DPUC), which the DPUC approved on August 23, 1989.

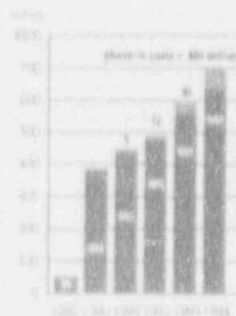
The Seabrook Settlement Agreement, in addition to determining the rate treatment of the Company's 17.5% ownership in the Seabrook project, also settled many pending Seabrook-related issues, including: termination of the DPUC's prudence audit of the planning and construction of Seabrook Units 1 and 2, the Company's then-pending application to increase its rates by approximately 9.3% in 1990 by phasing $832 million of its investment in Seabrook Unit 1 into rate base over four years, the Connecticut statutory issues relative to an appropriate phase-in period for Seabrook Unit 1, the Company's having excess generating capacity, and the exclusion from rates of revenues equal to Seabrook Unit 1 Construction Work in Prog-

rent revenues collected by the Company after 1983. This agreement also resolved DPUC accounting and tax issues with respect to Seabrook Unit 1 and terminated several DPUC directives in other proceedings and all of the lawsuits pending in the Connecticut Superior Court among the parties and the DPUC. It stipulated that the Company would receive base rate increases to customers totalling between 6% and 11% over the three-year period 1990 through 1992, with the DPUC subsequently determining the actual rate increase for each year, taking into account the appropriate level of financial health for the Company and the effect of the increases on the Company's customers and shareholders. Under the agreement, the amount of the Company's Seabrook Unit 1 investment that can be recovered through customer rates has been limited to $640 million, phased into rate base over a five-year period that began in 1990. The agreement further provides that the Company's rate-making rate of return on Common Stock equity (ROE) during the three years 1990-1992 will be limited to a ceiling of 13.9%, with a floor of 9%, calculated as if the Company's ratio of Common Stock equity capitalization to total capitalization was 40%. If the actual ROE exceeds 13.9%, the amount of earnings in excess of the ceiling will be applied against deferred revenues related to the Seabrook Unit 1 phase-in. The Company may request additional rate relief if the ROE falls below 9% on a projected basis.

The rate increases granted by the DPUC's January 24, 1990 decision were computed using a 12.9% ROE based on the Company's projected Common Stock equity capitalization ratios of 29.0% for 1990, 30.5% for 1991 and 32.0% for 1992. However, as stated above, the Company is authorized to earn a higher ROE in accordance with the Seabrook Settlement Agreement. The decision also provides, among other things, for phasing the Company's recoverable Seabrook investment into rate base over a 5-year period commencing January 1, 1990, for recovery of deferred phase-in costs during the subsequent 5-year period consistent with SFAS No. 92 criteria, for rate design changes to encourage energy conservation, and for a sales provision adjustment (SPA) designed to compensate for deviations from forecast sales levels, within prescribed limits, and subject to DPUC approval. The decision permits the Company to retain the benefits of wholesale power sales above prescribed levels, expense reductions, property sales and improved nuclear performance, and allows the Company to capitalize conservation projects. These capitalized conservation investments net of amortization (aggregating approximately $30 million over the 1990-1992 period) will be allowed to earn a premium return of up to 3% over the Company's weighted cost of capital.

The SPA of the rate decision allows the Company to increase base revenues up to an additional 1.5% in 1990, .94% in 1991 and .94% in 1992 if certain sales levels were not achieved. The sales levels were not achieved in 1990 and are unlikely to be achieved in 1991 and 1992. Therefore, in accordance with the SPA, the Company has received DPUC approval to bill to customers in 1991 approximately $8.2 million (equivalent to a 1.39% base rate increase) in revenues that were accrued during 1990. For billing purposes, the SPA has been incorporated into the Company's Fossil Fuel Adjustment Clause.

(C) Accounting For Phase-In Plan



The Company is phasing into rate base its allowable investment in Seabrook Unit 1, amounting to $640 million. The phase-in plan allows the Company to record a deferred return on the portion of allowable investment excluded from rate base during the phase-in period. At December 31, 1989, the Company's rate base included $48 million of its allowable investment in Seabrook Unit 1. In accordance with the phase-in plan, commencing January 1, 1990, the Company began phasing in the balance of its allowable investment over a five-year period. Commencing January 1, 1991, the deferred return will be added to rate base at the beginning of each year over a four-year period in the same proportion as the phase-in installment for that year bears to the remainder of the $640 million yet to be phased in. This phase-in plan, which was approved by the DPUC in a January 24, 1990 rate decision that granted the Company base rate increases for 1990, 1991 and 1992, is in compliance with SFAS No. 92, "Regulated Enterprises — Accounting for Phase-in Plans." The rate decision allows the Company to phase-in $480 million, or 75% of its allowable investment, plus a portion of the deferred return that will be accumulated during 1990 and 1991 into rate base by January 1, 1992. The remaining $160 million of allowable investment plus the remaining accumulated deferred return will be phased into rate base in approximately equal amounts on January 1, 1993 and January 1, 1994. The Company will be allowed to recover the deferred return over a five-year period commencing January 1, 1995. During 1990, the Company recorded a deferred return related to Seabrook Unit 1 of $21.5 million.

(D) Income Taxes

Income tax expense consists of	1990	1989	1988
Operating expenses:		($000's)	
Current	$39,337	$ 25,681	$22,313
Deferred:			
Accelerated depreciation	13,524	5,025	5,308
Deferred fossil fuel costs	5,851	(208)	(20)
Premiums on 1990 debenture redemptions	3,361	—	—
Construction overheads	1,594	(994)	1,609
Pension costs	(646)	(441)	(665)
Investment tax credits — amortization	(761)	(1,029)	(1,029)
Premium on BEC bond redemption	(3,209)	(7,402)	(3,306)
Cancelled nuclear projects	(3,795)	(3,795)	(6,359)
Seabrook sale/leaseback transaction	(11,932)	—	—
Income tax attributable to the allowance for borrowed funds	—	19,604	19,082
Alternative minimum tax	—	4,535	6,913
Gain on sale of utility plant	—	(520)	—
Other — net	209	(2,493)	199
Total deferred	4,156	12,282	21,732
Total operating income tax expense	43,493	37,963	44,045
Other income and deductions:			
Current	(27,999)	(17,422)	(1,408)
Deferred:			
Investment tax credits	(1,129)	(21,729)	—
Other-net	9,974	(757)	122
Total other income and deductions	(19,154)	(39,908)	(1,286)
SFAS No. 90 write-offs:			
Plant abandonment	1,745	1,466	1,838
Construction overheads	—	(1,013)	(647)
Investment tax credits	—	(7,594)	(1,800)
Plant disallowances	—	(54,086)	(12,653)
Total SFAS No. 90 write-offs	1,745	(61,227)	(13,262)
Total income tax expense	$26,084	$(63,172)	$29,497

Accumulated deferred income tax assets at December 31:	1990	1989	1988
		($000's)	
Plant disallowances	$113,282	$123,087	$ 69,563
SFAS No. 96 adjustments	32,420	33,139	37,643
Seabrook sale/leaseback transactions	11,932	—	—
Pension costs	4,706	4,060	3,619
Plant abandonment	2,635	4,003	5,613
Deferred fossil fuel costs	—	4,520	4,312
Gain on sale of utility plant	—	1,637	1,117
Other	12,485	6,375	3,900
	$177,480	$176,821	$145,771
Accumulated deferred income tax liabilities at December 31:			
SFAS No. 96 adjustments	$418,475	$395,056	$441,904
Accelerated depreciation	45,420	31,951	26,981
Cancelled Seabrook Unit 2	20,318	21,742	25,537
Unamortized debt redemption costs	15,579	15,427	23,240
Construction overheads	10,936	10,417	12,424
Deferred fossil fuel costs	4,311	—	—
Alternative minimum tax carryforward	—	—	(3,757)
Other	3,901	—	—
	$515,960	$474,593	$526,329
Accumulated deferred investment tax credits	$ 21,012	$ 21,773	$ 52,125

In accordance with SFAS No. 96, the Company has also recorded Unfunded Deferred Income Tax regulatory assets and liabilities as shown in the Consolidated Balance Sheet.

The amounts reported for federal income tax expense for the years 1990, 1989 and 1988 differed from the amounts computed by applying the federal income tax statutory rates to book income before federal income taxes. The reasons for such differences are as follows:

	1990	1989	1988
		($000's)	
Net income	$ 54,048	$ (73,350)	$ 78,639
Total income tax expense	26,084	(63,172)	29,497
Less state income tax expense	9,037	(12,284)	9,325
Federal income tax expense	17,047	(50,888)	20,172
Book income before federal income taxes	71,095	(124,238)	98,811
Federal income tax statutory rates	34%	34%	34%
Federal income tax at statutory rate	24,172	(42,240)	33,596
Effect on taxes of:			
Deferred return — Seabrook Unit 1	(7,311)	—	—
Investment tax credits taken into income	(1,890)	(30,352)	(2,829)
Allowance for equity funds used during construction capitalized for book purposes, not taxable income	(309)	(13,249)	(16,526)
Application of SFAS No. 90 — book/tax basis differentials	—	32,304	6,318
Book depreciation in excess of non-normalized tax depreciation	4,296	3,963	84
Other items — net	(1,955)	(1,314)	(471)
Federal income tax expense	$ 17,047	$ (50,888)	$ 20,172
Effective federal income tax rates	24.0%	40.9%	20.4%

During 1990, 1989, and 1988, the following amounts of investment tax credits were taken into income:

	1990	1989	1988
		($000's)	
Seabrook			
Recoverable plant investment	$(1,129)	$(21,729)	$ —
Nonrecoverable plant investment	—	(7,594)	(1,800)
Amortization of deferred investment tax credits applicable to non-Seabrook plant additions	(761)	(1,029)	(1,029)
Total	$(1,890)	$(30,352)	$(2,829)

The Tax Reform Act of 1986 provides for a more comprehensive corporate alternative minimum tax (AMT) for years beginning after 1986. To the extent that the AMT exceeds the federal income tax computed at statutory rates, the excess must be paid in addition to the regular tax liability. For tax purposes, the excess paid in any year can be carried forward indefinitely and offset against any future year's regular tax liability in excess of that year's tentative AMT. Since the Company's regular tax liability exceeded its tentative AMT liability by $6.9 million in 1988, the Company's tax payments for that year were reduced accordingly and the AMT carryforward, $10.7 million at December 31, 1987, was reduced to $3.8 million at December 31, 1988. During 1989, the Company's regular tax liability exceeded its tentative AMT liability by an amount greater than $3.8 million. During 1990, the Company's regular tax liability exceeded its tentative AMT liability. As a result, there was no AMT being carried forward at December 31, 1989 and 1990.

(E) Short-Term Credit Arrangements

The Company has had a revolving credit agreement with a group of banks since 1984. On October 1, 1990, the Company repaid the entire $44 million borrowings outstanding under this agreement and did not seek extension of the agreement beyond its scheduled October 30, 1990 expiration date.

Effective February 5, 1991, the Company entered into a new revolving credit agreement with a group of banks. The borrowing limit of this facility, which currently extends to January 31, 1992 is $75 million. The agreement affords the banks an opportunity to decline to lend funds in the event of a material adverse change in the business, operations, affairs, assets or condition, financial or otherwise, or prospects of UI and its subsidiaries on a consolidated basis.

In 1988, the Company entered into a revolving credit agreement with the same financial institution with which it has a sale and leaseback arrangement for nuclear fuel and a fossil fuel reserve and supply agreement. See Note (I), "Fuel Financing Obligations and Other Lease Obligations". This revolving credit agreement enables the Company to borrow up to $75 million, until August 31, 1991, for general corporate purposes and within an aggregate $165 million limit for all outstanding financing obligations to the financial institution. The financial institution may decline to lend funds under the revolving

credit agreement if any one of several conditions is not satisfied at the time of a requested borrowing. As of December 31, 1990, there were $15 million of borrowings outstanding under this agreement.

Information with respect to short-term borrowings is as follows:

	1990	1989	1988
		($000's)	
Maximum aggregate principal amount of short-term borrowings outstanding at any month-end	$142,740	$70,000	—
Average aggregate short-term borrowings outstanding during the year*	63,665	26,068	—
Weighted average interest rate*	10.1%	10.5%	—
Principal amounts outstanding at year-end	$ 15,000	$45,000	—
Annualized interest rate on principal amounts outstanding at year-end	9.9%	10.4%	

*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 $716,000, $700,000 and $830,000 paid during 1990, 1989 and 1988, respectively, are excluded from the calculation of the weighted average interest rate.

(F) Supplementary Information

The amount of maintenance, advertising costs, and the provisions for depreciation and amortization, other than set forth in the Consolidated Statement of Income, are not significant, and there are no royalties.

Taxes, other than income taxes charged to costs and expenses, are set forth below:

	1990	1989	1988
		($000's)	
State gross earnings	$25,595	$24,508	$23,950
Local real estate and personal property	19,754	15,706	20,226
Other, principally payroll	5,572	4,830	6,123
	$50,921	$45,044	$50,299
Charged to:			
Tax expense	$50,243	$44,800	$45,643
Other accounts	678	244	4,656
	$50,921	$45,044	$50,299

(G) Pension and Other Retirement Benefits

The Company's qualified pension plan, which is based on the highest consecutive 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. The net pension costs for these plans for 1988, 1989 and 1990 were $1,309,000, $2,030,000 and $1,498,000, respectively.

The Company's funding policy for the qualified plan is to contribute each year the net periodic pension cost for that year. However, the contribution for any year will not be less than the minimum required contribution under federal law or greater than the maximum tax deductible amount. Due to the experience of the fund, the Company has not been required to make a contribution since 1985. The supplemental plan is unfunded.

The qualified plan's irrevocable trust fund consists principally of equity and fixed-income securities and real estate investments in approximately the following percentages:

Asset Category	Percentage of Total Fund
Equity Securities	60
Fixed-income Securities	30
Real Estate	10

	1990	1989
	($000's)	
The components of net pension costs were as follows:		
Service cost of benefits earned during the period	$ 4,051	$ 3,583
Interest cost on projected benefit obligation	10,119	9,537
Actual return on plan assets	[illegible]	(18,445)
Net amortization and deferral	(17,228)	7,355
Net pension cost	$ 1,498	$ 2,030
Assumptions used to determine pension costs were:		
Discount rate	7.25%	7.25%
Average wage increase	5.50%	6.00%
Expected long-term rate of plan assets	8.50%	8.00%

	December 31, 1990		December 31, 1989	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
	($000's)			
The funded status and amounts recognized in balance sheets are as follows:				
Actuarial present value of benefit obligations:				
Vested benefit obligation	$ 83,341	$ 405	$ 83,375	$ 334
Accumulated benefit obligation	83,628	405	83,425	334
Reconciliation of accrued pension liability:				
Projected benefit obligation	$124,204	$ 900	$137,432	$ 797
Less fair value of plan assets	132,186	0	142,653	0
Projected benefit (greater) less than plan assets	(7,982)	900	(5,221)	797
Unrecognized prior service cost	(4,821)	0	(4,942)	0
Unrecognized net gain (loss) from past experience	7,004	(78)	1,940	(121)
Unrecognized net asset obligation at date of initial application	16,201	(306)	17,309	(343)
Accrued pension liability	$ 10,402	$ 515	$ 9,086	$ 333

During 1990, the Company developed an early retirement incentive program for non-union employees who were pension eligible. Acceptance of this program, which is strictly voluntary on the part of the employee, is limited to individuals whose retirement would result in a reduction of the work force and lower personnel costs. 1990 pension costs for this program, which is unfunded, amounted to $530,000.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees become eligible for these benefits when they reach retirement age while working for the Company. These and similar benefits for active employees are provided through insurance companies and health maintenance organizations whose premiums and membership fees are based on the benefits provided and the claims experienced during the immediately preceding rating year. The Company recognizes the cost of providing these benefits to retired and active employees on a pay-as-you-go basis by expensing the annual insurance premiums, which were $5.1 million, $6.5 million and $9.3 million for the years 1988, 1989 and 1990, respectively. At December 31, 1990, the Company was providing these benefits for 1,587 active employees and approximately 558 retirees or their beneficiaries. The cost of providing these benefits for retirees is not now readily separable from the cost of providing benefits for active employees.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions". This Statement, which must be adopted by 1993, requires, among other things, that the liability for such benefits must be accrued over the period commencing with an employees' date of hire until the date that the employee is eligible to collect benefits. The costs of these benefits are currently expensed on a pay-as-you-go basis. The impact of this new standard has not been fully determined, but the change likely will result in significantly greater expense being recognized for provision of these benefits. The Company's present expectations are that the increased benefits expense will either be recovered currently through rates or that a regulatory asset will be recorded to reflect amounts to be recovered through rates in the future as the costs are paid and that this Statement should not have a significant impact on the Company's financial position or results of operations.

(H) Jointly Owned Plant

At December 31, 1990, the Company had the following interests in jointly owned plants:

	Ownership/ Leasehold Share%	Plant In Service	Accumulated Depreciation
		(Millions)	
Seabrook Unit 1	17.5	$640	$ 9
Millstone Unit 3	3.685	134	44
New Haven Harbor Station	93.7	129	59

The accumulated provision for depreciation for Millstone Unit 3 includes one-time increases of $12.5 million and $10.2 million recorded in 1987 and 1989, respectively, as provided in DPUC-approved stipulated earnings agreements in 1987 and a 1989 DPUC order. 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.

(I) Unamortized Cancelled Nuclear Project

Since the Company has not been allowed a return on the Seabrook Unit 2 investment that it is recovering through rates, it recorded, in the first quarter of 1988, a non-cash write-off of approximately $10 million, net of related income tax effects, by restating the financial results for the years 1984 through 1987.

In August 1989 the Company recorded additional non-cash write-offs of approximately $2.6 million, net of related income tax effects, to recognize the probable disallowance of a return on additional costs associated with Seabrook Unit 2 for which recovery has not yet been approved. See Statement of Accounting Policies – "Accounting for Abandonments and Disallowances of Plant Costs".

(J) Fuel Financing Obligations and Other Lease Obligations

The Company has sale and leaseback arrangements with a financial institution providing for nuclear fuel financing up to $70 million for Seabrook Unit 1 and up to $10 million for Millstone Unit 3. Under these arrangements, the Company is paying rent for the fuel based on the direct costs to the lessor of the fuel, plus the lessor's financing costs. At December 31, 1990, approximately $64 million of nuclear fuel was being financed under these agreements.

The Company also has a fuel reserve and supply agreement with the same financial institution providing for the financing of up to $165 million in fossil fuel purchases, less the amount of the Company's outstanding obligations to the same financial institution for nuclear fuel and other corporate purposes. This agreement will expire on September 30, 1991. See Note (E), "Short-Term Credit Arrangements." At December 31, 1990, approximately $34 million of fossil fuel purchases were being financed under this agreement.

In addition to the nuclear fuel leases described above, the Company has entered into other leases (some of which are capital leases), including arrangements for the use of data processing and office equipment, vehicles, office space and oil tanks. The gross amount of assets recorded under capital leases and the related obligations of those leases as of December 31, 1990 are recorded on the balance sheet.

Future minimum lease payments under capital leases, that do not include the Seabrook lease which is being treated as a long-term financing, are estimated to be as follows:

Next five years	($000's)
1991	$ 6,423
1992	5,528
1993	5,434
1994	5,703
1995	5,665
After 1995	67,198
Total minimum capital lease payments	95,951
Less: Amount representing interest	63,083
Present value of minimum capital lease payments	32,868
Present value of future nuclear fuel lease payments	67,987
Total lease obligations	$100,855

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 rate-making purposes.

Rental payments charged to operating expenses in 1988, 1989 and 1990 amounted to $12.8 million, $13.8 million and $14.8 million, respectively.

Operating leases, which are charged to operating expense, consist of a large number of small, relatively short-term, renewable agreements for a wide variety of equipment.

(K) Commitments and Contingencies

Construction Program

The Company has entered into commitments in connection with its continuing construction program, which is presently estimated at approximately $378 million, excluding AFUDC and leased nuclear fuel costs, for 1991 through 1995. While this program was dominated by costs related to the construction of Seabrook Unit 1 prior to 1990, the above estimate includes only $17.7 million of costs related to new construction commencing after January 1, 1991 for this unit.

Seabrook Unit 1

Financial Concerns

After experiencing increasing financial stress beginning in May 1987, Public Service Company of New Hampshire (PSNH), which holds the largest ownership share (35.6%) in the Seabrook project, commenced a proceeding under Chapter 11 of the Bankruptcy Code on January 28, 1988. Under this statute, PSNH is continuing its operations while seeking a financial reorganization. In 1989, several competing reorganization plans for PSNH were filed with the bankruptcy court, including plans submitted by UI, by PSNH and by Northeast Utilities (NU). The NU reorganization plan received requisite approval from the affected PSNH shareholders and creditors and was confirmed by the bankruptcy court on April 20, 1990, and on July 20, 1990, the New Hampshire Public Utilities Commission approved an agreement between NU and the State of New Hampshire relative to future PSNH electric rates. However, the NU plan faces substantial opposition in proceedings before the Federal Energy Regulatory Commission, and a Securities and Exchange Commission order approving the plan is being challenged in court proceedings; and there is no assurance that all regulatory approvals of the NU plan will be obtained or that the plan will be implemented. Consequently, although it now appears likely that PSNH will be successfully reorganized under the Bankruptcy Code, the outcome of bankruptcy proceedings is unpredictable and the Company is unable to predict what impact, if any, these proceedings will have on the Company's financial condition.

A Vermont participant in the Seabrook project, Vermont Electric Generation and Transmission Cooperative, Inc. (Vt Coop), which holds a 0.4% ownership share, has failed to make construction and operating funding payments due since January 1986. Although Vt Coop resumed partial payment of its share of operating funding payments as of July 1, 1990, it continues to be in default under the joint ownership agreement for the Seabrook project. The deficiency in project funding on account of Vt Coop's default has been and is being made up by advances by the Company and some of the other participants or their affiliates. The Company's share of advances on account of these delinquencies amounted to approximately $1.2 million at December 31, 1990. PSNH has agreed to purchase Vt Coop's ownership share as soon as possible after the effective date of the NU reorganization plan in PSNH's bankruptcy proceedings; and Vt Coop has stated that it intends to use a portion of the sale proceeds to remedy its Seabrook project delinquencies. The joint ownership agreement for the Seabrook project provides that, in addition to the sanctions specified therein for default by a participant, the other participants may invoke against the defaulting participant any other appropriate legal and equitable remedies; and the Company and other Seabrook participants are considering what course of action to pursue against Vt Coop on account of its default if the delinquencies are not remedied.

Licensing Proceedings

Nuclear generating units are subject to the licensing requirements of the Nuclear Regulatory Commission (NRC) under the Atomic Energy Act of 1954, as amended, and a variety of other state and federal requirements. It has been the experience of the electric utility industry that the construction and initial operation of these units are subject to increasingly stringent licensing requirements that, with other factors, have tended to increase the costs of the units and to delay their completion dates, in some instances precipitating cancellations of projects after the expenditure of large amounts of money.

The licensing of Seabrook Unit 1 was plagued by lengthy delays and continues to be opposed by a number of intervening groups who have participated actively in administrative proceedings, filed numerous lawsuits and demonstrated at the construction site. On October 17, 1986, the NRC issued a full 40 year operating license for Unit 1, permitting fuel loading. However, this license was subject to several conditions that had to be satisfied to permit an orderly progression from fuel loading, which was completed on October 29, 1986, through low power testing, which was conducted during May

and June of 1989, and finally to full power operation. On March 15, 1990, the NRC determined that these conditions had been met and accordingly authorized full-power operation of the unit. After successfully completing an extensive pre-operational testing program, Unit 1 achieved commercial operation status on June 30, 1990 and full-power operation on July 25, 1990. Intervenors in the NRC licensing proceeding appealed to the United States Courts of Appeals for the District of Columbia, which has upheld the NRC's March 15, 1990 decision. Although the court has remanded one low-power licensing issue to the NRC for further consideration, it seems likely that this issue has been rendered moot by later events. However, intervenors continue to pursue appeals within the NRC from decisions made by its licensing boards and to file motions seeking revocation, or suspension, of the full-power operating license for Unit 1; and NRC proceedings and investigations prompted by these appeals and motions, by inquiries from Congressmen, and by NRC licensing board consideration of technical contentions are expected to continue for some period of time into the future.

Regulatory proceedings with respect to the transfer of responsibility for management of further construction work and for operation of Seabrook Unit 1 to New Hampshire Yankee Electric Corporation (NHYEC), an entity created by the Seabrook joint owners for those express purposes, are pending before the Massachusetts Department of Public Utilities. Approval of this transfer by the NRC will also be required. In the PSNH bankruptcy proceeding described at "Financing Concerns" above, the pending reorganization plan proposes the transfer of responsibility for management and operation of Seabrook Unit 1 to a new subsidiary of NU rather than to NHYEC; and the Company and several other joint owners of the unit have agreed to support this plan.

Nuclear Insurance Contingencies

The Price Anderson Act limits public liability for injuries and damage resulting from a single incident at a nuclear power plant. The first $200 million of this liability is to be funded by purchasing the maximum amount of commercially available insurance. Additional funding is to be provided by an assessment of $63 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 arising from any nuclear incident exceeds the maximum funded amount of financial protection, each reactor operator can be assessed an additional 5% of $63 million or $3.2 million. The maximum assessment is adjusted at least every five years to reflect the impact of inflation. Based on its current interests in nuclear units, the Company estimates its maximum liability would be $20.3 million per incident. However, assessments would be limited to $3.1 million per incident, per year. With respect to each of the operating 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.

The NRC requires nuclear generating units 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 nuclear generating units in which the Company has an ownership interest, the Company is required to pay its ownership share of the cost of purchasing such insurance.

Other Commitments and Contingencies

The Company has a 9.5% common stock ownership share in Connecticut Yankee Atomic Power Company (Connecticut Yankee), which owns and operates a nuclear electric generating station in Haddam Neck, Connecticut. Connecticut Yankee has been engaged in a construction program that is essential to maintain its station as a dependable source of low-cost electric power in New England. As a condition of the debt financing arrangements for this construction program, the lenders have from time to time required guarantees from the share owners of Connecticut Yankee. In this regard, the Company is obligated to furnish 9.5% of Connecticut Yankee's capital requirements within specified limits. Currently, the Company's guarantee liability for its share of Connecticut Yankee's long-term debt issues amounts to approximately $1.5 million.

The Company claimed abandonment losses for tax purposes with respect to Seabrook Unit 2 of approximately $72.7 million in 1984 and $10.2 million in 1986. During 1988, the Internal Revenue Service (IRS) commenced an examination of the Seabrook project expenditures on Seabrook Unit 2 that were claimed as abandonment losses by several of the joint owners of the project, including the Company, in the years 1984 and/or 1985. On March 20, 1989, the IRS case manager issued a notice of proposed adjustment setting forth the IRS position that there was no abandonment of Seabrook Unit 2 in the years under audit. It also stated the IRS position that, in the event new facts and circumstances beyond the examination level reveal that an abandonment loss did occur in 1984 and/or 1985, the claimed losses must be reduced by the salvage value of Seabrook Unit 2 assets. In a letter dated July 17, 1989, the IRS District Director notified the Company of proposed tax assessments for the years 1981, 1984 and 1985 arising from a disallowance of the abandonment loss deduction claimed by the Company in 1984. The Company responded to this notice, disagreeing with the proposed assessments and requesting a conference with the IRS appellate division. Such a conference was held and, in a letter dated June 26, 1990, the IRS Hartford Appeals Office notified the Company that a mutually satisfactory resolution of this matter cannot be reached at the appellate division level. Accordingly, on September 19, 1990, the Company filed a petition with the United States Tax Court for a redetermination of these assessments and the Company expects to contest these assessments vigorously in Tax Court proceedings. If the IRS should prevail, the Company would seek to recover the additional assessments through rates charged to its retail customers, but there can be no assurance as to whether or to what extent the DPUC would grant such recovery.

The Company is a participant in the Hydro-Quebec Phase II project, an extension of the Phase I facilities, that will increase the capacity of this transmission intertie linking New England and Quebec, Canada, from 690 megawatts to a maximum of 2000 megawatts. The Phase II facilities were placed in commercial operation on November 1, 1990, at a maximum capacity of 1200 megawatts, pending the completion of transmission system modifications in Quebec that will permit operation of the facilities up to full design capacity. Such operation is expected by mid-1991. A ten-year Firm Energy Contract, which provides for the sale by Hydro-Quebec to the New England participants in the Phase II project of 7 million megawatthours per year, will not become effective until the facilities are operable at full design capacity. An interim agreement provides for energy deliveries using Phase II at its current capacity level. Although energy pricing formulas in the interim agreement and in the Firm Energy Contract should produce energy cost savings for the New England project participants, the monthly project facilities financial support payments that began with the November 1 commercial operation are expected to exceed the savings amounts until some time after the Firm Energy Contract becomes effective. The Company has a 5.45% participating share in the Phase II project, and its corresponding share of the support charges will be approximately $500,000 per month, in addition to payments of approximately $60,000 per month that are already being made in support of related transmission system reinforcements that were placed in service in late 1989.

In complying with existing environmental statutes and regulations and further developments in these and other areas of environmental concern, including legislation at federal and state levels in the fields of water and air quality (particularly "acid rain", "air toxics", "ozone non-attainment", and "global warming"), hazardous waste handling and disposal, toxic substances and electro-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. However, the Company believes that any additional costs incurred for these purposes will be recoverable through the ratemaking process. The total amount of these expenditures is not now determinable.

In 1986, the Company converted its New Haven Harbor Station to a dual-fuel capability of natural gas and oil. Under an agreement with Tenngasco, a division of Tenneco, the Company is obligated to burn approximately six billion cubic feet of gas per year, during the non-heating months and when offered by Tenngasco at a price that is competitive with oil. This agreement extends to January 1, 2001. If UI should elect to terminate its gas purchase agreement with Tenngasco, termination fees of up to $7.4 million could be incurred.

(L) Nuclear Fuel Disposal and Nuclear Plant Decommissioning

Under the Nuclear Waste Policy Act of 1982, the federal government is responsible for the disposal of spent nuclear fuel. The Department of Energy has established disposal fees that are being paid to the federal government on the basis of net generation by electric utilities owning or operating nuclear generating units. UI recovers such fees as a part of nuclear fuel expense charged to customers through electric service rates.

In return for payment of prescribed fees, the federal government is to take title to and dispose of the utilities' high level wastes and spent nuclear fuel beginning no later than 1998. However, the DOE has announced that its first high level waste repository will not be in operation earlier than 2010, 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.

Until the federal government begins receiving such materials in accordance with the Nuclear Waste Policy Act, operating nuclear generating units will need to retain high level wastes and spent fuel on-site or make other provisions for their storage. Storage facilities for Millstone Unit 3 are expected to be adequate for the projected life of the unit. Storage facilities for the Connecticut Yankee unit are expected to be adequate through the mid-1990s. Storage facilities for Seabrook Unit 1 are expected to be adequate until at least 2010. However, fuel consolidation and compaction technologies are being developed and are expected to provide adequate storage capability for the projected lives of the Connecticut Yankee Unit and Seabrook Unit 1.

The Company is also recovering through electric service rates its share of the estimated decommissioning costs for Seabrook Unit 1 and Millstone Unit 3. In January 1989, the New Hampshire Nuclear Decommissioning Financing Committee established the cost of decommissioning Seabrook Unit 1 upon its retirement at $242.4 million (in 1987 dollars). This amount was increased each year after 1987 by a 4% annual inflation factor until Seabrook Unit 1 began commercial operation. Commencing with commercial operation of Seabrook Unit 1, the Company has been required to make monthly payments of its share of the estimated decommissioning costs into a trust fund that is being managed by the State of New Hampshire. The DPUC has established a decommissioning estimate of $194 million for Millstone Unit 3 (in 1987 dollars), and the Company is currently funding its share of such estimated decommissioning costs monthly. Although such amounts will be reviewed and revised from time to time during the life of the units, there is no guarantee that such funding will be sufficient to cover actual decommissioning costs upon retirement.

(M) Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 1990 and 1989 are set forth below:

Quarter	Operating Revenues (1)	Operating Income	Net Income (Loss)	Earnings (Loss) Per Share of Common Stock (2)(3)
		($000's)		
1990				
First	$145,648	$22,751	$ 9,218	$ .58
Second	133,241	19,289	9,483	.60
Third	162,087	33,312	23,505	1.59
Fourth	152,687	23,209	11,742	.78
1989				
First	$135,714	$32,228	$ 9,737	$ .50
Second	134,625	18,366	690	(.15)
Third	155,216	26,914	(90,773)	(6.64)
Fourth	138,822	16,281	6,996	.42(4)

(1) Wholesale power sales, formerly recorded as reductions in Operating Expenses, have been reclassified as Operating Revenues in accordance with FERC requirements.

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

(3) Earnings per share for 1990 and 1989 include the net effects of SFAS No. 90 write-offs and accretion transactions in the following amounts for the first through fourth quarters, respectively:

1990	$ .04	$ .04	$ .04	$.04
1989	$(1.12)	$(1.20)	$(8.77)	$.13

(4) Earnings for the fourth quarter of 1989 include one-time expenses associated with replacing defective siding at a generating station, costs in connection with the effort to affiliate with PSNH through its bankruptcy reorganization proceedings and storm costs. Also included are costs associated with an extended maintenance outage of the Connecticut Yankee power plant and substantially lower AFUDC due to SFAS No. 90 write-offs in 1989. The aggregate reduction due to these factors was approximately $.85 per share.

Market for the Company's Common Equity and Related Stockholder Matters

UI's Common Stock is traded on the New York Stock Exchange, where the high and low sale prices during 1990 and 1989 were as follows:

	1990 Sale Price		1989 Sale Price	
	High	Low	High	Low
First Quarter	34⅛	28⅝	25⅜	24⅛
Second Quarter	30⅞	27⅝	27⅛	26⅝
Third Quarter	29¾	26⅜	29⅞	28⅜
Fourth Quarter	31½	28⅜	34⅛	30

UI has paid quarterly dividends on its Common Stock since 1900. The quarterly dividends declared in 1989 and 1990 were at a rate of 58 cents per share.

The Trust Indenture under which all of the Company's Debentures are issued places limitations on the payment of cash dividends on the Common Stock of the Company and on the amounts that can be expended to purchase or redeem shares of Common Stock. However, all the Company's retained earnings at December 31, 1990 were free of such limitations.

As of January 31, 1991, there were 23,516 Common Stock shareowners of record.

To the Shareowners and Directors of
The United Illuminating Company:

We have audited the accompanying consolidated balance sheets of The United Illuminating Company as of December 31, 1990, 1989 and 1988, and related consolidated statements of income, retained earnings and cash flows for the years then ended. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The United Illuminating Company as of December 31, 1990, 1989 and 1988, and the consolidated results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand

Hartford, Connecticut
January 28, 1991

Investor Relations

Kurt M[illegible]mann
Director, Financial Planning and
Investor Relations
United Illuminating
P.O. [illegible]ox 1564
New [illegible]aven, CT 06506
Telephone: (203) 787-7586

Stock Listing

New York Stock Exchange
Common Stock
8.80% Preferred Stock, 1976 Series

General Counsel

Wiggin & Dana

Independent Accountants

Coopers & Lybrand

Annual Meeting Date:

The Company's Annual Meeting will be held at the New Haven Lawn Club, 193 Whitney Avenue, New Haven, CT on Wednesday, May 22, 1991 beginning at 10:00 a.m.

Shareowner Services

Judith Stockiewicz
Supervisor, Shareowner Services
United Illuminating
P.O. Box 1564
New Haven, CT 06506
Telephone: (203) 777-70[illegible]

Co-Transfer and Dividend Disbursing Agent:

The United Illuminating Company
80 Temple Street
P.O. Box 1948
New Haven, CT 06506-19[illegible]8
Attention: Shareowner [illegible]ices
Telephone: (203) 777-7050

Registrar and Co-Transfer Agent:

Continental Stock Transfer & Trust Company
2 Broadway
New York, NY 10004
Attention: Stock Transfer Dept.
Telephone: (212) 509-4000

Dividend Reinvestment Plan

Common Stock shareowners of record interested in obtaining information regarding the benefits of participating in UI's div[illegible]end reinvestment plan may write or call:
Mary Ellen Manchey
Corporate Secretary
United Illuminating
P.O. Box 1564
New Haven, CT 06506
Telephone: (203) 787-776[illegible]

Design: [illegible]
Photography: [illegible]

UI United Illuminating

80 Temple Street
New Haven, Connecticut 06506

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