Hudson Light and Power Department

1990 Annual Report

Inside...

Photo Acknowledgement:

The Hudson Light and Power Department would like to express its gratitude to the *Hudson Daily Sun/Marlboro Enterprise*, for the photographs of Hudson businesses, residents and events that it so generously donated for this 1990 Annual Report. All photographs shown in this Report were taken by *Hudson Daily Sun/Marlboro Enterprise* photographers.

Dedication

The Hudson Light and Power Department is proud to dedicate its 1990 Annual Report to the brave men and women who comprise our Armed Forces in the troubled Middle East, at home, and around the world.

A Message From the Board

A New Decade...

The year 1990 ushered in a new decade, and it is one that the Hudson Light and Power Department anticipates will be marked by relatively stable rates for its consumers.

During the early 1980's, the Department prided itself on having one of the lowest electric rates in Central Massachusetts. Our rate schedules tracked those of New England Electric System (Massachusetts Electric), only our's were considerably lower.

The latter part of that decade, however, saw a change in that status quo as inflation had its impact, and costs associated with capital expenditures for the Seabrook Nuclear Power Plant became due. Not only did we find ourselves in the unenviable position of having to pay for a power plant from which we received no power, but we also watched helplessly as the price tag for that plant was pushed to a staggering $6 billion dollars by regulatory delays and repeated interventions by Massachusetts officials.

Two suits have been filed by Hudson and other municipal light departments in an attempt to recoup some or all of its losses for consumers. These cumbersome court proceedings are ongoing.

Seabrook finally became commercially operative during 1990, and access to this generation has helped to shield us from fluctuations in fossil fuel prices triggered by the Middle East crisis. While other more oil-reliant utilities were mailing customers notifications of fuel price increases, we were able to maintain our rates.

New England's utilities — Hudson included — are experiencing severe financial difficulties. The cost of doing business is rising rapidly.

Electric rates across New England are expected to increase during the 1990's, and the trend has already begun.

Despite the dim expectations for New England's electric bills, we remain relatively confident of our projections for stable rates. Our calculations take into consideration the following:

- Projected annual kilowatt hour consumption for the entire system;
- Available and new resources with their respective real and estimated capital costs;
- Estimated fuel costs based on New England Power Pool forecasts modified to reflect current known world situations; and
- Operating and maintenance costs.

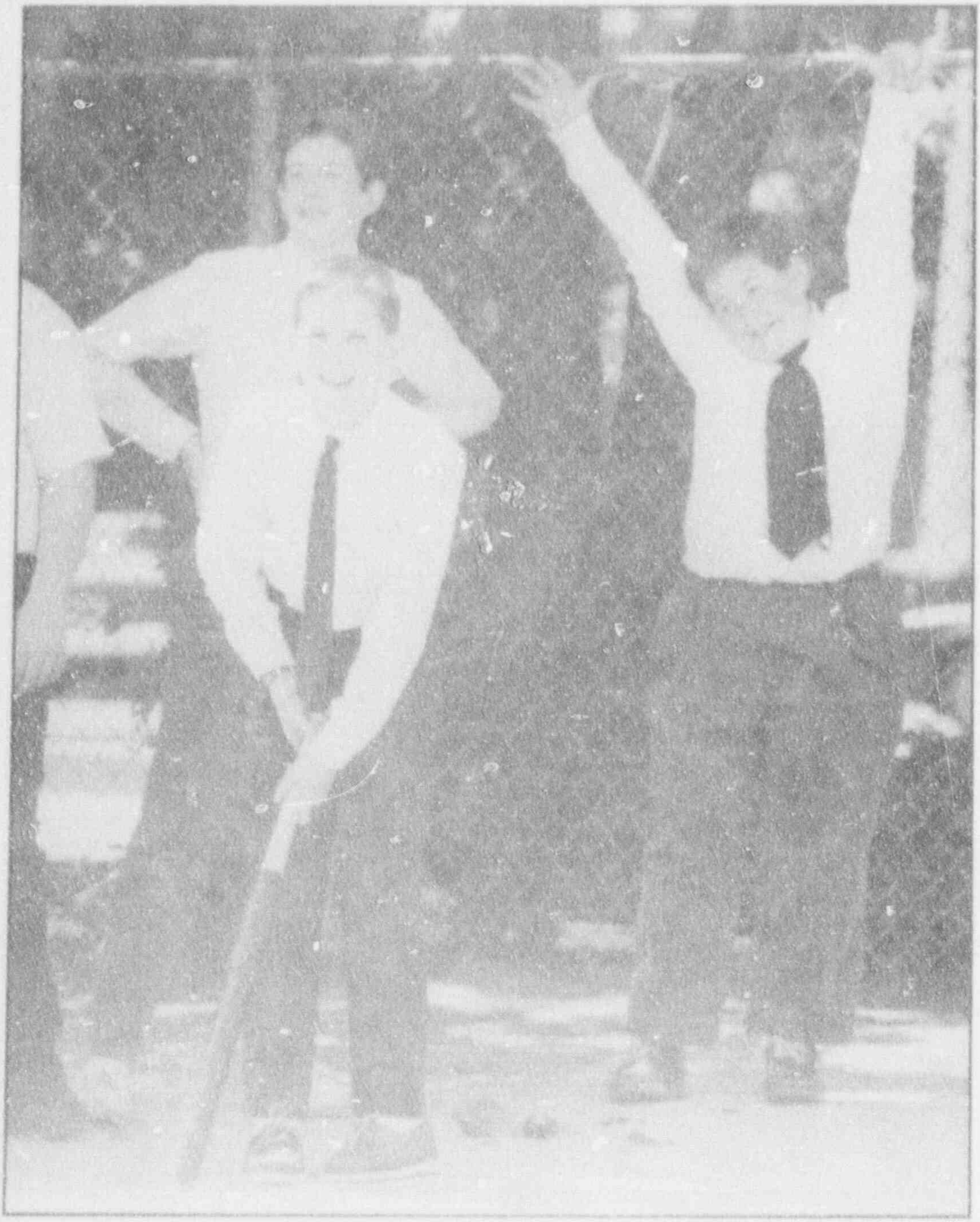
All of the above are, of course, subject to change. The assumptions and projections are based on the best information we have to date. For example, one assumption we used is that the Iraq-Kuwait situation will be resolved by the end of 1991. If it is resolved earlier, the Department's assumptions will be conservative. If resolved later, they will have been too low.

Another reason for our confidence is our relatively young power supply. Most of New England relies on a power supply with an average of 37 years. Hudson's power supply averages 6.38 years old per MW.

In the following pages, we present the 1990 Annual Report and hope that we have addressed one of our consumers' major concerns — dollars and cents and electric bills. This report focuses on the different variables impacting electric rates and service, from the international arena to local collection activity.

We would like to take this opportunity to thank the men and women of the Hudson Light and Power Department for their continued dedication and diligence in serving our consumers.

Roland L. Plante, Chairman
Peter R. Keane
Weedon G. Parris, Jr., Clerk
Hudson Municipal Light Board



TAKE ME OUT TO THE BALLGAME
Tim Driscoll, with bat, and his fellow St. Michael's eighth grade classmates watch closely to see if his hit is fair or foul.

Manager's Report

Rates

Power Planning Pays Off...

Despite fluctuations in fossil fuel prices ignited by international turmoil and contin[illegible] ec[illegible] recession on the homefront, the Hudson Light and Power Department was able to [illegible] the benefits of its long-r[illegible]ge power planning during 1990 and maintained stable rat[illegible]

T[illegible]rstand how rates are established, one must understand how utilities operate. Unlike [illegible] companies such as Boston Edison, Commonwealth Electric, etc., the Hudson Light and Power is a municipal light department owned by the community in which it is located and supported solely by its ratepayers, in accordance with the provisions of the Massachusetts General Laws.

Hudson has no stockholders, only ratepayers. This means costs and benefits alike are reflected in the rates. A private utility is a profit-making entity and must receive State approval for rate increases. A municipal light department is non-profit, and it need only file new rates with the State. Hudson's rates are established to satisfy projected annual expenses.

The law stipulates that rates may not be changed more often than once in three months. Hudson experienced no rate increase since 1989, nor is one anticipated in 1991.

To ensure that municipal light departments are indeed nonprofit, the Commonwealth specifies that rates must be fixed to yield not more than 8% per annum on the cost of plant. During both 1989 and 1990, the Department's rates did not yield a profit.

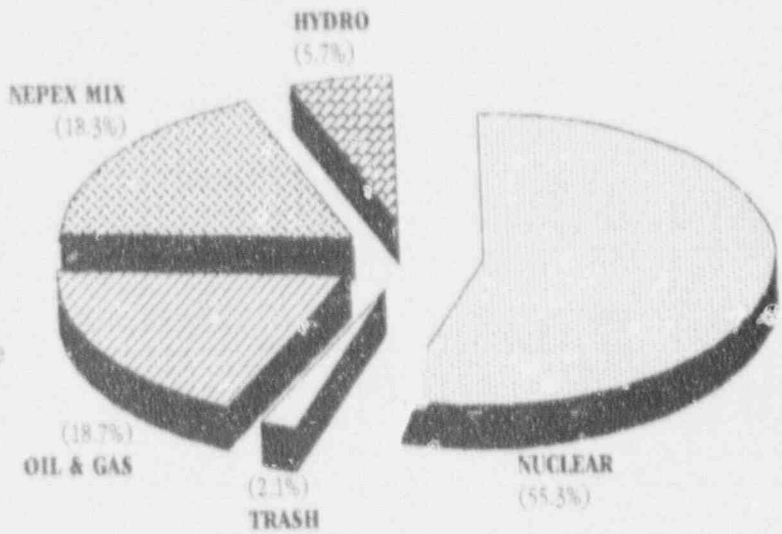
War and Fossil Fuels...

Iraq's invasion of Kuwait sent tremors through an energy field in which memories of the 1970's oil embargo remain vivid. Throughout the years, the Hudson Light and Power Department has firmly maintained that the only reliable energy is a mix of all resources. Dependence on any one fuel can be disastrous.

By December of 1990, the cost of oil per barrel had more than doubled. Many more oil-reliant utilities mailed out customer notifications of increased fuel charges. Hudson's attractive fuel mix, however, brought it through the fluctuations with no financial impact on its consumers.

Power

During a peak demand period—the highest recorded electrical consumption on a system—the Department has access to generation resources that are 80% nuclear. During 1990, the peak demand set a new record of 44.4 MW, recorded at 3:00 p.m., July 18.



HUDSON 1990 ACT[illegible]L FUEL MIX

(NEPEX Mix includes hydro, nucle[illegible] gas and oil units)

LITTLE PETUNIA
Michael Stekman, 5, of Hudson, studies the flowers while his Mom shops for plants.

In addition to NEPOOL anc' our own power station on Cherry Street, which is fueld by oil or natural gas when available, we receive power from the following sources:

Fuel	Name	Lead Owner	Location
Nuclear	Maine Yankee	Yankee Atomic	Wiscasett, ME
Nuclear	Millstone	Northeast Utilities	Waterford, CT
Nuclear	Pilgrim	Boston Edison	Plymouth, MA
Nuclear	Pt. Lepreau	New Brunswick Electric	St. John's, CAN
Nuclear	Seabrook	PSNH	Seabrook, NH
Nuclear	Vermont Yankee	Yankee Atomic	Vernon, VT
Oil	Canal	Commonwealth Electric	Bourne, MA
Oil	Holyoke	Holyoke Gas & Electric	Holyoke, MA
Oil	Montville	Northeast Utilities	Montville, CT
Oil	New Haven Har	United Illuminating	New Haven, CT
Oil	W.F. Wyman	Central Main Power	Yarmouth, ME
Oil/Gas	Cleary #9	Taunton Municipal	Taunton, MA
Oil/Gas	Middletown	Northeast Utilities	Middletown, CT
Hydro	Niagara River	PASNY	Niagara Falls
Trash	Refuse Fuels	Refuse Fuels Assoc.	Lawrence, MA

Seabrook

Seabrook on Line...

One of Hudson's major shields from the potential impact of increased oil costs was the commercial operation of the Seabrook Nuclear Power Plant in New Hampshire. Long the focus of intense controversy, Seabrook finally became commercially operative during 1990, and worked in Hudson's favor by making the system less sensitive to fossil fuel price fluctuations.

Seabrook's commercial operation should have no adverse impact on electric rates. Approximately 50% of a customer's bill represents Seabrook costs. A fully-operational Seabrook accounts for approximately 50% of our customer's electric needs.

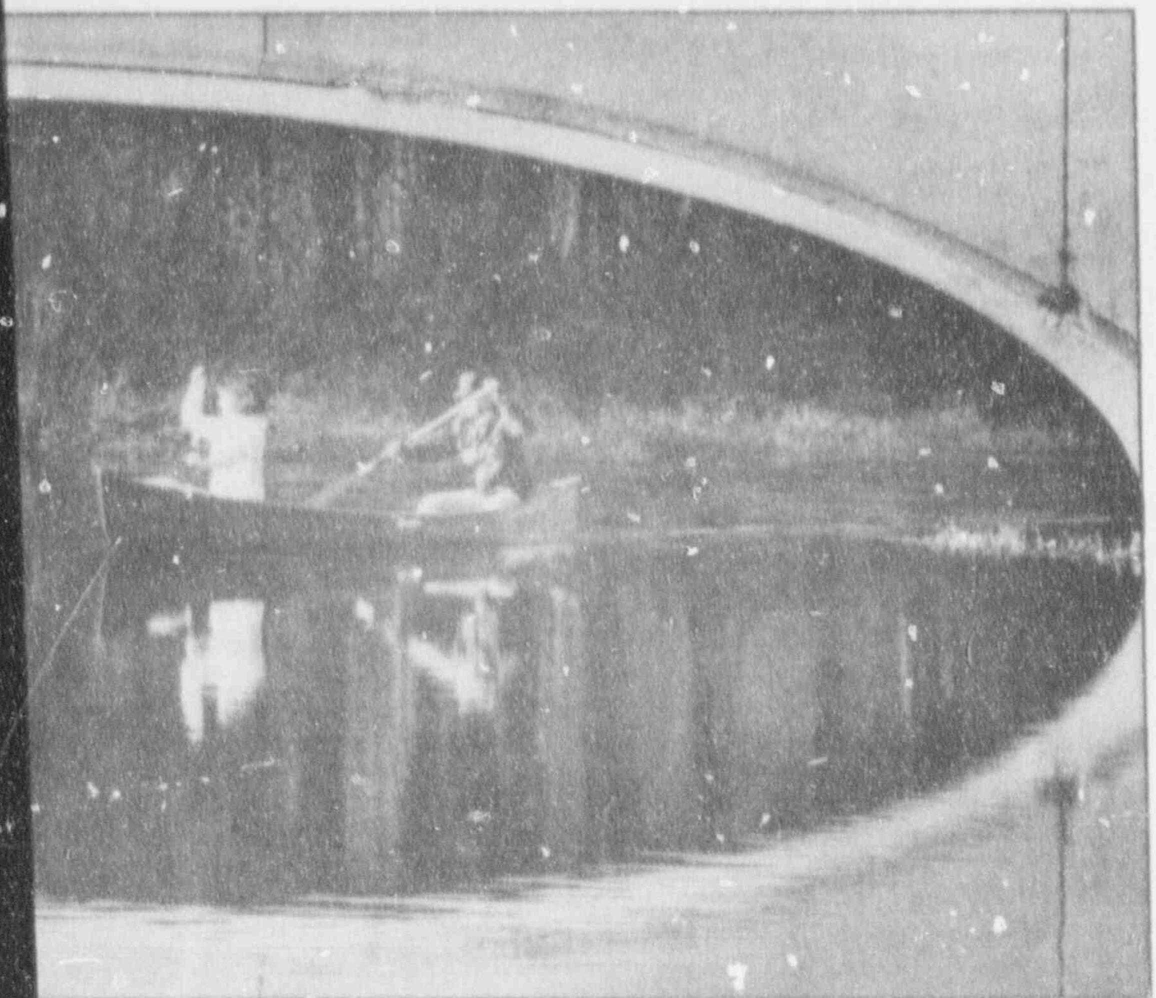
The Seabrook Nuclear Power Plant will produce 7.5 billion kilowatt hours annually. Its generation will replace 13.3 million barrels of oil year. The price tag for 13.3 million barrels of oil is approximately $450 million.

It's no secret that Seabrook has not proved to be as beneficial as we had hoped when initial investments were made during the 1970s. While the operating cost for Seabrook's power is relatively inexpensive and its addition to our fuel mix provides us with a nice buffer from oil prices, the cost to build the plant was prohibitive. The bonding to construct Seabrook must be paid. It is this construction expense that causes the plant's overall cost per kilowatt hour to be high.

Physically ready for operation in the Spring of 1986, Seabrook was idled by politics until the Summer of 1990. The cost of those delays was in excess of $50 million monthly and totalled more than $2 billion. In view of the fact that Seabrook's final cost was $6.2 billion, the delays added approximately 50% to the bill.

Hudson Goes to Court...

In an effort to recoup our ratepayers' losses resulting from delays beyond our control, we have joined eight other municipal light departments in filing a complaint against the Commonwealth and a number of its officials. Hudson, Ashburnham, Boylston, Paxton, Peabody, Shrewsbury, Templeton, Wakefield and West Boylston Light Departments have



PEACEFUL PERFECTION
A young couple and their canoe present a perfect picture as they row on the Assabet River at Wood Park.

asked the Court to set the potential large damages for the State's actions during the Seabrook licensing process.

A municipal light department cannot conduct the type of financing needed to invest in a project such as Seabrook without State authorization. Massachusetts repeatedly deemed Seabrook to be "needed and necessary," and authorized MMWEC to raise nearly $700 million through the issuance of revenue bonds for construction of the plant.

Once the financing was undertaken and the binding contracts were signed, the State changed its tune and began its repeated interventions and attempts to block Seabrook's commercial operation. The delays added an estimated $2 billion to the cost of the plant.

While the Hudson Light and Power Department certainly denies no one the right to their opinion in regard to nuclear power, we believe that political grandstanding must not be allowed to overshadow the facts. And the fact remains that our consumers are bearing the financial burden of delays in the licensing process of a nuclear power plant — delays caused by a Commonwealth that approved our investment in the plant in the first place.

Hudson and its co-plaintiffs are still awaiting a decision in Suffolk Superior Court on the Attorney General's filing to dismiss the complaint. It is still too early to speculate on the possibility for success and what it would mean in dollars and cents for Hudson.

In another court matter, Hudson and the Peabody Municipal Light Department have challenged the Massachusetts Municipal Wholesale Electric Company (MMWEC) over the Project #6 Power Sales Agreement (PSA) — the largest portion of our Seabrook investment. Other municipal light departments have also challenged MMWEC, but in different suits.

Hudson looked forward to reduced rates by about 33% once Seabrook came on line and providing all original contract terms had remained in effect. Project #6 would have allowed us to sell back to Seabrook's owners up to 50% of our entitlement over a 10-year period. Known as the sell-back agreement, its value in today's dollars is $45 million, or $75 million over the 10-year period.

Faced with massive default, MMWEC and Public Service of New Hampshire (PSNH) renegotiated the terms of the Project #6 contract and gave up our sell-back agreement. Hudson and Peabody have claimed, among other things, that the terms of the contract cannot be changed without the unanimous consent of Participants to that contract.

There are numerous facets of the complaint filed against MMWEC. One issue concerns a number of Vermont utilities which had participated in Project #6. When the Vermont courts determined that its utilities did not have authorization to contract with MMWEC for Seabrook's power from the start and declared those PSAs null and void, MMWEC charged only other Project #6 Participants for the void created by the Vermont action.

Hudson and Peabody do not believe its customers should be held responsible for financial obligations incurred by utilities that should not have participated in Project #6 in the first place. Our consumers should not pay for a mistake made by MMWEC, Vermont utilities, and their bond counsel.

A Suffolk Superior Court judge has issued a preliminary ruling that the remaining Project #6 Participants must pay the Vermont share. This initial decision has been sent to the State Supreme Judicial Court for a final determination. In the meantime, all other aspects of the litigation have been put on hold until the higher court completes its review.

HOMETOWN HERO
Hudson's Lt. Gov. Paul Cellucci and Gov. William Weld dance at the Governor's Inaugural Reception.

The Department also has a claim pending in bankruptcy court against PSNH in the sell-back matter.

Success in the courts could mean lower rates, but the size of any decrease will depend on the type of success or settlement reached. The prudency claim which was filed by Hudson and Peabody against PSNH was settled between the parties and approved by the Bankruptcy Judge in 1990.

HERE COMES THE SUN
Joe Bastis of Hudson plays a little hackey sack while waiting for his class to begin

Pilgrim

Boston Edison Settles...

Hudson's projections for stable rates during 1991 were aided by a $2.2 million settlement agreement reached with Boston Edison in connection with litigation launched in 1987 over the Pilgrim Nuclear Power Plant.

In November, the Department received partial payment of $400,000. Hudson will receive the remaining $1.8 million plus interest in the form of a credit on its bills from the Pilgrim Nuclear Power Plant. Depending on the interest percentage, the settlement should take us into March or April of 1992 on the Pilgrim billings.

Court proceedings were initiated by Hudson and other municipal utilities over what plaintiffs charged was excessive "down" — or non-operating — time of the power plant owned by Boston Edison. Down time occurs when a generating facility is shut down for repair and/or maintenance, or other regulatory reasons.

Bills

At Home...

The Hudson Light and Power Department bills its customers monthly based on actual meter readings, and offers a 10-discount on the current bill when payment is made on or before the tenth of the month. Approximately 90% of our customers take the 10% discount, which facilitates our cash flow.

Collection activity on delinquent accounts was increased during 1990, with greater emphasis placed on payment plans that allowed customers experiencing financial difficulties to keep arrearages under control without interruption to their electric service. The Department aligned itself with financial assistance agencies such as Welfare, South Middlesex Opportunity Council, Salvation Army, and Marlboro Resources to help customers in need.

By working with these customers, the Department was able to increased collections on delinquent accounts by an average of 11% during 1990. A total of $1,308,774.84 was collected on flagged accounts for the year during the final two weeks of every month — the traditional termination period — with little increase in the number of services actually interrupted for non-payment.

Helping customers control their bills by understanding how electricity is consumed in their homes was again a high priority of the Department. During the Winter of 1990, Mass-Save installed a display in the main office lobby on Forest Avenue highlighting different conservation measures to help consumers save on their bills. The Department contracts with Mass-Save to provide conservation services to its residential customers.

In addition to the energy audits that Mass-Save has traditionally offered through the Department, customers can take advantage of M.O.M. — Mail Order Materials. A variety of material is offered to facilitate Hot Water Savings, Water Conservation, Heating and Cooling Savings, Door and Window Draft Stoppers, Home Comforts, and Lighting Savings. Order blanks are available at the Department's main office.

Outlook For Tomorrow

Expansion During the 1990s...

Largely due to the addition of Seabrook to our generation resources, the Hudson Light and Power Department's current energy resources are in good shape.

Expansion is part of our long-term outlook. We anticipate that by the mid-1990s, Hudson will have to either participate with others or alone to increase intermediate and peaking generation resources. Whether we join with others in financing a new generating facility, or expand our own facilities on Cherry Street will depend entirely on the climate of the times.

There are definite advantages to local expansion, not the least of which is local control and the elimination of the problem of transmission costs. Local expansion would also improve the reliability of local service, as we would be less impacted by failure of the major tie line connecting us with New England's electric generating resources.

The financial impact of any expansion, whether local or joint, will also depend on the climate of the times. Given the current "not in my backyard" attitude and the vocal antinuclear power contingency, we would be unlikely to participate in a new generating facility without firm guarantees from the regulators. We would again seek the support and consent of our community.

Quite often, energy experts' projections of a need for new power plants are met with

SNOWY NIGHTS, STARRY LIGHTS
Lights from the standards and stores on Main Street cast a glow through a winter storm.

suspicion and outright disbelief. The need to expand generating capacity is not the "babbling of doomsayers."

Prior to the availability of Seabrook's power, Hudson was repeatedly ordered by the power pool to ask our larger consumers to voluntarily reduce their electrical consumption in order to help New England avoid the need for the more drastic measure of rolling blackouts.

On July 5, 1990, Washington, D.C. and Baltimore, Maryland experienced the unthinkable. High demand, low reserve margins, extended maintenance outages and sudden outages at other plants all contributed to mandated rotating blackouts for 280,000 customers of Baltimore Gas and Electric Company and Potomac Electric Company. These controlled interruptions of service were the first of those utilities in over 20 years.

With New England's slow supply growth, steady demand growth, dwindling capacity margins and constricted transmission capability, this could be a precursor of more to come for the Northeast during the 1990s.

Utilities are not building enough generation resources to satisfy the demand growth and to replace retired generation facilities. Simply put, utility executives are afraid to jeopardize their stockholders' money.

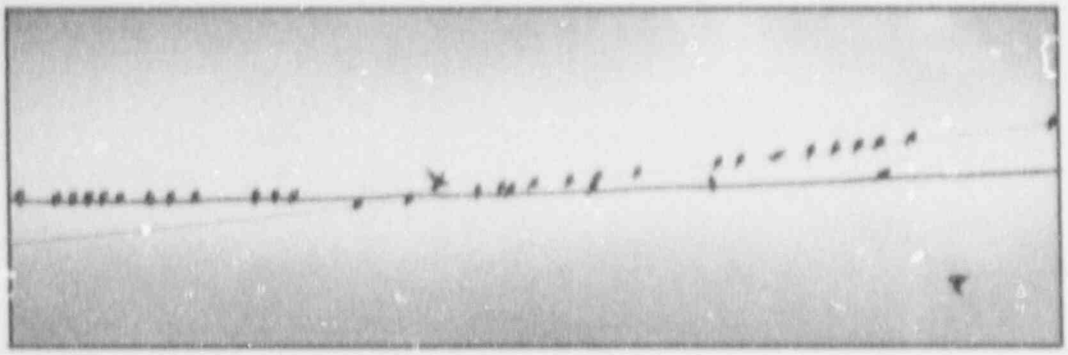
Today, there is a great deal of concern that a planned generating facility can be completed and brought on line in a timely fashion. Not only is the regulatory process onerous, politics can and have interfered. Generating facilities are extremely capital sensitive, placing not only stockholders' investments at a risk, but the entire utility itself. These are variables that the Department will have to look at closely before any expansion decision is made.

I would like to take this opportunity to thank the men and women of the Hudson Light and Power Department for their loyalty and dedication to improving the service of this Department. I would also like to thank the Hudson Municipal Light Board for their continued guidance and support.

In the following pages are the financial statistics of the Hudson Light and Power Department.

Horst Huehmer,
Manager

TREE TRIMMING
Montachusett Tree Service's Andy Oullet trims branches behind the Hudson Boys' and Girls' Club.



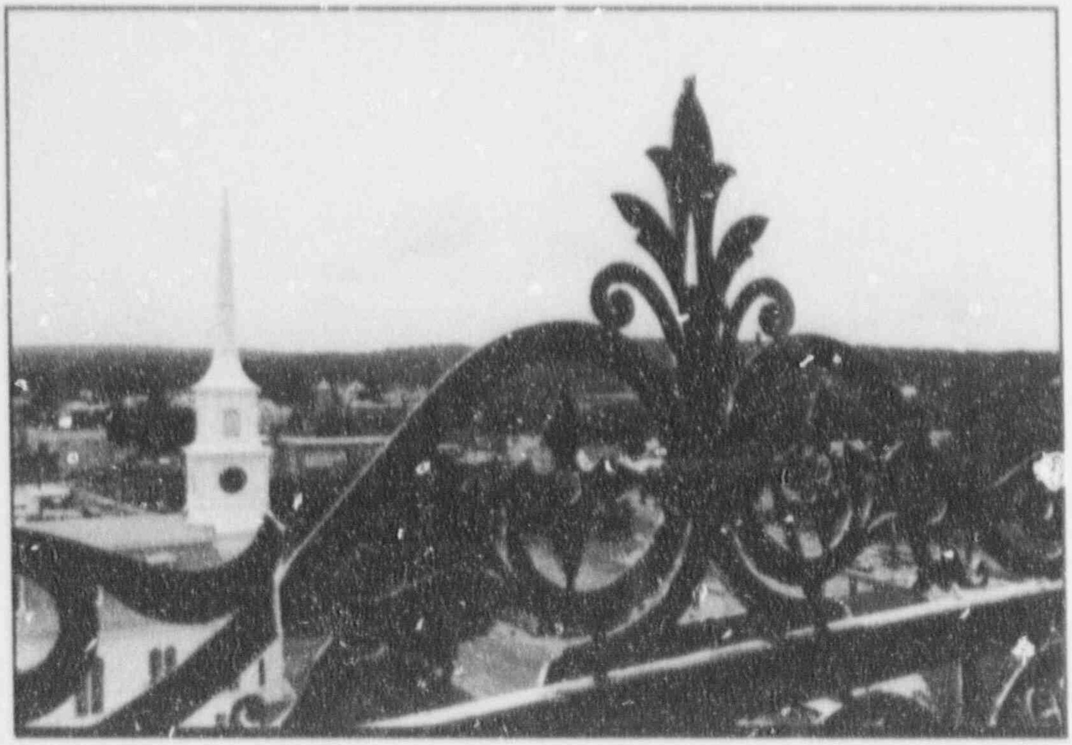
Definitions

Under the **Cash Basis of Accounting**, revenue is recognized only when cash is received; expenses are recorded only when they are paid in cash. Under this method the determination of income rests upon the **Collection** of revenues for services or products rendered. Expenses are incurred upon the actual payment of cash for products or services received. This type of accounting is seldom found in practice and financial statements which could be prepared on this basis do not reflect the financial position or operating results of a business in conformity with generally accepted accounting principles.

Under the **Accrual Basis of Accounting**, revenue is recognized when it is realized and expenses are recognized when incurred, without regard to the time of receipt of payment. The focus of accrual accounting is on the realization of revenue, the incurrence of costs, and the matching of revenue with costs incurred. This "matching" concept requires that the cost incurred to create revenues be accounted for at the same time. Consequently, if revenue is accounted for during a period, the "matching" costs must be accounted for even if it requires an estimation of these costs.

Balance Sheet...
A Balance Sheet is a concise statement of the assets, liabilities and equity of a business as of a given date.

Assets...
Anything owned that has money value or utility is an Asset. Assets are divided into plant or Property Assets, Current Assets, or Other Assets. Property Assets are buildings, generation equipment, transmission equipment, distribution equipment, etc. in use. Construction Work In Progress is Plant Under Construction which has not been completed as of the date of the statement. Current Assets are cash, receivables, inventories of generation fuel, gasoline, lube oil, poles, etc., prepayments, unbilled utility revenues and other miscellaneous assets. Deferred Assets represents expenditures for preliminary surveys, plans, investigations made for the purpose of determining the feasibility of utility projects under consideration.



BIRD'S EYE VIEW
Hudson takes on a sleepy look when viewed through the iron latticework of the upper reaches of the Town Hall.

Liabilities...

Liabilities consist of debts outstanding (unpaid bills) and in the process of accruing. They are usually classified as to Current Liabilities, Deferred Liabilities, or **Long Term Debt**.

Current Liabilities are **Short Term Liabilities**. They generally consist of obligations which are to be liquidated within a year from the balance sheet date and include amounts accrued to date or those liabilities which accumulate from day to day. The most common Current Liabilities are accounts payable (bills owed as of a specific date), accrued salaries and wages, accrued interest, etc.

Deferred Liabilities...

Advance-billings for services rendered, etc.

Long Term Debt...

Debts incurred through borrowing such as bonds and notes or other financial obligations which are payable over a long period of time.

Equity...

The amounts paid on loans over the Department's existence, monies invested by the Town in the Department, the earnings retained in the Department as represented by property.

Income Statement...

An Income Statement is a report in summary form of the revenue earned by a particular business during a specified period, together with the related costs and expenses and the losses for that same period, and the resulting nea income (or net loss).

CHILD'S PLAY
James Collins and Jasie Hayden, both 9 of Hudson, climb a tree on Cox Street.

Comparitive Balance Sheet

Assets

	1990	1989	Increase (Decrease)
Electric Utility Plant (Net)...			
Instangible Plant	$ 3,833.40	$ 0.00	$ 3,833.40
Production Plant in Service	2,928,693.0.	265,929.64	2,662,763.37
Nuclear Fueld	109,640.61	0.00	109,640.61
Transmission Plant in Service	264,427.39	259,664.43	4,762.96
Distribution Plant in Service	2,431,746.39	2,315,525.45	116,220.94
General Plant in Service	525,241.89	544,709.05	(19,467.16)
Construction Work in Progress	539,299.90	3,347,418.66	(2, 808,118.76)
Total Utility Plant In Service	$ 6,802,882.59	$ 6,733,247.23	$ 69,635.36
Cash Assets...			
Operation Cash	$ 175,995.70	$ 31,917.11	$ 144,078.59
Miscellaneous Cash	397,911.20	27,666.66	370,244.54
Depreceation Fund	439,716.91	189,573.80	250,143.11
Depreciation Fund Investment	2,202,032.13	2,420,402.49	(218,370.36)
Insurance Escrow Reserve	407,567.90	784,041.34	(376,473.44)
Insurance Escrow - Pilgrim	927.83	927.83	0.00
Insurance Escrow - Project #6	1,518.01	1,408.37	109.64
Petty Cash	500.00	500.00	0.00
Deposits Interest Account	51,276.90	53,372.36	(2,095.46)
Customer Deposits Account	217,787.75	192,948.62	24,839.13
Total Cash Balances	$ 3,895,234.33	$ 3,702 758.58	$ 192,475.75
Other Current and Accrued Assets...			
Customer Account Receivables	$ 2,978,459.65	$ 3,023,776.31	$ (45,316.66)
Other Accounts Receivables	75,540.00	40,619.17	34,920.83
Material and Supplies	730,460.80	610,193.06	120,267.74
Prepayments	501,542.18	451,092.02	50,450.16
Int. dividends Receivable	42,498.92	48,840.93	(6,342.01)
Accrued Utility Revenues	0.00	160,879.68	(160,879.68)
Misc. Current & Accrued Assets	0.00	0.00	0.00
Total Other Current and Accrued Assets	$ 4,328,501.55	$ 4 335,401.17	$ (6,899.62)
Deferred Assets...			
Preliminary Survey Charges	$ 0.00	$ 0.00	$ 0.00
Misc. Deferred Debits	73,338.76	63,960.66	9,378.10
Total Deferred Assets	$ 73,338.75	$ 63,960.t	$ 9,378.10
Total Assets	$ 15,099,957.23	$ 14,835,367.64	$ 264,589.59

Equity And Liabilities

	1990	1989	Increase (Decrease)
Equity...			
Loans Repayment	$ 1,925,000.00	$ 1,925,000.00	$ 0.00
Invested by Town	$ 20,093.39	$ 20,093.39	$ 0.00
Unappropriated Earnings	$ 10,391,513.07	$ 10,346,856.23	$ 44,656.84
Total	$ 12,336,606.46	$ 12,291,949.62	$ 44,656.84
Current & Accrued Liabilities...			
Accounts Payable	$ 606,036.72	$ 1,146,515.16	$ (540,478.44)
Customer Deposits	217,787.75	192,948.62	24,839.13
Customer Deposits-Interest	51,276.90	53,372.36	(2,095.46)
Tac Collections Payable	21,098.75	0.00	21,098.75
Misc. Current & Accrued Liab.	32,168.48	7,142.56	25,025.92
Customer Advances for Constr.	23,850.00	34,600.00	(10,750.00)
Total Current & Accrued Liabilities	$ 952,218.60	$ 1,434,578.70	$ (482,360.10)
Deferred Credits...			
Misc. Deferred Credits	$ 1,399.15	$ 0.00	$ 1,399.15
Deferred Credit-Fuel Charge	699,633.70	0.00	699,633.70
Total Deferred Credits	$ 701,032.85	$ 0.00	$ 701,032.85
Reserves...			
Injuries and Damages Reserve	$ 700,000.00	$ 700,000.00	$ 0.00
Total Reserves	$ 700,000.00	$ 700,000.00	$ 0.00
Contributions in aid of Construction...	$ 410,099.32	$ 408,839.32	$ 1,260.00
	$ 410,099.32	$ 408,839.32	$ 1,260.00
Total Equity & Liabilities	$ 15,099,957.23	$ 14,835,367.64	$ 264,589.59

Statement of Equity

Earned Surplus January 1, 1990	$10,346,856.23
Net Income or (Loss)	(364,328.20)
Miscellaneous Credits to Surplus	608,985.04
Total	$10,591,513.07
Appro. of Surplus Returned to Town	200,000.00
Appro. of Surplus — Bonds	0.00
Misc. Debts to Surplus	0.00
Total	$ (200,000.00)
Total Unapp. Earned Surplus	$10,391,513.07

Comparative Income Statement

	1990	1989	Increase (Decrease)
Operating Revenue...	$ 29,670,913.38	$ 29,362,617.67	$ 308,295.71
Operating Expense...			
Production	$ 858,647.25	$ 1,254,638.30	$ (395,991.05)
Purchased Power Expense	26,283,418.80	25,281,353.80	1,002,065.00
Transmission Expenses	816,324.19	679,445.89	136,878.30
Distribution Expenses	320,251.93	357,243.68	(36,991.75)
General Expenses	1,625,934.41	1,887,740.15	(261,805.74)
Depreciation	420,798.01	409,787.03	11,010.98
Total Operating Expenses	$ 30,325,374.59	$ 29,870,208.85	$ 455,165.74
Net Operating Revenues	$ (654,461.21)	$ (507,591.18)	$ (146,870.03)
Other Income...			
Income From Contract Work	$ 0.00	$ 0.00	$ 0.00
Interest & Dividend Income	290,193.72	358,715.88	(68,522.16)
Miscellaneous Nonoperating Income	103.40	0.00	103.40
Total Other Income	$ 290,297.12	$ 358,715.88	$ (68,418.76)
Miscellaneous Income Deductions...			
Other Income Deductions	$ 135.22	$ 0.00	$ 135.22
Total Income Deductions	$ 135.22	$ 0.00	$ 135.22
Inc. Before Interest Charges	$ (364,299.31)	$ (148,875.30)	$ (215,424.01)
Interest Charges...			
Other Interest Expense	$ 28.89	$ 12,180.70	$ (12,151.81)
Total Interest Charges	$ 28.89	$ 12,180.70	$ (12,151.81)
Net Income Before Return to Town	$ (364,328.20)	$ (161,056.00)	$ (203,272.20)
Less Return to Town	200,000.00	200,000.00	0.00
Net Income (Loss)	$ (564,328.20)	$ (361,056.00)	$ (203,272.20)

Income Statement Detail

Operating Revenue

January 1, 1990 to December 31, 1990

Sales to Residential Consumers	$ 6,900,089.58
Sales to Commercial Consumers	1,445,972.18
Sales to Power Consumers	14,892,888.25
Private Property Lighting Sales	96,222.23
Municipal Sales...	
Hudson Street Lights	150,497.76
Hudson Municipal Buildings	51,725.35
Hudson Municipal Power	447,479.40
All Electric Municipal Buildings	556,719.08
Stow & Berlin Street Lights	5,497.67
Stow, Maynard & Other Municipal Service	114,302.54
Sales for Resale	172,254.23
Total Revenue from Sales of Electricity	$24,833,648.27
Fuel Charges...	
Residential Sales-fuel	$ 1,106,323.61
Commercial Sales-fuel	249,274.48
Power Sales-fuel	4,023,227.74
Private Property Lighting-fuel	14,736.74
Municipal Fuel Charges...	
Street Lighting Stow et-fuel	667.80
Municipal Power Hudson-fuel	104,084.90
Municipal Commercial Hudson-fuel	9,379.31
Municipal Power Stow et-fuel	22,392.25
Municipal Commercial Stow et-fuel	2,211.34
Municipal All Electric-fuel	118,263.74
Miscellaneous Electric Sales	(860,513.38)
Total Fuel Charges	$ 4,790,048.53
Other Income...	
Other Electric Revenues (RCS, etc.)	$ 47,216.58
Total Income	$ 29,670,913.38

Expenses

January 1, 1990 - December 31, 1990

PRODUCTION

Nuclear Power Generation...

Operation Supervision	$ 9,208.74
Fuel	22,179.85
Coolants and Water	750.96
Steam Expenses	4,015.44
Electric Expenses	214.67
Miscellaneous Nuclear Power Expenses	19,150.98
Maintenance Supervision	3,048.68
Maintenance of Structures	659.01
Maintenance of Reactor Plant Equipment	2,507.88
Maintenance of Electric Plant	593.84
Maintenance of Miscellaneous Nuclear Power	1,315.81
Total Nuclear Power Production Expenses	$ 63,645.86

Other Power Generation...

Operation Supervision	$ 21,336.68
Fuel Oil	74,569.20
Fuel Natural Gas	234,844.60
Generation Expense	170,934.20
Generation Expense-Lub	10,730.98
Miscellaneous Other Power Generation Expenses	46,191.53
Maintenance Supervision	21,823.07
Maintenance of Structures	52,559.87
Maintenance of Generation and Electric Plant	157,608.17
Maintenance of Miscellaneous Generation Plant	4,403.09
Total Other Production Expenses	$ 795,001.39

Purchased Power Expenses...

Purchased Power-Entitlement	$24,610,373.00
Purchased Power-Nepex	1,612,457.91
System Control and Load Dispersion	25,519.17
Other Expenses Purchase Power	35,068.72
Total Purchased Power	$ 26,283,418.80

Distribution Expenses...

Operation Supervision and Engineering	$ 23,282.90
Station Expenses	0.00
Overhead Line Expense	14,264.72
Underground Line Expense	317.90
Street Lighting and Signal Expense	8,072.65
Meter Expenses	32,455.28
Customer Installation Expense	517.64
Miscellaneous Distribution Expenses	4,582.44
Rents	95.00
Maintenance of Supervision and Engineering	23,093.34
Maintenance of Station Eguipment	247.84
Maintenance of Overhead Lines	189,096.31
Maintenance of Underground Line	1,406.74
Maintenance of Line Trans former	9,874.34
Maintenance of Street Lighting	8,835.47
Maintenance of Meters	4,109.36
Total Distribution Expenses	$ 320,251.93

Transmission Expense	$ 816,324.19

General...

Supervision	$ 9,409.66
Meter Reader Expenses	44,927.50
Customer Records and Collection Expenses	176,534.87
Advertising Expense	25.00
Miscellaneous Sales Expense (RCS)	15,602.46
Administrative and General Salaries	278,242.15
Office Supplies and Expenses	11,896.45
Administrative Expenses Transferred	(4.48)
Outside Services Employed	410,455.34
Property Insurance	24,009.61
Injuries and Damages	137,904.84
Employee Pension and Benefits	385,151.18
Regulatory Commission Expense	225.92
General Advertising Expense	1,669.66
Miscellaneous General Expenses	33,205.26
Maintenance of General Plant	48,783.48
Transportation Expense	40,623.84
Depreciation Expense	420,798.01
Total General and Depreciation Expenses	$ 2,038,460.75
Taxes Other than Income (Seabrook R.E.)	$ 8,271.67
Total Operation Expenses	$30,325,374.59

Statement of Changes in Financial Position

Funds were provided from...

Operations...

Net Income	$ (364,328.20)
Depreciation	420,798.01
Partial Pilgrim I Settlement with Boston Ed	608,985.04
Total Funds Provided	$ 665,454.85

Funds were used for...

Net Additions to Utility Plant	$ 389,599.55
Construction Costs of Nuclear Plant	71,761.00
Construction Costs of N.E. Hydro-Transmission	29,072.82
Return to Town of Hudson	200,000.00
Deferred Assets	9,378.10
(Increase) in Deferred Credits	(701,032.85)
(Increase) in Reserves	(1,260.00)
	(2,481.38)
Increase in Working Capital	$ 667,936.23

Increase (Decrease) in Working Capital

Represented by...

Cash	$ 169,732.08
Receivables	(10,395.83)
Materials and Supplies	120,267.74
Prepayments	50,450.16
Interest Receivable	(6,342.01)
Accrued Utility Revenues	(160,879.68)
Accounts Payable	540,478.44
Taxes Payable	(21,098.75)
Miscellaneous Liabilities	(25,025.92)
Customer Advances for Construction	10,750.00
Total	667,936.23

Footnotes To Financial Statements

The Hudson Light and Power Department's accounting policies are in conformity with generally accepted accounting principals and conform to the uniform system of accounts prescribed for Public Utilities by the Federal Energy Regulatory Commission as modified by the Massachusetts Department of Public Utilities for municipal owned lighting plants.

Revenues are computed on the basis of monthly billings to customers. Unbilled revenues from the sale of energy are not accrued as of the end of the calendar year. Miscellaneous electric sales adjustment is for overbilled or underbilled power adjustment charges.

Electric Utility Plant Assets are stated at cost. The provision for depreciation is determined by the straight-line method based on a 3% annual depreciation rate. The cost of maintenance and repairs is expensed as incurred, renewals, replacements and betterments are capitalized.

Preliminary Survey Charges (Deferred Assets) incurred for proposed projects through MMWEC are deferred pending bonding of the proposed facility. Funds relating to MMWEC projects are refunded to the Department after bonding. Charges relating to projects which are undertaken by the Department are transferred to construction work in progress and eventually to utility plant on completion. Projects abandoned by MMWEC or the Department are charged to expense.

Projects started but not completed are charged to ***Construction Work In Progress.*** Any project abandoned is charged directly to surplus.

Investments of the Depreciation Fund are in Certificates of Deposit in the state banking system as prescribed by law. Further, interest earned on these funds can only be used in the same manner as depreciation funds as prescribed by the Massachusetts General Laws.

Inventories...
Cost of materials and supplies are valued at average cost on the First In, First-Out basis (FIFO). Cost of fuel is based on average cost.

Segregated Funds...
The Depreciation Fund is restricted to additions and replacements of plant, property and equipment under the General Laws of the Commonwealth of Massachusetts and regulations of state agencies.

During 1984 the Department set up an ***Insurance Escrow Account*** to self-insure for conditions that the Department may encounter in its day to day operations.

Pensions...
The Department's employees are members of the Middlesex County Retirement System. The Municipal Light Board has established the Hudson Municipal Light Department Employee's Retirement Trust to reimburse the Town of Hudson for retirement costs of its employees. This fund is maintained by the transfer of funds from the Department to the Trust based on actuarial studies performed by a professional actuarial consultant. An amount equal to $245,378.55 was transferred to the fund.

Commitments and Contingencies...
The Hudson Light and Power Department has purchase contracts with the following sponsor companies for the kilowatt hour amount entitlements listed below:

	Energy KWH	**Yearly Cost**
Boston Edison, Pilgrim Atomic	15,832,741	$ 1,340,656.51
Vermont Yankee Atomic	4,021,290	185,239.89
Maine Yankee Atomic	7,205,533	265,464.58
Central Maine Power, Wyman	5,312,842	251,290.88
New Brunswick Elec., Pt. Lepreau	41,884,237	1,924,162.82
Commonwealth Elec., Canal	13,189,707	506,780.92
MMWEC, Nuclear Mix #1	4,722,771	167,979.18
MMWEC, Millstone #3	4,219,812	332,466.98
MMWEC, Seabrook Project #4	7,503,579	1,197,425.43
MMWEC, Seabrook Project #5	835,729	161,988.36
MMWEC, Seabrook Project #6	56,820,384	15,608,196.56
Taunton, Cleary #9	11,050,611	678,704.15
NE Utilities, Middletown #2 & #3	6,416,536	401,955.63
NE Utilities, Montville #5 & #6	7,087,540	468,965.70
PASNY Hydroelectric	15,003,331	71,716.34
Refuse Fuel Associates	4,417,983	358,733.62
United Illuminating, Mix	11,406,731	537,405.46
MMWEC, Holyoke #6 & #7	701,965	157,323.99
	217,633,322	$ 24,616,457.00
New England Power Exchange	48,888,300	$ 1,618,193.12
Totals	266,521,622	$ 26,234,650.12

890 MW of Seabrook Unit #1 is being obtained by this Department on a direct ownership basis for which the Department used 100% equity financing. On June 30, 1990, Seabrook was declared operational.

The Hudson Light and Power Department is one of nine Plaintiffs in a lawsuit filed December 9, 1988 against the Commonwealth of Massachusetts and several of its executives and agencies. The lawsuit seeks monetary damages for the Commonwealth's actions relative to the Seabrook licensing process. Hudson and the other Plaintiffs allege that the actions of the Commonwealth amount to a taking of their investment in Seabrook. After the license issued on June 30, 1990, Hudson seeks recovery of damages resulting from the delay.

Hudson, along with twelve other Massachusetts municipal electric departments, filed litigation against Boston Edison Company in 1987 over the down time of the Pilgrim Nuclear Power Plant.

The Town of Hudson Light and Power Department reached a $2.2 million settlement agreement with Boston Edison Company in connection with Pilgrim Nuclear Power Plant litigation. Partial payment of $400,000 was received in December of 1991. Hudson will be receiving the remaining $1.8 million plus interest in the form of credit on its Pilgrim billing.

Hudson is also a party to two additional proceedings at the Federal Energy Regulatory Commission concerning its contract with Boston Edison to purchase a share of the output of the Pilgrim Unit: (1) a proceeding to clarify the duration of the contract and (2) a case to determine Hudson's decommissioning payment obligation. Neither case has been concluded.

The Light Department of the Town of Hudson (the Department) is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC), a public corporation and political subdivision of the Commonwealth of Massachusetts.

MMWEC is a coordinating and planning agency for the development of the bulk power supply requirements of its Members and Project Participants. MMWEC is authorized to own or purchase ownership interests in, and to issue revenue bonds to electric facilities (Projects). MMWEC obtains power supply capacity by acquiring interests in various generating units and the operation of its own electric generating facilities. MMWEC sells the capability of each of its Projects to its members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSA for each Project requires each Project Participant to pay its share of MMWEC'S costs related to the Project, which includes debt service on bonds issued by MMWEC to finance the Project, plus 10% of debt service to be paid into a Reserve and Contingency Fund. In addition, should any Project Participant fail to make any payment, other Project Participants may be required to provide additional payments in an amount up to 25% of the continuing Participant's payments for the Project. PSA Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSA. There is a dispute between MMWEC and Hudson over the obligation to make increased payments resulting from the Vermont decision set forth below.

MMWEC also obtains power by entering into contracts to purchase long-term and/or intermediate term power from third parties. This power is resold to members and other utilities under Power Purchase Agreements (PPAs).

The commitments made by Participants in both PSAs and PPAs are payable solely from their electric system revenues, and each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project is completed or operating and notwithstanding the suspension or interruption of the output of the Project.

MMWEC's 11.6% joint ownership interest in the Seabrook Station represents a substantial portion of its plant investment and financing programs. On March 1, 1990, the U.S. Nuclear Regulatory Commission (NRC) authorized a full-power operating license for Seabrook Unit 1 (Unit). The Unit began its power ascension testing program in March, and June 30, 1990, the Unit was turned over to NEPOOL for dispatch.

Seabrook Station originally consisted of two 1,150 megawatt nuclear reactors. Unit 2 has been cancelled. Construction of Seabrook Station Unit 1 was completed by New Hampshire Yankee (NH Yankee), which currently is a division of Public Service of New Hampshire (PSNH), the Unit's lead owner, holding 35.6% of the Unit. In October of 1986, Seabrook received a 40-year operating license with certain pre-conditions that included NRC approval of radiological emergency response plans. In response to NRC rulings in 1988, the joint owners provided $72 million, through the purchase of surety, and establishment of pre-operational and supplementary trusts, to demonstrate their ability to decommission the plant after low-power testing. The NRC staff, in August of 1989, recommended that a full-power license be granted on the basis that adequate and implementable response plans were in place for Massachusetts and New Hampshire. Seabrook Station experienced persistent and substantial cost increase and significant schedule delays; and has been the source of continuing controversy and opposition from government officials, regulators, intervenors and others; and has created financial problems for many of its joint owners, including MMWEC.

The MMWEC Project Participants, per the PSAs, are liable for their proportionate share of the cost of a nuclear incident at a nuclear power plant as outlined in the Price-Andersen Act. Additionally, the Participants are liable for the decommissioning expenses of an operating nuclear unit. Millstone No. 3 and Seabrook Unit 1 decommissioning expenses are funded through monthly billings.

PSNH, as a result of the continued delay in commercial operation of Seabrook Unit 1 and its inability to recover costs of the Unit through rates prior to commercial operation, experienced substantial difficulty in sustaining its financial obligations for its 35.6% share of the Seabrook Project. PSNH challenged the constitutionality of New Hampshire's anti-CWIP law. However, the New Hampshire Supreme Court upheld that statute, thus prohibiting PSNH from billing its customers for Seabrook-related costs until the commercial operation of the Unit. This decision effectively barred approval of PSNH's emergency rate relief request. Shortly thereafter, PSNH filed for protection from its creditors under Chapter 11 of the Federal Bankruptcy Code in January of 1988.

The Bankruptcy Court administering the reorganization of PSNH allowed reorganization plans to be filed. After hearings on disclosure statements associated with the plans, PSNH, the State of New Hampshire, various Bankruptcy Creditor and Equity Committees and others agreed to and joined in sponsoring the reorganization plan submitted by Northeast Utilities (NU/PSNH Plan) to acquire PSNH, including Seabrook Station. Hearings on confirmation of the NU/PSNH Plan were held in the fall and winter of 1989/1990, and the court approved the Plan on April 20, 1990. Implementation of the Plan is conditioned on a number of events, including necessary approvals by the Federal Energy Regulatory Commission (FERC) and the Securities Exchange Commission (SEC).

In this regard, FERC hearings before an Administrative Law Judge (ALJ) began August 6, 1990. The ALJ issued his opinion on December 20, 1990, which recommended approval of the merger, subject to a number of conditions related to transmission access. The ALJ's opinion has been sent to the FERC full commission for consideration. Various parties have filed exceptions to the ALJ decision. FERC has previously stated the commission will issue an order on or about December 31, 1991. The SEC held no hearings and on December 21, 1990, granted unconditional approval of the merger. One party has appealed that decision to the U.S. Circuit Court of Appeals for the District of Columbia. MMWEC has requested reconsideration of that decision with the SEC.

On June 1, 1988, MMWEC's Board of Directors adopted a strategic plan of action relating to its Seabrook joint ownership interest. The plan of action evidenced, among other things, an intention to draw down funds previously paid and not to pay any future direct obligations to the Seabrook Project. MMWEC's prepayments were exhausted on or about July 24, 1988. The Connecticut Light and Power Company, in exchange for a power sales arrangement with the other joint owners, and through additional payments, furnished funds to the Seabrook Project in lieu of MMWEC's payments for the July 24 to November 30, 1988 period. As part of the Comprehensive Seabrook Settlement, the Connecticut Light and Power Company released any claims it may have had against MMWEC as a result of making payments to the Seabrook Project.

On November 4, 1988, MMWEC and PSNH entered into a Memorandum of Understanding whereby MMWEC continued its full ownership in Seabrook Station and further agreed to execute a Settlement Agreement. Upon the Effective Date, August 1, 1989, the Memorandum and Settlement Agreement provide, among other things, that all notices of default were rescinded and covenants not to sue among the major joint owners of Seabrook were effective. The Settlement Agreement required PSNH to be responsible for MMWEC'S portion of the Seabrook Station pre-operational costs, commencing December 1, 1988 to NEPOOL dispatch of the Unit or up to $30 million, whichever occurs first.

Other terms of the Settlement Agreement are:

- PSNH must pay MMWEC $2 million per year for eight years upon commercial operation of the Unit.
- The Sellback Agreement between MMWEC and PSNH was jointly terminated. The Sellback Agreement called for PSNH to purchase certain amounts of Seabrook capacity from MMWEC at cost.
- MMWEC's Pt. Lepreau transmission contract was extended until October 31, 1995, at existing rates.

The PSNH bankruptcy court approved the Comprehensive Seabrook Settlement on April 14, 1989. PSNH made all construction payments for MMWEC until early May of 1990, when the $30 million was exhausted. The Seabrook Unit was turned over to NEPOOL for dispatch on June 30, 1990, and MMWEC made all catch-up payments as required by the Settlement Agreement on July 2, 1990. MMWEC has made all Seabrook-related payments required of it as a joint owner since that date.

The Vermont Department of Public Service (VDPS) brought an action against MMWEC in a Superior Court of Vermont in October of 1985 challenging the validity of the Project #6 PSAs entered into by the Vermont Participants. In 1986, the Superior Court Judge ruled that the PSAs for Project No. 6 between MMWEC and several consumer-owned utilities in Vermont were valid under Vermont law. The plaintiffs appealed this ruling to the Vermont Supreme Court, which heard arguments in April of 1987. In 1988, the Vermont Supreme Court ruled that the Project No. 6 PSAs with the Vermont utilities were void since inception (*void ab initio*) because *inter alia,* the Vermont utilities lacked the statutory authority to enter into the contracts and to delegate certain authority to MWWEC. MMWEC filed a motion for a rehearing, however, in January of 1989, the Vermont Supreme Court denied MM[illegible]tion for a rehearing. MMWEC also filed a writ of certiorari with the United States Supreme Co[illegible] review the Vermont Supreme Court decision. The writ of certiorari was denied in October of 1989.

The Vermont Supreme Court decision, together with VDPS actions, resulted in the Vermont municipal Project No. 6 Participants ceasing to make their payments to MMWEC. The Vermont Electric Cooperative and Washington Electric Cooperative of Vermont had already stopped making payments on January of 1986 and 1988, respectively. Shortfalls in the Project No. 6 revenues are being made up from available funds within the Project. The default by the Vermont Participants and Eastern Maine Electric Cooperative resulted in a reallocation of the Project No. 6 Project Capability.

Inasmuch as the Stony Brook Intermediate Project has approximately 8.2% of Project Capability under PSAs with Vermont entities, which PSAs are virtually identical to the Project No. 6 PSA, the Vermont Supreme Court decision on the Project No. 6 PSA could apply equally to the Stony Brook Intermediate PSA. The Vermont Legislature enacted legislation seeking to validate the Stone Brook Intermediate PSA in light of the Vermont Supreme Court decision. MMWEC is seeking a declaration of the validity of the Stony Brook Intermediate PSA, as well as curative legislation, in the matter of *MMWEC v. State of Vermont et al.* currently pending in the Superior Court in Washington County, Vermont.

The Vermont Supreme Court decision declaring the Project No. 6 Vermont Participants' contracts void ab initio, caused certain Massachusetts Project No. 6 Participants to raise issues relating to the validity of the Project No. 6 PSAs, alleging, among other things, that 100% participation in the PSAs is a condition precedent to the validity of the Project PSAs. In April of 1989, the Hingham Municipal Lighting Plant and the Shrewsbury Electric Light Plant both filed identical but separate actions in the Superior Court of Suffolk County in Massachusetts. The primary basis fo. the complaints is whether the Project No. 6 PSAs are valid and binding as to them, since as alleged in the complaints, a condition precedent to the validity of all Project No. 6 PSAs is 100% participation in said Agreement, and if the Vermont Participants' contracts are initio, then this condition precedent has not been met. Further, the complaints allege that any increase in Project No. 6 billings as a result of the non-payment by the Vermont Project No. 6 Participants is unlawful on the basis that the Project No. 6 PSAs failed to have 100% participation and MMWEC's use of Project No. 6 funds to cover the shortfall in receipts constitutes a breach of the PSAs. Five other Massachusetts Project No. 6 Participants filed similar complaints in Suffolk Superior Court.

Hudson and Peabody have made all payments under protect pending determination of their respective obligations in the litigation.

In April of 1989, MMWEC filed an original action in the Supreme Judicial Court for the Commonwealth of Massachusetts against two Massachusetts Project No. 6 Participants. A single justice of the Court accepted MMWEC's motion to have the Court transfer to the Supreme Judicial Court the other Project No. 6 Participant cases pending in the Superior Court. Furthermore, the justice granted MMWEC's request for two preliminary injunctions, ordering the non-paying Participants to pay their obligations. In June of 1989, the Participants withdrew their complaints. MMWEC amended its complaint to include all issues and named as defendants Shrewsbury, Holden, Hudson, Peabody, Danvers, Georgetown, Hingham, Paxton, Sterling and West Boylston. MMWEC also filed a motion for Summary Judgement with the single Justice, who allowed for discovery to take place prior to scheduling a hearing on the summary judgement motions. The Danvers, Hudson and Peabody Light Departments filed a motion asking the justice to recuse himself due to a potential conflict, which he did in January of 1990, sending the case back to the Suffolk Superior Court. On August 10, 1990, Hudson and Peabody filed a motion for partial summary judgement on the 100% participation and step-up issues. On November 9, 1990, the judge heard arguments from all parties and ruled that the non- payment of the Vermont Participants constituted a default within the meaning of the governing documents. This default then triggered a step-up and other related actions required by the documents. The judge then reserved and reported his order to the Appeals Court and stayed all other proceedings pending the final outcome of the case. All of the parties have requested the Supreme Judicial Court to hear the appeal and, if the request is granted, it is expected to be heard by the Supreme Judicial Court for the Commonwealth of Massachusetts in the Spring of 1991.

On July 17, 1990, after receiving July Project No. 6 billings, which included Seabrook operating and maintenance costs, Hudson and Peabody filed a motion to amend the injunction requiring them to pay Project No. 6 costs. The light departments asked that the part of the operating costs attributable to the Vermont Participants be placed in escrow pending final outcome of the litigation. On July 20, 1990, the court denied the motion.

The Town of Hudson Light and Power Department and City of Peabody Municipal Light Plant filed a lawsuit in November of 1988 which, among other things, sought to enjoin the MMWEC Board of Directors from acting upon the Memorandum of Understanding with PSNH. In November of 1988, the Massachusetts

Superior Court denied the Hudson/Peabody injunction request, which denial was upheld by the Massachusetts Appeals Court. In December of 1988, the Hudson and Peabody amended their complaint against MMWEC to include challenges to the validity of the Project No. 6 PSA on the 100% participation issue, as previously discussed. MMWEC moved to compel arbitration of this dispute and the Superior Court granted MMWEC's motion in accordance with the terms of the PSAs. In the Fall of 1990, in conjunction with the summary judgement proceedings on the 100% participation and step-up issues, MMWEC, Hudson and Peabody have agreed to resolve other issues through the courts rather than arbitration. However, all actions on these other issues are stayed pending the outcome of the appeal to the Supreme Judicial Court mentioned above.

Hudson and Peabody are questioning whether MMWEC has the authority to release PSNH from certain of its obligations under the Project No. 6 PSA when release from such obligations impair certain valuable rights of Hudson an Peabody. Also, this litigation questions the validity of the Project No. 6 PSA as a result of the Vermont Supreme Court's decision, which held the contract with various Vermont utilities which had agreed to participate in Project No. 6 to be *void ab initio*.

In December of 1990, Continental Illinois Bank, the bondholders' Trustee, filed a complaint in the Federal District Court against various light departments that were contesting the Project no. 6 contracts, and certain current and former light department managers. MMWEC was named a nominal party in the case, an no damages are sought from it. The suit alleges these Participants misrepresented as unconditional their intention to pay MMWEC the money it needs to pay the debt service on MMWEC bonds. MMWEC intends to seek dismissal of the complaint.

In March of 1989, Washington Electric Cooperative of Vermont (WEC) filed suit against MMWEC in the Washington County Superior Court in Vermont for restitution of payments made to MMWEC under the Project No. 6 PSAs. WEC received an *ex parte* trustee process against other Vermont utilities which are making payments under MMWEC's Stony Brook Intermediate Unit contracts. MMWEC removed this case to the U.S. District Court for the District of Vermont, where hearings were held and an order issued to dissolve the trustee process contingent on MMWEC giving notice of any intent to take away the Vermont Participants' Intermediate Unit capacity.

On July 31, 1989, MMWEC filed an action against certain directors, managers and attorneys of the WEC for misrepresentation. These thirdparty defendants have moved to dismiss the claims. In November of 1989, the VDPS moved to intervene in this case and filed a claim of $6.2 million for restitution for all Vermont Project No. 6 Participant payments. In March of 1990, the Federal District Court, pursuant to MMWEC's motion, dismissed the VDPS' intervention in the case. The VDPS has appealed the decision to the Second Circuit Court of Appeals. On December 18, 1990, the Appeals Court upheld the District Court ruling denying VDPS' motion to intervene. VDPS is now seeking reconsideration of the decision.

On December 5, 1990, the Trustee filed complaints against certain managers, commissioners and other individuals of the Vermont entities that had participated in Project No. 6. The suits allege fraud and misrepresentation in actions taken relating to the Project No. 6 contract. The Vermont Participants have filed a number of different motions and affidavits in the case.

Eastern Maine Electric Cooperative (EMEC), a Participant in MMWEC's Project No. 6, did not make its June, July or August of 1987 payments and filed for protection under Chapter 11 of the Federal Bankruptcy Code in August of 1987. In its petition, EMEC asked the court to reject its contract with MWWEC. In October of 1988, EMEC's petition for rejection of the contract was denied by the U.S. Bankruptcy Court. The judge concluded that MMWEC has a valid claim against EMEC stemming from EMEC's default under the contract prior to EMEC's entering Chapter 11. EMEC responded to the MMWEC claim filed in this case with a counterclaim alleging, among other things, that its Project No. 6 PSA with MMWEC is void as a result of the Vermont Supreme Court decision. A trial scheduled for January of 1990 was postponed as the two parties agreed to discuss settlement. EMEC's counsel unilaterally filed a settlement agreement with the court which, among other things, would allow MMWEC to recover up to $15 million on its $30-plus million claim against EEC. MMWEC has objected to the agreement. On May 10, 1990, the court approved the settlement of the claim. MMWEC has appealed the decision to the Federal District Court in Maine, where the appeal is still pending. In September of 1990, the Federal Bankruptcy Court judge hearing the case removed himself from the case, which was then assigned to a new judge recently appointed to the Federal Bankruptcy Court in Maine. Several amended reorganization plans have been filed by MMWEC, EMEC, and the Project Participants' committee. The new judge has held hearings on several aspects of the case. No schedule has been set for completing the case.

In January of 1986, the Hull Municipal Lighting Plant filed suit against MMWEC seeking a declaration that its PSAs for Nuclear Mix 1, Nuclear Projects Nos. 4 and 5 and Project No. 6 relating to Seabrook were invalid, and an injunction against MMWEC collecting any amounts from Hull under the agreements, and monetary damages. The suit challenges the validity of these PSAs on various grounds and alleges, among other things, misrepresentation, breaches and imprudencies by MMWEC. On March 5, 1986, the Massachusetts Superior Court granted MMWEC's motion to stay the legal proceedings and compel arbitration of the suit, and for a preliminary injunction requiring Hull to pay its share of monthly power costs as required by the PSAs. On March 21, 1986, a single justice of the Massachusetts Appeals Court denied Hull's petition for relief from the orders of the Superior Court, and the matter went to arbitration. The Massachusetts Supreme Judicial Court subsequently took the case and issued an opinion upholding the injunction. In August of 1987, the arbitrator ruled that the contracts signed by Hull's light board with MMWEC were valid. The arbitrator has yet to rule on the other alleged breaches, imprudencies and misrepresentations claimed against MMWEC by Hull. After withholding payments, Hull is currently making payments, under protest, in accordance with the court order. After a hiatus in the case, a new arbitrator was agreed to in January of 1990. Discovery on fact witnesses was completed in November of 1990. There have been no additional hearings or documents filed since that date, although a stipulated schedule has been forwarded to the arbitrator for his consideration.

As of December 31, 1990, total capital expenditures amount to $1,464,545,000.00, of which $161,487,000.00 represents the amount attributable to the Department. Debt outstanding for Projects included Power Supply System Revenue bonds totaling $1,427,055,000.00, of which $140,441,000.00 is attributable to the PSAs of the Department. As of December 31, 1990, the total future debt service requirement on outstanding Bonds issued for Projects under construction is $3,830,532,000.00, of which $454,219,000.00 is attributable to the Department.

Hudson's Light Department has entered into power purchase contracts or PSAs with MMWEC. Under these agreements, the Department is required to make capacity or debt service payments to MMWEC. The aggregate amount of such required payments, exclusive of Reserve and Contingency Fund billings, on Bonds outstanding and significant power purchase contracts through MMWEC at December 31, 1990 is shown below.

	ANNUAL COST
For years ending December 31, 1991	17,682,000.00
1992	18,981,000.00
1993	18,857,000.00
1994	18,006,000.00
1995	17,023,000.00
Later fiscal years	369,818,000.00
Total	$460,367,000.00

In addition, the Department is required to pay its share of the operation and maintenance costs of the units in which they participate. The Department's total O&M costs including debt service under the agreements were $20,617,000.00 and $20,387,000.00 for the years ending December 31, 1990 and 1989, respectively.

Receipts And Expenditures

		Received	
Cash Balance — January 1, 1990			$ 3,702,758.58
Receipts...			
	Residential Sales	$ 8,098,752.23	
	Commercial Sales	1,684,439.48	
	Industrial Sales	18,880,155.94	
	Street Lighting	157,838.08	
	Yard Lighting	122,482.23	
	Municipal Sales	1,483,698.96	
	Consumer Deposits	101,180.00	
	Int. on Consumers' Deposits	8,840.79	
	Int. on [illegible] Funds	266,386.82	
	Sundry [illegible]	597,990.31	
	Energy Sales to Other Utilities	172,254.23	
	Total Receipts		31,568,019.07
		Paid Out	
Expenditures...			
	Returned to Town	$ 200,000.00	
	Consumers' Deposits Refunded	76,340.87	
	Consumers' Despoits Int. Allowed	10,936.25	
	Overpayment Refunds	4,792.78	
	Contractor Advances Refunded	9,490.00	
	Payrolls	1,250,076.71	
	Inv. for Supplies, Services, etc.	29,677,114.58	
	Employees' Retirement Trust	146,792.13	
	Total Expenditures		(31,375,543.32)
Cash Balance — December 31, 1990			$3,895,234.33

Revenue From Sale Of Electricity

January 1, 1990 - December 31, 1991

	HUDSON	STOW	OTHER	TOTAL
Res. Service "A"	$ 3,186,188.62	$ 1,078,449.44	$ 58,039.65	$ 4,322,677.71
Res. Water Heater "E"	688,934.30	409,169.61	22,989.21	1,121,093.12
All Elec. Service "F"	1,033,926.43	410,141.78	12,250.54	1,456,318.75
Com. Htg. & Air Cond.	4,464.29	2,737.62	0.00	7,201.91
Com. Service "C"	1,087,951.16	340,831.29	9,987.82	1,438,770.27
Large Power "D"	13,374,822.45	1,525,819.38	0.00	14,900,641.83
Municipal All Elec.	114,028.05	0.00	442,691.03	556,719.08
Municipal Service "C"	51,725.35	12,508.08	66.92	64,300.35
Municipal Power "D"	439,725.82	101,727.54	0.00	541,453.36
Street Lighting	150,497.76	5,422.27	75.40	155,995.43
Yard Lighting	83,388.74	12,099.67	733.82	96,222.23
Fuel Charges				
Res. Service "A"	462,957.50	161,155.23	8,542.99	632,655.72
Res. Wtr. Heater "E"	113,865.46	68,776.66	3,887.41	186,529.53
All Elec. Service "F"	203,023.97	81,644.63	2,469.76	287,138.36
Com. Htg & Air Cond.	1,198.93	752.60	0.00	1,951.53
Com. Service "C"	187,399.47	58,178.67	1,744.81	247,322.95
Large Power "D"	3,637,535.55	387,227.45	0.00	4,024,763.00
Municipal All Elec.	24,294.78	0.00	93,968.96	118,263.74
Municipal Service "C"	9,379.31	2,208.87	2.47	11,590.65
Municipal Power "D"	102,549.64	22,392.25	0.00	124,941.89
Street Lighting	0.00	658.32	9.48	667.80
Yard Lighting	12,771.77	1,848.83	116.14	14,736.74
Total Revenue Each Zone	$ 24,970,629.35	$ 4,683,750.19	$ 657,576.41	$ 30,311,955.95
Misc. Electric Sales				(860,513.38)
Total Revenue from Sale of Electricity				$29,451,442.57

Res. Service "A"	$4,955,333.43
Res. Service "E" Wtr Htr	1,307,622.65
All Elec. Service "F"	1,743,457.11
Com. Htr. & Air. Cond.	9,153.44
Com. Service "C"	1,686,093.22
Large Power "D"	18,925,404.83
Municipal All Elec.	674,982.82
Municipal Service "C"	75,891.00
Municipal Power "D"	666,395.25
Street Lighting	156,663.23
Yard Lighting	110,958.97
Total	$30,311,955.95

Statistics

Kilowatt Hours Generated, Purchased, Sold & Used

January 1, 1990 - December 3, 1990

Kilowatt hours Generated at Station	13,814,732
Kilowatt hours Purchased	266,637,656
Total Generated and Purchased	280,452,388

	HUDSON	STOW	OTHER AREAS
Kilowatt hours Sold...			
Residence Service "A"	27,807,042	9,615,734	514,756
Service "E" (wtr htr)	6,718,989	4,057,441	231,526
All Electric Service "F"	11,527,023	4,541,501	137,111
Htg. and Air Cond. for Business	43,848	26,943	0
Commercial Service "C"	7,571,816	2,356,188	68,375
Large Power "D"	146,630,261	15,626,440	0
Departmental Usage	309,778	0	0
Municipal All Electric	1,339,200	0	5,208,000
Municipal Service "C"	370,161	87,937	91
Municipal Power "D"	4,088,780	886,360	0
Street Lighting	1,250,179	26,905	388
Yard Lighting	520,273	75,288	4,746
Total Kilowatt hours Each Zone	207,977,350	37,300,737	6,164,993

Total Kilowatt hours distributed	25[illegible],443,080
Kilowatt hours sold for resale	647,575
Kilowatt hours used at Station and miscellaneous	[illegible],352,641
Kilowatt hours lost in Station and Transmission	16,226,972
Kilowatt hours lost in Distribution Lines	4,802,120
Total	280,452,3[illegible]

Percent lost in Distribution Lines	1.7130%
Percent lost in Station and Transmission Lines	5.7886%

Five Year Comparative Electric Sales Data

	1990	1989	1988	1987	1986
Customers...					
Residential	8314	8255	8155	8058	7902
Commercial	1108	1058	1109	949	913
Industrial	200	179	163	166	163
Municipal	91	85	85	83	81
Others	153	164	162	[illegible]	160
Total Customers	9866	9741	9674	9414	9219
Kilowatt Hour Sales...					
Residential	64,951,123	66,201,051	67,203,493	65,216,046	63,146,242
Commercial	10,067,170	9,976,428	10,574,652	9,700,661	8,321,322
Industrial	162,256,701	157,725,576	141,553,854	128,923,612	119,895,569
Municipal	13,258,001	13,703,799	13,346,295	12,611,061	11,239,163
Other	600,307	625,314	619,480	583,159	578,641
Total KWH Sales	251,133,302	248,232,158	233,297,774	217,034,539	203,180,937
Revenues Billed...					
Residential	$8,006,413.19	$7,685,256.71	$7,289,054.91	$6,31[illegible].06	$4,972,237.43
Commercial	1,695,246.66	1,589,281.56	1,586,855.14	1,305,[illegible].00	937,708.38
Industrial	18,925,404.83	17,002,680.35	14,426,845.25	11,755,672.03	8,937,811.94
Municipal	1,573,932.30	1,513,038.85	1,365,914.76	1,135,655.26	831,562.12
Other	110,958.97	109,926.98	101,456.41	84,700.75	70,241.66
Total	$30,311,955.95*	$27,900,184.45*	$24,[illegible],126.47*	$20,591,482.10*	$15,749,561.53*

*Does not reflect accounting adjustments for power charges.

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KPMG Peat Marwick

Certified Public Accountants

VERMONT ELECTRIC GENERATION AND

TRANSMISSION COOPERATIVE, INC.

Financial Statements

December 31, 1990 and 1989

(With Independent Auditors' Report Thereon)

VERMONT ELECTRIC GENERATION AND

TRANSMISSION COOPERATIVE, INC.

December 31, 1990 and 1989

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Certified Public Accountants

One Church Street
P.O. Box 564
Burlington, VT 05402

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Vermont Electric Generation and
Transmission Cooperative, Inc.:

We have audited the accompanying balance sheets of Vermont Electric Generation and Transmission Cooperative, Inc. as of December 31, 1990 and 1989 and the related statements of operations, changes in equities and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative'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 and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

As discussed in Note 9(C) to the financial statements, the Cooperative has not recognized in its 1990 financial statements the loss which will be sustained upon the completion of the sale of its ownership interest in the Seabrook Unit No. 1. Recognition of this loss would have resulted in a significant additional expense for the year ended December 31, 1990. Generally accepted accounting principles require that this loss be recorded.

As discussed in Note 9(C) to the financial statements, the Cooperative did not recognize estimated expenses of $950,000 in its 1989 financial statements relating to the estimated remaining costs to be incurred in connection with the construction of Seabrook Nuclear Power Plant Unit No. 1. Generally accepted accounting principles require that such expenses be recorded.

In our opinion, because of the effects of the matters discussed in the third paragraph, the 1990 financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of Vermont Electric Generation and Transmission Cooperative, Inc. at December 31, 1990, or the results of its operations or its cash flows for the year then ended. In our opinion, except for the effects of not recognizing as expenses the estimated remaining costs for construction of Seabrook Nuclear Power Plant Unit No. 1, as discussed in the preceding paragraph, the 1989 financial statements referred to above present fairly, in all material respects, the financial position of Vermont Electric Generation and Transmission Cooperative, Inc. at December 31, 1989, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Vermont Electric Generation and Transmission Cooperative, Inc. will continue as a going concern. As discussed in Note 9(A) to the financial statements, the Cooperative's net capital deficiency, and its inability to meet its obligations raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 9(A). The financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

As discussed in Note 9(E) to the financial statements, the Cooperative is a defendant in various lawsuits. The ultimate outcome of such litigation cannot presently be determined. Accordingly, no liability, or loss, that may result upon final adjudication has been recognized in the accompanying financial statements.

KPMG Peat Marwick

February 5, 1991

Vt. Reg. No. 92-0000241

VEr.MONT ELECTRIC GENERATION AND
TRANSMISSION COOPERATIVE, INC.
Balance Sheets
December 31, 1990 and 1989

Assets	1990	1989
Electric plant, at cost:		
Electric plant in service	$61,936,101	31,813,563
Less accumulated depreciation	5,267,519	4,137,744
Net electric plant in service	56,668,582	27,675,819
Construction work in progress - Seabrook Nuclear Power Project (note 9)	0	28,506,869
Net electric plant	56,668,582	56,182,688
Other investments (note 2)	263,204	296,141
Current assets:		
Cash	1,587	572
Cash restricted for construction	34,953	7,820
Accounts receivable - affiliated cooperative	21,785,649	15,761,383
Accounts receivable - other	22,696	7,600
Prepaid expenses	121,514	61,936
Total current assets	21,966,399	15,839,311
Deferred charges, net of amortization (note 3)	2,761,398	2,875,269
Total assets (notes 4 and 5)	$81,659,583	75,193,409

See accompanying notes to financial statements.

Liabilities and Deficit	1990	1989
Equities (deficits):		
Memberships issued and subscribed	$ 30	30
Other deficits	(326,454)	(326,454)
Total deficit	(326,424)	(326,424)
Long term debt (FFB), excluding current installments (note 4)	28,270,438	28,495,917
Current liabilities:		
Line of credit, 9.125% in 1990 and 9.75% in 1989 (CFC) (in default) (note 6)	5,268,179	5,268,179
Current installments of long-term debt (FFB) (note 4)	205,868	89,011
Long-term debt (REA) (in default) (note 5)	14,446,119	14,446,119
Accounts payable	8,325,817	7,372,002
Accounts payable - affiliated cooperative	466,416	367,731
Advance payable - affiliated cooperative	1,812,000	1,812,000
Account payable - REA guaranteed debt (note 4)	13,494,651	10,155,776
Accrued interest	9,333,952	7,513,098
Total current liabilities	53,353,002	47,023,916
Deferred credits (note 7)	362,567	0
Total liabilities	81,986,007	75,519,833
Commitments and contingencies (note 9)		
Total liabilities and deficit	$81,659,583	75,193,409

VERMONT ELECTRIC GENERATION AND
TRANSMISSION COOPERATIVE, INC.
Statements of Operations
Years ended December 31, 1990 and 1989

	1990	1989
Operating revenue (note 8)	$12,050,089	10,018,235
Operating expenses:		
Purchased power (note 9)	3,457,813	3,590,184
Nuclear generation	907,692	574,272
Hydro generation	115,745	105,281
Transmission	536,920	594,797
Customer accounts	1,478	1,105
Administrative and general	885,921	791,388
Depreciation	1,239,045	817,719
Amortization	112,368	112,368
Total operating expenses	7,256,982	6,587,114
Earnings from operations	4,793,107	3,431,121
Other income:		
Interest and dividend income	36,681	35,875
Rental income	9,626	0
Total other income	46,307	35,875
Interest charges:		
Interest on long-term debt	3,312,954	3,319,374
Allowance for funds used during construction	(502,258)	(1,014,857)
Other interest	2,028,718	1,162,479
Net interest charges	4,839,414	3,466,996
Net earnings	$ 0	0

See accompanying notes to financial statements.

VERMONT ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC.

Statements of Changes in Equities

Years ended December 31, 1990 and 1989

	Memberships Issued and Subscribed	Other Equities: Donated Capital	Other Equities: Earnings (Loss)
Balance at December 31, 1988	30	$ 20	(326,474)
Net earnings for the year	0	0	0
Balance at December 31, 1989	30	20	(326,474)
Net earnings for the year	0	0	0
Balance at December 31, 1990	30	$ 20	(326,474)

See accompanying notes to financial statements.

VERMONT ELECTRIC GENERATION AND
TRANSMISSION COOPERATIVE, INC.
Statements of Cash Flows
Years ended December 31, 1990 and 1989

	1990	1989
Cash flows from operating activities:		
Net earnings	$ 0	0
Noncash expenses included in earnings:		
Depreciation	1,506,768	1,035,390
Amortization of deferred charges	112,368	112,368
Changes in assets and liabilities:		
Increase in accounts receivable - affiliated cooperative	(6,024,266)	(4,297,256)
Increase in accounts receivable - other	(15,096)	(6,979)
Decrease (increase) in prepaid expenses	(59,578)	8,536
Decrease (increase) in deferred charges	1,503	(10,772)
Increase in accounts payable - other	953,815	1,169,412
Increase in accounts payable - affiliated cooperative	98,685	108,504
Increase in accrued interest	1,820,854	2,266,478
Total adjustments	(1,604,947)	385,781
Net cash provided by (used in) operating activities	(1,604,947)	385,781
Cash flows from investing activities:		
Additions to electric plant in service	(237,574)	(94,914)
Retirements of electric plant in service	150,771	119,979
Additions to construction work in progress	(1,543,292)	(3,031,160)
Return of capital on VELCO Class C preferred stock	14,660	17,592
Return of CFC patronage capital	18,277	0
Increase in cash restricted for construction	(27,133)	(7,500)
Net cash used in investing activities	(1,624,291)	(2,996,003)
Cash flows from financing activities:		
Increase in accounts payable - REA guaranteed debt	3,338,875	2,671,937
Repayment of long-term debt	(108,622)	(61,195)
Net cash provided by financing activities	3,230,253	2,610,742
Net increase in cash	1,015	520
Cash at beginning of year	572	52
Cash at end of year	$ 1,587	572
Supplemental cash flow information:		
Cash paid during the year for interest	$ 47,675	37,242

See accompanying notes to financial statements.

VERMONT ELECTRIC GENERATION AND
TRANSMISSION COOPERATIVE, INC.
Notes to Financial Statements
December 31, 1990 and 1989

(1) Summary of Significant Accounting Policies

(a) Regulatory Jurisdictions

Vermont Electric Generation and Transmission Cooperative, Inc. (the Cooperative) is under the jurisdiction of the Federal Energy Regulatory Commission (FERC), the Rural Electrification Administration (REA) and the Public Service Board of Vermont (PSB).

(b) Revenue Recognition

The Cooperative recognizes revenue for electric service in the months that bills are rendered as opposed to recognizing revenue in the month that service is rendered. This method of recognizing operating revenue is consistent with other rural electric cooperatives.

(c) Depreciation

The Cooperative follows the policy of charging to operating expenses annual amounts of depreciation which allocate the cost of the electric plant over its estimated useful life. The Cooperative employs the straight-line method for determining the annual charge for depreciation. The estimated useful lives for electric plant are as follows:

	Years
Millstone Unit 3 (jointly-owned)	35
N. Hartland hydro plant	50
N. Hartland tie line	50
Highgate investment	10

Millstone nuclear fuel is charged to operations at a rate of $4.185 in 1990 and $9.43 in 1989 per megawatt hour of generation.

(d) Amortization

The Cooperative follows the policy of charging to operating expenses annual amounts of amortization which allocate the cost of various deferred charges over periods established by management for rate-making purposes. The Cooperative employs the straight-line method for determining the annual charge for amortization.

(e) Corporate Structure and Income Taxes

The Cooperative is a nonprofit and nonstock membership corporation organized under provisions of the Electric Cooperative Act of Vermont. The Cooperative is an organization described in Section 501(c)(12) of the Internal Revenue Code, and is exempt from taxes on related income under Section 591(a).

(f) Allowance for Funds Used During Construction

Allowance for funds used during construction is the interest cost of borrowed funds used to fund construction in progress. The interest costs are capitalized in the same manner as other construction costs, with credits to interest expense.

(Continued)

(g) Decommissioning

The Cooperative pays its share of estimated decommissioning costs for the Vermont Yankee Nuclear Power Plant and the Millstone Unit No. 3 Nuclear Power Plant. Such payments are deposited in escrow and trust funds, and are adjusted periodically based upon adjustments to estimated decommissioning costs of the plants.

(2) Other Investments

The investment account includes the following, at cost, at December 31, 1990 and 1989:

	1990	1989
National Rural Utilities Cooperative Finance Corporation (CFC) membership	$ 1,000	1,000
National Rural Electric Cooperative Administration membership	10	10
CFC capital term certificates	17,1[illegible]	17,167
CFC patronage capital certificates	42,719	60,996
VELCO Class C preferred stock	202,308	216,958
	$ 263,204	296,141

Because the Cooperative is in default on its obligations to the Cooperative Finance Corporation (CFC), as disclosed in note 6, CFC has asserted that all amounts reported above as investments in CFC are subject to CFC's legal rights, including off-set and recoupment.

(3) Deferred Charges

The balance in deferred charges consists of the following at December 31, 1990 and 1989:

	Amortization Period	1990	1989
Seabrook Unit No. 2	1985 - 2015	$1,902,904	1,977,056
Pilgrim Unit No. 2	1984 - 2014	773,353	843,478
Preliminary survey - load control	None	52,414	52,415
Seabrook Unit No. 1	None	32,727	0
Other	-	0	2,320
		$2,761,398	2,875,269

The costs associated with the abandonments of Seabrook Unit No. 2 and Pilgrim Unit No. 2 are being recovered in rates on a straight-line basis over thirty (30) years.

(Continued)

(4) Long-Term Debt

The Cooperative was indebted as follows at December 31, 1990 and 1989:

	1990	1989
Mortgage notes payable - Federal Financing Bank (FFB), due through 2019 at various rates of interest averaging 9.08% and 9.10% at December 31, 1990 and 1989 respectively	$28,476,306	28,584,928
Less current installments	205,868	89,011
Long-term debt, excluding current installments	$28,270,438	28,495,917

Debt service on the FFB mortgage notes has been paid since early in 1986 by REA, as guarantor of the obligation. The account payable to REA for reimbursement of debt service payments made on behalf of the Cooperative was $13,494,651 and $10,155,776 at December 31, 1990 and 1989, respectively.

The following is a schedule of minimum required payments on long-term debt for the years ending December 31:

	Principal	Interest
1991	$ 205,868	2,577,716
1992	273,565	2,557,349
1993	308,998	2,531,658
1994	337,185	2,503,471
1995	368,003	2,472,653
Thereafter	26,982,687	
	$28,476,306	

All of the assets of the Cooperative are pledged as security under these notes and the notes discussed in note 5.

(5) Long-Term Debt (In Default)

Long-term debt (in default) consists of the following at December 31, 1990 and 1989:

	1990	1989
Mortgage notes payable - U.S. Department of Agriculture Rural Electrification Administration (REA), 5% mortgage notes, due through 2018	$14,446,119	14,446,119

The Cooperative is in default due to nonpayment of debt service on these notes in cumulative amounts, including interest, of $4,551,228 and $3,653,693 in 1990 and 1989, respectively. Because of the default, the balance has been classified as a current liability at December 31, 1990 and 1989.

All of the assets of the Cooperative are pledged as security under these notes and the notes discussed in note 4.

(Continued)

(6) Line of Credit (In Default)

The Cooperative is in default due to nonpayment of principal and interest on a line of credit agreement with the National Rural Utilities Cooperative Finance Corporation (CFC). The maturity date under this agreement was March 31, 1986. The Cooperative was indebted under this agreement as follows at December 31, 1990 and 1989:

	1990	1989
Principal	$ 5,268,179	5,268,179
Accrued interest	2,790,346	2,115,209

(7) Deferred Credits

The balance in deferred credits of $362,567 and $-0- at December 31, 1990 and 1989, respectively, consists of the over amortization recorded on Millstone 3 fuel. This amount will be written off over a burn cycle of approximately eighteen (18) months which will begin in April 1991.

(8) Affiliated Cooperative

Certain officers and trustees of this Cooperative are also officers and trustees of the Vermont Electric Cooperative, Inc. (the VEC), an affiliated cooperative. Transactions between the Cooperative and VEC, made pursuant to tariff agreements, are summarized as follows for the years ended December 31, 1990 and 1989:

	1990	1989
Sales of energy to the VEC	$11,413,742	8,847,257
Services provided and costs allocated by the VEC	172,031	203,893
Interest expense on cash advance	98,685	108,504

The Cooperative sells the majority of the power it purchases to the VEC. Through its wholesale power contract with the VEC, the Cooperative is able to bill all costs, margins, and reserves, net of revenue billed to others, to VEC. Under this contract, the VEC is committed for payments to the Cooperative of principal and interest on the Cooperative indebtedness. The obligations of the VEC to the Cooperative have not been met. Its ability to meet these obligations in the future remains uncertain (see note 9A).

(9) Commitments and Contingencies

(A) Going Concern - Debt Restructuring

As shown in the financial statements, the Cooperative's current liabilities exceeded its current assets by $31,386,603 and $31,184,605 at December 31, 1990 and 1989, respectively, and its total liabilities exceeded its total assets by $326,424. The Cooperative's affiliate, the VEC, has not met its obligations to the Cooperative, and its ability to meet these obligations in the future remains uncertain. Additionally, as discussed in notes 4, 5 and 6, the Cooperative has been

(Continued)

unable to meet or is in default on its debt obligations to various lenders. As discussed in Note 9(E), the Cooperative is also a party to various legal actions, and holds an ownership interest in the Seabrook Unit No. 1, which experienced persistent delays and cost overruns before beginning operations during 1990, as more fully discussed in Note 9(C). These factors, among others, indicate that the Cooperative may be unable to continue in existence in its present structure.

Management is in the process of completing negotiations with its lenders concerning debt restructuring. Included in this restructuring is the proposed sale of the Cooperative's ownership interest in Seabrook Unit No. I for substantially less than the Cooperative's cost, and the proposed sale of 2000 kilowatts of the Cooperative's North Hartland Station, as discussed more fully in Notes 9 (B) and (C). Other terms of this proposed debt restructuring which are currently being negotiated include proposed settlement with the Cooperative's unsecured creditor, the Cooperative Finance Corporation (the CFC), at less than the full amount of the Cooperative's unsecured debt, and full repayment of secured CFC debt of both Cooperatives, through proceeds from the proposed sales; and restructuring of the indebtedness to the REA and the Federal Financing Bank (FFB.)

In December, 1990, the CFC filed an action against the Cooperative for principal, interest, and costs associated with its line of credit with the Cooperative, in the amount of approximately $8,000,000. The Cooperative and the CFC have entered into settlement discussions regarding this action, but no settlement has been reached.

Moreover, the terms of the debt restructuring agreement with the REA are not yet finalized. Additionally, many elements of this agreement, including the sales of the Cooperative's ownership interest in Seabrook Unit No. 1 and the sale of 2000 Kilowatts of the North Hartland Station, as well as the actual restructuring agreement, are subject to regulatory approval by the Vermont Public Service Board. As a result, a successful conclusion to these negotiations cannot be assured, and, in the event of failure, filing by the Cooperative under Federal bankruptcy statutes is likely.

(B) Power Contracts

The Cooperative obtains power primarily from other utilities under contractual arrangements. In addition, the Cooperative obtains power from its hydro generation facility, the North Hartland Hydroelectric Power Plant, and its 0.35% ownership interest in the Millstone Unit No. 3 Nuclear Power Plant, and its 0.41259% ownership interest in the Seabrook Unit No. 1. A brief summary of the purchased power agreements as of December 31, 1990 is as follows:

The Cooperative obtains power under a life-of-the-unit purchase contract from the Vermont Nuclear Station (Vermont Yankee), operated by the Vermont Yankee Nuclear Power Corporation and from the Merrimack Unit No. 2 (Merrimack), owned and operated by the Public Service Company of New Hampshire. The contracts expire in 2002 and 1998, respectively. The Vermont Yankee and Merrimack purchase contracts are take-or-pay contracts which require the Cooperative to pay its proportionate share of the fixed costs of such facilities even during periods when power is not being generated by such facilities or being delivered under such contracts. Such fixed costs represent a substantial portion of the total cost for power from these sources.

(Continued)

The Cooperative has other take-or-pay contracts, with Connecticut Light and Power Company, expiring in 1993; and with the Vermont Department of Public Se[illegible] Hydro-Quebec Power, expiring in 1995. The Cooperative is also a joint own[illegible] direct current converter terminal station and transmission line in Highgate, Verm[illegible].

The Cooperative currently has commitments to purchase power in excess of its needs. Additionally, the Cooperative's mix of power is not optimally priced. The Cooperative is discussing the sale of 2000 kilowatts of the North Hartland Station with two potential purchasers. Negotiations have not yet been finalized. As more fully discussed in Note 9(C), the Cooperative has entered into an agreement to sell its ownership share of Seabrook Unit No. 1. If these sales take place, the Cooperative will have reconfigured its power supply into a more economical mix. However, these events are subject to finalization, and to federal and state regulatory approval, and their successful conclusions cannot be assured.

(C) Seabrook Nuclear Power Project

Seabrook Unit No. 1 (Seabrook) represents a major commitment for the Cooperative, as a 0.41259% owner. Prior to becoming operational during 1990, Seabrook was subjected to delays and cost increases since construction began in 1976 with the Public Service Company of New Hampshire (PSNH) as lead owner. Through December 31, 1990, the Cooperative incurred construction costs of $30,050,161 for Seabrook. Debt obligations incurred by the Cooperative to finance investment in this project have not been met. The Cooperative ceased making Seabrook construction payments in January, 1986. Advance payments have been made by other joint owners to cover this shortfall. The Cooperative owes approximately $5,600,000 to these other joint owners for Seabrook costs, and approximately $800,000 to joint owners of the Millstone No. 3 Nuclear Power Plant (Millstone) for construction costs of that facility.

In January, 1988, PSNH filed for protection from its creditors under Chapter 11 of the Federal Bankruptcy Code. As discussed in Note 9(A), the Cooperative is engaged in negotiating a restructuring of its debt. As a part of that restructuring, the Cooperative and PSNH are in the process of settling claims which the Cooperative had brought against PSNH. The proposed settlement includes the sale of the Cooperative's ownership interest in Seabrook to PSNH at a price of $6,400,000. Additionally, the Cooperative would be allowed an unsecured claim of $2,500,000 under the proposed settlement of litigation in the PSNH bankruptcy. The bankruptcy court has approved the settlement. The Cooperative and PSNH are currently in the process of drafting the Purchase and Sales agreement and obtaining the necessary regulatory approvals. The proceeds of this proposed settlement and sale, along with the sale of 2000 kilowatts from the North Hartland Station, as discussed in Note 9(B), if successfully concluded, will be used to repay the amounts in arrears, including interest, to the other joint owners of Seabrook and Millstone 3, and to other unsecured creditors.

The Cooperative has not recognized, in its December 31, 1990 financial statements, the loss which will be sustained upon the completion of the sale of its ownership interest in Seabrook to PSNH. The recognition of this event would have resulted in significant additional expense for the year ended December 31, 1990.

(Continued)

At the request of the REA, for the year ended December 31, 1989, the Cooperative did not recognize, as an operating expense, additional estimated remaining costs of $950,000, to be incurred in connection with the construction of Seabrook prior to its operating date, as required by generally accepted accounting principles. Expensing this cost would have increased the Cooperative's expenses for the year ended December 31, 1989 by $950,000.

(D) Regulatory Matters

The Vermont PSB is investigating least-cost investments, energy efficiency, and conservation and management of demand for energy for all utilities offering electric or gas services in Vermont. In connection with this investigation, the PSB has adopted reporting requirements and the development of demand side management and long-term integrated resource planning by utilities. The Cooperative has entered into a collaborative effort with another Vermont utility to facilitate compliance with these requirements. Although the Cooperative, along with other so-called "small utilities" in the state, has been excluded from these requirements, this decision by the PSB could make it more difficult for the Cooperative to obtain regulatory approval for the restructuring of its power contracts, as discussed in Note 9(B).

The Cooperative has obtained the approval of its Board and the Vermont Public Service Board for the purchase of additional power over the next three decades from Hydro-Quebec, and will be submitting the issue to a vote of its members on April 5, 1991. PSB approval, however, is subject to certain conditions, including that, if the PSB determines that the Cooperative's needs for power could be more effectively met through demand side management, the PSB may direct the Cooperative to offer to sell excess power.

The PSB initiated an investigation of costs relating to Seabrook in 1982, and dismissed this investigation as moot in 1989. However, in dismissing its investigation, the PSB stated that the Cooperative's obligations under Seabrook were a matter for separate resolution. In the opinion of counsel, this issue could arise in the context of other PSB proceedings, and may affect the Cooperative's joint ownership in Seabrook.

Various other matters are also pending before the PSB. Management is unable to estimate whether or not these matters will have a material adverse effect on the Cooperative's financial statements.

(E) Other Legal Matters

The Cooperative has not been able to obtain directors' and officers' liability insurance since 1986. The Cooperative's bylaws require that it indemnify current and former officers, trustees and employees against expenses, judgments, fines and settlements incurred by reason of the fact that such a person is a current or former officer, trustee, or employee. This may give rise to significant liabilities to the Cooperative.

The Cooperative has been named in a complaint alleging breach of a letter of intent to purchase the output of a certain hydroelectric generating facility. Judgment is demanded jointly against the Cooperative and its affiliate for $3,275,000, plus interest and costs. During 1989, a trial on the issue of liability, but not damages, has resulted in verdicts against the Cooperative and the VEC. Litigation in this case continues with an appeal by the Cooperatives to the Vermont Supreme Court, and the outcome of such litigation has yet to be determined.

(Continued)

Several matters of litigation have been brought against the Cooperative in regard to the North Hartland hydro electric generating facility. During 1989, several claims against the Cooperative in connection with this facility were settled, primarily by negotiating payment of a lesser dollar amount with creditors. Liabilities related to these claims of approximately $1,031,000 remain on the books of the Cooperative, and litigation continues with respect to some of these claims. Management is negotiating settlement of these remaining claims.

The Cooperative is also a party to various other litigation. Should this litigation be decided in a manner unfavorable to the Cooperative, the impact on the Cooperative's financial position could be significant. Additionally, the Cooperative may also have a number of unasserted claims against it, upon which counsel is unable to give an opinion as to the probability of assertion.

KPMG Peat Marwick

Certified Public Accountants

One Church Street
P.O. Box 564
Burlington, VT 05402

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Vermont Electric Generation and
Transmission Cooperative, Inc.:

We have audited and reported separately herein on the financial statements of Vermont Electric Generation and Transmission Cooperative, Inc. as of and for the years ended December 31, 1990 and 1989.

Our audits were made for the purpose of forming an opinion on the basic financial statements of Vermont Electric Generation and Transmission Cooperative, Inc. taken as a whole. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements; however, because of the adverse opinion expressed on the basic financial statements, we express no opinion on it.

The accompanying financial statements and supplementary information have been prepared assuming that Vermont Electric Generation and Transmission Cooperative, Inc. will continue as a going concern. As discussed in Note 9(A) to the financial statements, the Cooperative's net capital deficiency, and its inability to meet is obligations, raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 9(A). The financial statements and supplementary information do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

As discussed in Note 9(E) to the financial statements, the Cooperative is a defendant in various lawsuits. The ultimate outcome of such litigation cannot presently be determined. Accordingly, no liability, or loss, that may result upon final adjudication has been recognized in the accompanying financial statements and supplementary information.

KPMG Peat Marwick

February 5, 1991

Vt. Reg. No. 92-0000241

Schedule 1

VERMONT ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC.

Administrative and General Expenses

Years ended December 31, 1990 and 1989

	1990	Change from Prior Year %	Change from Prior Year Amount	1989
Administrative and general expenses:				
Property taxes	$ 238,888	(10%)	(27,059)	265,947
Administrative and general salaries	85,202	8%	6,408	78,794
Office supplies and expenses	8,896	70%	3,678	5,218
Outside services	271,004	(9%)	(26,725)	297,729
Property insurance	32,413	1%	377	32,036
Injuries and damages	46,031	(9%)	(4,630)	50,661
Regulatory commission	70,313	60%	26,301	44,012
Miscellaneous	1,150	33%	287	863
Association meetings	4,738	32%	1,162	3,576
Directors' expenses	13,480	7%	928	12,552
PSNH prudency claim	113,806	100%	113,806	0
Total administrative and general expenses	$ 885,921	12%	94,533	791,388

KPMG

KPMG Peat Marwick

Certified Public Accountants

MASSACHUSETTS MUNICIPAL WHOLESALE
ELECTRIC COMPANY

FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 1990 AND 1989
WITH INDEPENDENT AUDITORS' REPORT THEREON

MASSACHUSETTS MUNICIPAL WHOLESALE
ELECTRIC COMPANY
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 1990 AND 1989

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INDEPENDENT AUDITORS' REPORT

The Board of Directors

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY:

We have audited the accompanying statements of financial position of Massachusetts Municipal Wholesale Electric Company (a Massachusetts public corporation) as of December 31, 1990 and 1989 and the related statements of operations 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 financial position of Massachusetts Municipal Wholesale Electric Company as of December 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

March 18, 1991

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1990 AND 1989
(In Thousands)

ASSETS	1990	1989
Electric Plant		
In Service (Note 4)	$1,230,094	$ 390,938
Accumulated Depreciation (Note 2)	(115,238)	(86,456)
	1,114,856	304,482
Under Construction (Notes 2 and 4)	-	799,463
Nuclear Fuel - net of amortization (Note 2)	40,860	44,560
Total Electric Plant	1,155,716	1,148,605
Special Funds (Notes 2, 3 and 8)	256,253	269,585
Current Assets		
Cash and Temporary Investments (Notes 2 and 8)	1,809	1,826
Accounts Receivable	5,736	7,610
Unbilled Revenues (Note 2)	9,065	7,373
Inventories at Cost (Note 2)	17,182	8,816
Prepaid Expenses	5,816	2,152
	39,608	27,777
Total Special Funds and Current Assets	295,861	297,362
Deferred Charges		
Amounts Recoverable (Payable) Under Terms of the Power Sales Agreements (Notes 2 and 5)	(4,862)	329
Unamortized Debt Discount and Expenses	36,835	38,348
Other	4,617	3,128
	36,590	41,805
	$1,488,167	$1,487,672

LIABILITIES	1990	1989
Long-Term Debt (Note 3)		
Bonds Payable	$1,409,775	$1,427,185
Current Liabilities		
Current Maturities of Long-Term Debt	17,280	16,270
Notes Payable (Note 3)	1	25
Accounts Payable	46,793	34,492
Accrued Expenses	14,318	9,700
	78,392	60,487
Commitments and Contingencies (Notes 4 and 7)		
	$1,488,167	$1,487,672

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

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
STATEMENTS OF OPERATIONS
DECEMBER 31, 1990 AND 1989
(In Thousands)

	1990	1989
Revenues (Note 2)	$257,679	$258,035
Interest Income	23,725	26,294
Total Revenues and Interest Income	$281,404	$284,329
Operating and Service Expenses:		
Fuel Used in Electric Generation	$ 27,658	$ 34,955
Purchased Power	87,121	82,355
Other Operating	23,809	12,854
Maintenance	4,500	4,664
Depreciation (Note 2)	29,033	13,995
Taxes Other Than Income	3,837	2,919
	175,958	151,742
Interest Expense:		
Interest Charges	137,077	138,311
Interest Charged to Projects During Construction (Notes 2 and 4)	(36,822)	(72,231)
	100,255	66,080
Total Operating Costs and Interest Expense	276,213	217,822
Reserve for Project Billings - Net (Note 7)	-	(2,722)
Decrease in Amounts Recoverable Under Terms of the Power Sales Agreements (Notes 2 and 4)	5,191	69,229
	$281,404	$284,329

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

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
DECEMBER 31, 1990 AND 1989
(In Thousands)

	1990	1989
Cash flows from operating activities:		
Total Revenues and Interest Income	$281,404	$284,329
Total Expenses	(276,213)	(215,100)
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and decommissioning	29,408	14,131
Amortization	10,178	3,203
Reserve for Project Billings	-	(2,722)
Change in current assets and liabilities:		
Accounts Receivable	1,058	2,588
Unbilled Revenues	(1,692)	(312)
Inventories	(4,432)	1,279
Prepaid Expenses	(3,219)	79
Accounts Payable	12,669	(1,284)
Accrued Expenses and Other	2,771	1,595
Net cash provided by operating activities	51,932	87,786
Cash flows from investing activities:		
Construction expenditures and purchases of nuclear fuel	(12,510)	(2,683)
Interest Charged to Projects During Construction	(36,822)	(72,231)
Net reduction in Special Funds	13,332	5,541
Decommissioning Trust payments	(747)	(2,423)
Proceeds from property disposal and other	1,222	199
Net cash used for investing activities	(35,525)	(71,597)
Cash flows from financing activities:		
Payments for principal of Long-Term Debt	(16,400)	(16,495)
Change in Notes Payable	(24)	(6)
Net cash used for financing activities	(16,424)	(16,501)
Net decrease in cash and temporary investments	(17)	(312)
Cash and temporary investments at beginning of year	1,826	2,138
Cash and temporary investments at end of year	$ 1,809	$ 1,826
Cash paid during the year for interest (Net of amount capitalized as shown above)	$ 95,315	$ 56,874

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

MASSACHUSETTS MUNICIPAL WHOLESALE
ELECTRIC COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1990 AND 1989

(1) Massachusetts Municipal Wholesale Electric Company (MMWEC)

MMWEC is a political subdivision of the Commonwealth of Massachusetts, authorized to issue revenue bonds secured by revenues derived from Power Sales Agreements (see Note 7) with its members and other electric systems to finance the construction and ownership of electric power facilities.

A Massachusetts city or town having a municipal electric department, authorized by majority vote of the city or town, may become a member by applying for admission to MMWEC and agreeing to comply with the terms and conditions of membership as the MMWEC By-Laws may require. As of December 31, 1990, thirty-one Massachusetts municipalities were members.

MMWEC obtains power supply capacity by acquiring interests in various generating units and the operation of its own electric generating facilities (Projects). See Note 4 for a discussion of MMWEC's construction program and commitments related to these facilities. In addition, MMWEC contracts for power for resale to its members.

(2) Significant Accounting Policies

MMWEC presents its general purpose financial statements in accordance with generally accepted accounting principles as promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board.

Interest Charged to Projects During Construction

MMWEC capitalized interest as an element of the cost of electric plant and other property while under construction, including an appropriate testing period. A corresponding amount was reflected as a reduction of interest expense. The amount of interest capitalized was based on the cost of debt, including amortization of debt discount and expenses, related to each Project, net of investment gains and losses and interest income derived from unexpended Project funds.

Nuclear Fuel

Nuclear fuel includes MMWEC's ownership interest of fuel in use, in stock and in process for Millstone Unit 3 and Seabrook Station. Fuel in use is reflected net of accumulated amortization of $15.6 million and $7.0 million through December 31, 1990 and 1989, respectively. The cost of nuclear fuel is amortized to Fuel Used in Electric Generation based on the relationship of energy produced in the current period to total expected energy production for nuclear fuel in the reactor. A provision for fuel disposal costs is also included in Fuel Used in Electric Generation based upon fuel disposal contracts with the Department of Energy.

(2) Significant Accounting Policies (continued)

Special Funds

Proceeds from the sales of revenue bonds for Projects are deposited with Trustees to be invested until they are required for construction or debt service payments. The Special Funds are restricted as to their use by the General Bond Resolution, which includes investment thereof. Investments are limited to direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States, Federal government agency securities, new housing authority bonds issued by public agencies or municipalities, direct and general obligations of certain states or certain political subdivisions, bank time deposits evidenced by certificates of deposits issued by certain banks, and repurchase agreements with primary dealers secured by certain securities. Certain Special Funds are more restricted as to which of the aforementioned investments can be purchased. (See Note 8.)

Cash and Temporary Investments

Certain cash and temporary investment amounts are used for power purchases and working capital requirements of MMWEC. These funds are not governed by the General Bond Resolution. In addition to the investment securities delineated in the General Bond Resolution, MMWEC purchases Canadian currency for cash and forward settlement and invests in repurchase agreements with banks where MMWEC has established accounts. (See Note 8.)

Inventories

Fuel oil and spare parts inventory are recorded and accounted for by the average cost method. At December 31, 1990 and 1989, fuel oil inventory was valued at $7.5 million and $3.9 million, and spare parts inventory amounted to $9.7 million and $4.9 million, for the respective years.

Revenues and Unbilled Revenues

Revenues include electric sales for resale provided from MMWEC's operating units and power purchases; billings for administrative and general services provided to MMWEC's Service Participants; and billings of debt service on certain Projects prior to commercial operation of the units within those Projects. These and additional details of revenues are as follows:

Revenues	1990	1989
	(In Thousands)	
Electric sales for resale	$207,000	$168,415
Pre-operation debt service	46,432	87,446
Service	2,367	2,174
PSNH Settlement	1,167	-
Gain on land taken by eminent domain	713	-
Revenues	$257,679	$258,035

MMWEC bills its members for costs incurred in providing services and purchased power obtained on their behalf under terms of the Service Agreement and the Power Purchase Agreements. Service revenues are recorded as the expenses are incurred. Amounts which are not yet billed are included in Unbilled Revenues on the Statements of Financial Position.

(2) Significant Accounting Policies (continued)

Revenues and Unbilled Revenues (continued)

Electric sales for resale include pre-operation debt service revenues for Seabrook Station through June 30, 1990 at which time Seabrook Station began commercial operation. The difference between amounts billed currently under the terms of the Power Sales Agreements and total expenses recorded in the Statement of Operations is charged or credited to Amounts Recoverable (Payable) Under Terms of the Power Sales Agreements.

Amounts Recoverable (Payable) Under Terms of the Power Sales Agreements

Billings to Project Participants are designed to recover costs in accordance with the Power Sales Agreements. The billings are accordingly structured on a Project-by-Project basis to provide for debt service, operating funds and reserve requirements. Expenses are reflected in the Statements of Operations in accordance with generally accepted accounting principles. The timing difference between amounts billed and expensed is charged or credited to Amounts Recoverable (Payable) Under Terms of the Power Sales Agreements. Amounts will be recovered through future billings or an expense will be recognized to offset credit balances. The principal differences include depreciation, costs associated with cancelled or abandoned projects, certain interest, reserves and other costs. The reduction of Amounts Recoverable (Payable) Under Terms of the Power Sales Agreements for Projects with billings in excess of cost is primarily due to the billing of interest costs for Projects under construction through June 30, 1990. An increase in Amounts Recoverable (Payable) Under Terms of the Power Sales Agreements is primarily caused by recognition of depreciation expense in excess of bond payments related to a Project. Individual Projects with a cumulative deferral of costs total $146.1 and $132.5 million and Projects with cumulative billings in excess of costs total $151.0 and $132.2 million at December 31, 1990 and 1989, respectively. These amounts have been netted in the Statements of Financial Position.

Depreciation

Electric plant in service is depreciated using the straight-line method. The aggregate annual provisions for depreciation for 1990 and 1989 averaged 4% of the original cost of depreciable property.

(3) Debt

Power Supply System Revenue Bonds

To finance construction of ownership interests in electric generating projects under its General Bond Resolution, MMWEC issues Power Supply System Revenue Bonds (Bonds). The Bonds are secured under the General Bond Resolution by a pledge of the revenues derived by MMWEC under terms of the Power Sales Agreements and from the ownership and operation of the Projects in its power supply system. Pursuant to the Power Sales Agreements with the Project Participants, each Project Participant is obligated to pay its share of the actual costs relating to the generating units planned, under construction or in operation. The Project Participants' obligations are not contingent upon the completion or operational status of the units.

(3) Debt (continued)

Power Supply System Revenue Bonds (continued)

MMWEC financings, other than obligations maturing within one year, require Massachusetts Department of Public Utilities (DPU) authorization.

The Bonds Payable consist of Serial and Term Bonds and are comprised of the following issues, which, except for the 1987 Series B Bonds, are subject to optional redemption approximately ten years after the issue date, at 103% of the principal amount, descending periodically thereafter to 100%. The 1987 Series B Bonds are subject to redemption beginning in 1992 at 109% of the principal amount, descending periodically thereafter to 100%.

Issue	Net Interest Cost	December 31, 1990	December 31, 1989
		(In Thousands)	
1976 Series A	7.2%	$ 61,640	$ 62,645
1977 Series A	6.4%	160,250	163,185
1977 Series B	6.1%	80,060	81,265
1978 Series A	6.8%	63,075	63,930
1979 Series A	7.0%	126,420	130,200
1980 Series A	10.2%	80,060	82,105
1981 Series A	12.3%	98,965	99,505
1981 Series B	13.4%	81,930	82,395
1982 Series A	13.4%	63,155	65,155
1982 Series B	10.2%	127,030	127,870
1984 Series A	11.0%	93,975	94,510
1985 Series B	13.5%	52,835	53,030
1987 Series A	8.9%	198,260	198,260
1987 Series B	11.8%	139,400	139,400
Bonds Payable		1,427,055	1,443,455
Less: Current Maturities		(17,280)	(16,270)
Total Long-Term Debt		$1,409,775	$1,427,185

The aggregate annual principal payments due on the Bonds in the next five years are as follows: 1991 - $17,280,000; 1992 - $19,765,000; 1993 - $21,140,000; 1994 - $22,665,000; and 1995 - $23,210,000.

Bond Refunding Authority

MMWEC has received DPU authority to issue $691 million of bonds to refund currently outstanding high interest bonds. MMWEC is currently seeking an additional $285 million of bond refunding authority.

(3) Debt (continued)

Net Revenue Available for Debt Service

In accordance with the provisions of MMWEC's General Bond Resolution, MMWEC covenants that it shall fix, revise and collect rates, tolls, rents and other fees and charges, sufficient to produce revenues to pay all operating and maintenance expenses and principal of, premium, if any, and the interest on Bonds and to pay all other obligations against its revenue. Revenues, which include applicable interest earnings from investments, are required to equal 1.10 times the annual debt service for each contract year ending June 30, after deduction of certain operating and maintenance expenses and exclusive of depreciation. For the contract years ended June 30, 1990, 1989 and prior years, MMWEC met the Bond Resolution debt service coverage requirements for the applicable MMWEC Projects.

	Contract Year Ended June 30, 1990	Contract Year Ended June 30, 1989
	(In Thousands)	
Debt Service Coverage:		
Revenues	$172,299	$171,651
Other Billings	714	719
Reserve and Contingency Fund Billings	13,854	13,121
Total	186,867	185,491
Less: Operating and Maintenance Expenses	(34,467)	(41,159)
Available Revenues Net of Expenses	$152,400	$144,332
Debt Service Requirement	$138,545	$131,211
Coverage (110% Required)	110%	110%

Notes Payable

MMWEC maintains a $10 million revolving line of credit to finance temporarily certain power purchases made by MMWEC for resale under power purchase contracts. The balances outstanding were $0 and $24,000, with a maximum outstanding balance of $1.1 and $0.5 million during 1990 and 1989, respectively. Interest charged on borrowings under the line are at the bank's prime rate. In addition, a commitment fee of 3/8 of 1% per annum is charged on the unused portion of the line based on the average daily principal amount of the loan outstanding.

In January 1989, MMWEC executed a $2.5 million 1989 Series A Revenue Bond Credit Facility to finance MMWEC's equity ownership in the Hydro-Quebec Phase II transmission interconnection. The three-year Credit Facility is at the bank's prime rate for borrowings under $1 million. Borrowings of amounts in excess of $1 million accrue interest at MMWEC's option using prime, Euro dollar base rates plus 1 1/4%, or CD base rates plus 1 3/8%. Euro dollar and CD base rates vary depending on the length of maturity of the interest rate commitment period. The balance outstanding at the end of the three year period may be, upon the mutual agreement of the bank and MMWEC, amortized over a ten year period. A commitment fee of 1/2 of 1% per annum, of the unused portion of the facility, is being waived until MMWEC utilizes the facility in excess of the $1,000 balance outstanding on December 31, 1990.

(3) Debt (continued)

Notes Payable (continued)

The revolving line of credit and 1989 Series A Revenue bonds are separate from the debt issued under the General Bond Resolution and are secured under contracts with Power Purchase Agreement participants and certain Service Agreement participants, respectively.

(4) Construction and Financing

MMWEC's power supply capacity includes interests in the generating units it operates or is a joint owner in, as noted below.

The 1990 commercial operation of Seabrook Station resulted in the reclassification of the joint ownership interest from Electric Plant-Under Construction to Electric Plant-In Service. Electric Plant-In Service also includes MMWEC's Service Operations which totalled $2.6 and $2.3 million in 1990 and 1989, respectively.

Projects	Facility	MMWEC Share of Capability MW	Amounts as of December 31, 1990 (In Thousands)	Amounts as of December 31, 1989 (In Thousands)
Peaking Project	Stony Brook	170.0	$ 56,219	$ 56,194
Intermediate Project	Stony Brook	311.3	146,429	146,305
Wyman Project	W.F. Wyman Unit 4	22.7	7,349	7,344
Nuclear Project No. 3	Millstone Unit 3	36.8	128,257	128,186
Nuclear Mix No. 1	Millstone Unit 3	18.4	50,618	50,584
Nuclear Mix No. 1	Seabrook Station	1.9	8,583	8,287
Nuclear Project No. 4	Seabrook Station	49.8	258,759	249,506
Nuclear Project No. 5	Seabrook Station	12.6	70,817	67,873
Project No. 6	Seabrook Station	69.0	500,481	473,797
			$1,227,512	$1,188,076

MMWEC's 11.6% joint ownership interest in the Seabrook Station represents a substantial portion of its plant investment and financing program. Seabrook Station originally consisted of two 1,150 megawatt nuclear reactors. Unit 2 was cancelled as discussed in Note 5 - Unit Cancellation. Construction of Seabrook Station Unit 1 was completed by New Hampshire Yankee (NH Yankee), which currently is a division of Public Service of New Hampshire (PSNH), the Unit's lead owner holding 35.6% of the Unit. Seabrook Station experienced persistent and substantial cost increases and significant schedule delays during the construction and licensing periods. This included controversy and opposition from government officials, regulators and intervenors, which created financial problems for many of its joint owners, including MMWEC.

In December 1988, the Nuclear Regulatory Commission (NRC) decided on all pending financial qualification questions which were brought to its attention relating to Seabrook. The NRC ruled that, among other things, the Seabrook Station joint owners provide for the financial ability to decommission

(4) Construction and Financing (continued)

the plant prior to allowing the start of low-power testing. The joint owners have purchased a surety bond and NH Yankee established pre-operational and supplementary trusts to meet the above condition. MMWEC's December 31, 1990 trust balances of $2.3 million are to be refunded upon resolution of all relevant pending operating license appeals. For additional information regarding decommissioning expenses, see Note 7, Commitments and Contingencies - Other Issues.

PSNH, as a result of the continued delay in the commercial operation of Seabrook Station and its inability to recover costs of Seabrook Station through rates prior to commercial operation, filed for protection from its creditors under Chapter 11 of the Federal Bankruptcy Code.

The Bankruptcy Court administering the reorganization of PSNH allowed reorganization plans to be filed and after hearings on the disclosure statements associated with the plans, PSNH, the State of New Hampshire, various Bankruptcy Creditor and Equity Committees and others agreed to and joined in sponsoring the reorganization plan submitted by Northeast Utilities (NU/PSNH Plan) to acquire PSNH, including Seabrook Station. Consummation of the NU/PSNH Plan is primarily contingent on final approval from the Federal Energy Regulatory Commission for the NU/PSNH merger and a favorable ruling from the New Hampshire Supreme Court on certain rate matters.

EUA Power Corporation, a 12.1% joint owner of Seabrook Station, announced in February 1991 that it filed a voluntary petition for protection under Chapter 11 of the Federal Bankruptcy Code. EUA Power indicated its intent to continue making payments of all of its on-going obligations under the Seabrook Joint Ownership Agreement.

On June 1, 1988, MMWEC's Board of Directors adopted a strategic plan of action relating to its Seabrook joint ownership interests. The plan of action evidenced, among other things, an intention to drawdown funds previously paid and not to pay any future direct obligations to the Seabrook Project. Accordingly, no additional payments were made for construction, maintenance or nuclear fuel under the Seabrook Project Disbursing Agent Agreement or Joint Ownership Agreement until June 1990. MMWEC's prepayments were exhausted in July 1988. The Connecticut Light and Power Company, in exchange for a power sales arrangement with other joint owners, and through additional payments furnished funds to the Seabrook Project in lieu of MMWEC's payments, for the July to November 1988 period. As part of a Comprehensive Seabrook Settlement, the Connecticut Light and Power Company released any claims it may have had against MMWEC as a result of making payments to the Seabrook Project.

In June 1988, PSNH gave notice under a provision of the Seabrook Joint Ownership Agreement that MMWEC was in default of its joint ownership obligations. Pursuant to the same Joint Ownership Agreement, MMWEC had five months after such notice to cure any default. MMWEC did not agree with such notice that a default occurred on June 10, 1988. In November 1988, MMWEC and

(4) Construction and Financing (continued)

PSNH entered into a Memorandum of Understanding whereby MMWEC continued its full ownership in Seabrook Station and further agreed to execute a Settlement Agreement. The Memorandum and the Settlement Agreement provided, among other things, that all notices of default were rescinded and covenants not to sue among the major joint owners of Seabrook were effective. The Settlement Agreement required PSNH to be responsible for $30 million of MMWEC's Seabrook Station pre-operational costs. The Settlement Agreement called for MMWEC to make up within seven days of the commercial operation of Seabrook, any shortfalls in construction payments after the $30 million was exhausted, which MMWEC did on July 2, 1990. The Settlement Agreement also provided that PSNH pay MMWEC $3.5 million on the Effective Date of the Agreement and to make a $2 million annual payment to MMWEC, for eight years, upon the commercial operation of the Seabrook Station. As part of the Settlement Agreement, MMWEC and PSNH agreed to terminate the Sellback Agreement which provided that PSNH purchase a portion of MMWEC's Seabrook capacity from MMWEC at cost, to the extent that capacity was excess to the Project No. 6 Participants. The PSNH bankruptcy court approved the Comprehensive Seabrook Settlement.

(5) Unit Cancellations

MMWEC's investment in Seabrook Station includes an equivalent interest in Units 1 and 2. Seabrook's joint owners have authorized the sale of all salvageable components and equipment from the cancelled Seabrook Unit 2. The joint owners have also agreed to allow the current Seabrook Unit 2 construction permit to lapse and to take no action for renewal. MMWEC's net costs, including interest expense in Seabrook Unit 2 of $128.7 and $123.3 million as of December 31, 1990 and 1989, respectively, have been deferred and are being recovered under the terms of the Power Sales Agreements.

In October 1981, the Boston Edison Company cancelled Pilgrim Unit 2, which is included in MMWEC's Nuclear Mix No. 1. MMWEC's net costs, including interest expense associated with the Unit, which aggregated $61.2 and $59.5 million as of December 31, 1990 and 1989, respectively, were deferred and are being recovered under the terms of the Power Sales Agreements.

(6) Benefit Plans

MMWEC has two non-contributory pension plans covering substantially all full-time active employees. One plan covers union employees (union plan) and the other plan covers non-union employees (non-union plan).

The amount shown below as the Pension Benefit Obligation for MMWEC is a standardized disclosure measure of the present value of pension benefits, adjusted for the effect of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the plans.

(6) Benefit Plans (continued)

The Pension Benefit Obligation was computed as part of an actuarial valuation performed as of January 1, 1990. Significant actuarial assumptions used in the valuation include a rate of return on the investment of present and future assets of 8.0% a year compounded annually, and projected salary increases of 5.5% a year compounded annually. The Pension Benefit Obligation for both plans at January 1, 1990 is as follows:

Retirees currently receiving benefits and terminated employees not yet receiving benefits	$ 146,938
Current Employees:	
Employer financed vested	608,346
Employer financed non-vested	748,433
Total Pension Benefit Obligation	1,503,717
Net asset available for benefits, at market	1,053,171
Unfunded Pension Benefit Obligation	$ 450,546

MMWEC makes annual contributions to the pension plans equal to the amounts recorded as pension expense, which is $329,000 and $302,000 for the years ended December 31, 1990 and 1989, respectively. The union plan uses the aggregate actuarial cost method and the non-union plan uses the frozen initial liability actuarial cost method in determining pension expense. The assumed rate of return used in determining pension expense was 8.5%. Pension costs applicable to prior years' service are amortized over thirty years.

Historical trend and other information which is required to be disclosed in accordance with Governmental Accounting Standards Statement No. 5 is not considered material and therefore is not presented.

MMWEC contributes to an employee savings plan administered by a life insurance company. All full-time employees meeting the service requirements are eligible to participate in this defined contribution plan. Under the provisions of the plan, MMWEC's and the employees' contributions vest immediately. MMWEC contributed $75,000, and $70,000 while the employees contributed $119,000, and $109,000 during the years ended December 31, 1990 and 1989, respectively.

(7) Commitments and Contingencies

Power Purchases

MMWEC's contract with the New Brunswick Electric Power Commission calls for the purchase of 100 MW of capacity from the Point Lepreau nuclear unit. The contract became effective in February 1983, the unit's in-service date, and was initially effective through October 1987, with options for extensions. MMWEC's latest extension of the contract provides for purchases through October 1994, decreasing the capacity entitlement from 100 MW to 50MW

(7) Commitments and Contingencies (continued)

Power Purchases (continued)

starting November 1993. The contract payment provisions require MMWEC to pay in all events certain fixed, operating, maintenance and other charges relating to the unit, which are estimated at $36 million per year in 1991 and 1992, $33 million in 1993 and $15 million in 1994. MMWEC has entered into corresponding agreements with its members and other utilities to resell the power.

MMWEC entered into agreements for participation in the interconnection between New England utilities and the Hydro-Quebec electric system near Sherbrooke, Quebec (Phase I), which began commercial operation in October 1986. The New England portion of the interconnection was constructed at a total cost of about $140 million, of which 3.65% or $5.1 million is MMWEC's share to support. MMWEC has also entered into similar agreements for participation in the interconnection between New England utilities and the Hydro-Quebec electric system for the expansion of the Hydro-Quebec interconnection (Phase II) which went into commercial operation in November 1990. MMWEC's equity investment approximates 0.6% or $3.3 million of the total estimated cost. MMWEC has corresponding agreements with its members and another utility to recover MMWEC's share of the costs associated with the lines.

Power Sales Agreements

MMWEC sells the capability of each of its Projects to its members and other utilities (Project Participants) under the Power Sales Agreements.

The Vermont Department of Public Service (VDPS) brought an action against MMWEC in a Superior Court of Vermont in October 1985 challenging the validity of the Project No. 6 Power Sales Agreements as entered into by the Vermont Participants. In November 1986, the Superior Court Judge ruled that the Power Sales Agreements for Project No. 6 between MMWEC and several consumer-owned utilities in Vermont were valid under Vermont law. The ruling rejected contentions by the VDPS, Vermont Electric Cooperative and the Village of Stowe Water & Light Department that the contracts were invalid and, therefore, not binding agreements. The plaintiffs appealed this ruling to the Vermont Supreme Court in April 1987. In September 1988, the Vermont Supreme Court ruled that the Project No. 6 Power Sales Agreements with the Vermont utilities were not valid since inception (void ab initio) because inter alia, the utilities lacked the statutory authority to enter into the contracts and to delegate certain authority to MMWEC. MMWEC filed a motion requesting the court to grant a rehearing. However, in January 1989, the Vermont Supreme Court denied MMWEC's motion for a rehearing, and MMWEC subsequently filed a writ of certiorari with the United States Supreme Court to review the Vermont Supreme Court decision. The writ of certiorari was denied in October 1989.

(7) Commitments and Contingencies (continued)

Power Sales Agreements (continued)

Subsequent to the Vermont Supreme Court decision, The Vermont Public Service Board ordered that the Vermont Project No. 6 Participants cease making their payments to MMWEC. MMWEC recorded a reserve for the receivable in 1988 which was adjusted by $2.7 million in 1989. The Vermont Electric Cooperative and Washington Electric Cooperative of Vermont had already stopped making payments in January 1986 and 1988, respectively. The default by the Vermont Participants and Eastern Maine Electric Cooperative, discussed later, resulted in a reallocation of the Project No. 6 capability, expenses and liabilities in accordance with the Power Sales Agreement.

Inasmuch as the Stony Brook Intermediate Project has approximately 8.2% of Project Capability under Power Sales Agreements with Vermont entities, which Power Sales Agreements are virtually identical to the Project No. 6 Power Sales Agreement, the Vermont Supreme Court decision on the Project No. 6 Power Sales Agreement could apply equally to the Stony Brook Intermediate Power Sales Agreement. The Vermont Legislature enacted legislation seeking to validate the Stony Brook Intermediate Power Sales Agreement in light of the Vermont Supreme Court decision. MMWEC is seeking a declaration of the validity of the Stony Brook Intermediate Power Sales Agreement, as well as the curative legislation, in the matter of MMWEC v. State of Vermont et al. currently pending in the Superior Court in Washington County, Vermont.

The Vermont Supreme Court decision declaring the Project No. 6 Vermont Participants' contracts void ab initio, caused certain Massachusetts Project No. 6 Participants to raise issues relating to the validity of the Project No. 6 Power Sales Agreements, alleging among other things that 100% participation in the Project No. 6 Power Sales Agreements is a condition precedent to its validity. In April 1989, the Hingham Municipal Lighting Plant and the Shrewsbury Electric Light Plant both filed identical but separate actions in the Superior Court of Suffolk County in Massachusetts. The basis for the complaints is whether the Project No. 6 Power Sales Agreements are valid and binding as to them, since as alleged in the complaints, a condition precedent to the validity of all the Project No. 6 Power Sales Agreements is 100% participation in said Agreement, and if the Vermont Participants' contracts are void ab initio, then this condition precedent has not been met. Further, the complaint alleged that any increase in Project No. 6 billings as a result of the nonpayment by the Vermont Project No. 6 Participants is unlawful on the basis that the Project No. 6 Power Sales Agreements failed to have 100% participation and MMWEC's use of Project No. 6 funds to cover the shortfall in receipts constitutes a breach of the Power Sales Agreements. Five other Massachusetts Project No. 6 Participants filed similar complaints in Suffolk County Superior Court.

(7) Commitments and Contingencies (continued)

Power Sales Agreements (continued)

In April 1989, MMWEC filed an original action in the Supreme Judicial Court for Suffolk County against two Massachusetts Project No. 6 Participants. A Supreme Judicial Court Justice, sitting as a Single Justice, granted MMWEC's requests for preliminary injunctions ordering the non-paying Participants to pay their obligations. MMWEC also filed a Motion for Summary Judgement with the Single Justice who allowed for discovery to take place prior to scheduling a hearing on the summary judgement motions. In January 1990, the justice recused himself due to a potential conflict, sending the case back to the Suffolk County Superior Court. In August 1990 Hudson and Peabody filed a motion for a partial summary judgement on the 100% participation and step-up issues in Superior Court. In November 1990 arguments were presented and a Superior Court judge ruled that the Vermont Participants' nonpayments constituted a default within the meaning of the governing documents. The court further ruled that this default triggered a step-up and other related actions as required by the Power Sales Agreement. After staying any further proceeding in the Superior Court, the judge reported his decision to the Massachusetts Appeals Court. Motions for direct appellate review were filed with the Supreme Judicial Court for the Commonwealth of Massachusetts (SJC), which court took the case. The case is expected to be heard by the SJC for the Commonwealth of Massachusetts in the spring of 1991.

The Town of Hudson Light & Power Department and the City of Peabody Municipal Light Plant filed a lawsuit against MMWEC in November 1988, which among other things, sought to enjoin the MMWEC Board of Directors from acting upon the Memorandum of Understanding discussed in Note 4. In November 1988, the Massachusetts Superior Court denied the Hudson/Peabody injunction request, which denial was upheld by the Massachusetts Appeals Court. In December 1988, the Town of Hudson Light & Power Department and the City of Peabody Municipal Light Plant amended their complaint against MMWEC to include challenges to the validity of the Project No. 6 Power Sales Agreement on the 100% participation issue, as previously discussed within the context of the Vermont Supreme Court decision. This action is now part of the SJC case.

In March 1989, Washington Electric Cooperative of Vermont filed suit against MMWEC in the Washington County Superior Court in Vermont for restitution of payments made to MMWEC under the Project No. 6 Power Sales Agreement. Washington Electric Cooperative received an ex parte trustee process against other Vermont utilities which are making payments under MMWEC's Stony Brook Intermediate Unit contracts. MMWEC has removed this case to the United States District Court for the District of Vermont, where hearings were held and an order was issued to dissolve the trustee process contingent on MMWEC giving notice of any intent to take away the Vermont Participants' Intermediate Unit capacity.

(7) Commitments and Contingencies (continued)

Power Sales Agreements (continued)

In July 1989, MMWEC filed a counterclaim against certain directors, managers and attorneys of the Washington Electric Cooperative for misrepresentation. These third party defendants have moved to dismiss the claims. In November 1989, the VDPS moved to intervene in this case and filed a claim of $6.2 million for restitution of all Vermont Project No. 6 Participant payments. The Federal District Court disallowed the VDPS intervention in the cases. VDPS appealed this decision to the Second Circuit Court of Appeals which upheld the Federal District Court decision.

In December 1990, Continental Bank N.A., the Bond Fund Trustee, filed an action for securities fraud in Massachusetts Federal District Court against the various light departments contesting the Project No. 6 Power Sales Agreements, and against certain current and former light department managers individually. MMWEC is named as a nominal party in the case, and no damages are sought from it. MMWEC intends to seek dismissal of the complaint.

Eastern Maine Electric Cooperative (EMEC), a Participant in MMWEC's Project No. 6, did not make its June 1987 payment and filed for protection under Chapter 11 of the Federal Bankruptcy Code in August 1987. Furthermore, EMEC's petition to reject its contract with MMWEC was denied by the U.S. Bankruptcy Court. MMWEC has formally filed a claim in the proceedings for the money it is owed as EMEC's largest impaired creditor. EMEC responded to the claim with a counterclaim alleging, among other things, that its Project No. 6 Power Sales Agreement with MMWEC is void as a result of the Vermont Supreme Court decision. The trial on the adversarial claim scheduled for January 1990 was postponed as the two parties agreed to discuss settlement. EMEC's counsel then unilaterally filed with the Bankruptcy Court a proposed settlement agreement which was accepted by the court over MMWEC's objections. MMWEC's appeal of this decision is currently pending in the Federal District Court in Maine. MMWEC, EMEC and the Project No. 6 Participants' Committee have filed respective Plans of Reorganization and Disclosure Statements. MMWEC's Plan of Reorganization calls for establishing a new corporate entity controlled by MMWEC to replace EMEC. This entity would pay the obligation due MMWEC. Hearings have been held on various aspects of the case. No schedule has been set for completing the bankruptcy proceedings.

In January 1986, the Hull Municipal Lighting Plant filed suit against MMWEC seeking a declaration that its Power Sales Agreements for Nuclear Mix 1, Nuclear Projects Nos. 4 and 5 and Project No. 6 relating to Seabrook were invalid, and an injunction against MMWEC collecting any amounts from Hull under the agreements and monetary damages. The suit challenges the validity of these Power Sales Agreements on various grounds and alleges, among other things, various misrepresentations, breaches and imprudencies by MMWEC. In 1986, the Massachusetts Superior Court granted MMWEC's motions to stay the legal proceedings and compel arbitration of the suit and for a preliminary injunction requiring Hull to pay its share of monthly power costs as required by the Power Sales Agreements. A Single Justice of the Massachusetts Appeals Court denied Hull's petition for relief from the orders of the Superior Court, and the matter

(7) Commitments and Contingencies (continued)

Power Sales Agreements (continued)
went to arbitration. The Massachusetts Supreme Judicial Court subsequently took the case and issued an opinion upholding the injunction. In 1987, the arbitrator ruled that the contracts signed by Hull's light board with MMWEC were valid. An arbitrator has yet to rule on the other alleged breaches, imprudencies and misrepresentations claimed against MMWEC by Hull. After withholding payments, Hull is currently making payments, under protest, in accordance with the court order. After a hiatus in the case, a new arbitrator was agreed to and discovery was completed in 1990. A stipulated schedule has been forwarded to the arbitrator for his consideration. MMWEC has filed a motion for partial summary judgement which is currently pending with the arbitrator.

Based on the opinions of Bond Counsel and other legal counsel, discussions with such counsel and other considerations, management believes that the ultimate resolution of the actions described above will not have a material, adverse effect on the financial position of MMWEC. MMWEC continues to enforce the provisions of the Power Sale Agreements to assure that adequate revenues are collected to meet debt service payments on its bonds in accordance with the General Bond Resolution.

Other Issues
MMWEC, as a joint owner of the Millstone Unit 3 and Seabrook Station nuclear units, is required to set aside funds for their eventual decommissioning. MMWEC's policy is to fund these reserve requirements over the licensed life of the units through monthly billings to MMWEC Participants in the unit. MMWEC's share of the total estimated Millstone Unit 3 and Seabrook Station's projected reserve requirement is $9.3 million and $33 million, of which $1.2 and $0.2 million has been funded respectively, as of December 31, 1990. The amounts are included in other deferred charges and accrued expenses.

In August 1988 a revised Price-Anderson Act was enacted, calling for a fifteen year extension of the nuclear liability indemnification process. The revised Act limits public liability from an incident at a nuclear power plant to $7.6 billion. The $200 million primary layer of insurance for the liability has been purchased in the commercial market. Additional coverage of $7.1 billion is to be provided through a $63 million per incident assessment of each of the currently licensed nuclear units in the United States. The maximum assessment is $10 million per incident per unit in any year. If the sum of the liability claims and costs from an incident exceed the maximum amount of financial protection, each reactor owner is subject to an additional $3.2 million assessment. The maximum assessment is subject to adjustment for inflation every five years. MMWEC's interest in the Millstone Unit 3 and Seabrook Unit 1 could result in a maximum assessment of $3.0 and $7.3 million respectively.

MMWEC is not currently covered under gradual pollution liability insurance related to MMWEC's Stony Brook power plant. Management is not aware of any material claims made during 1990 or outstanding as of December 31, 1990.

(7) Commitments and Contingencies (continued)

Other Issues (continued)

Additional information regarding commitments and contingencies relative to MMWEC's debt and involvement in nuclear projects is discussed in Note 3 - Debt and Note 4 - Construction and Financing.

(8) Investments and Deposits

All bank deposits, which amounted to $680,000 at December 31, 1990, are maintained at two financial institutions. The Federal Deposit Insurance Corporation currently insures up to $100,000 per depositor. MMWEC's uninsured deposits ranged from zero to $5.8 million during 1990 due to seasonal cash flows, the timing of daily cash receipts and favorable earnings offered on these demand deposits.

Investments are stated at cost adjusted for accretion (amortization) of the discount (premium). MMWEC's normal practice is to hold its investments until maturity. At December 31, 1990, all securities underlying repurchase agreements, and all other investments, were held in MMWEC's name by independent custodians consisting of the Construction Fund Trustees, Bond Fund Trustee or MMWEC's depository bank. Investments, representing the Special Funds and Cash and Temporary Investments, as well as certain additional amounts disbursed but available for investment, and accrued interest, are presented below:

	1990		1989	
Type of Investment	Carrying Amount	Market Value	Carrying Amount	Market Value
	(Dollars In Thousands)			
Repurchase agreements	$ 9,982	$ 10,222	$ 25,859	$ 26,327
Other Investments:				
U.S. Treasury bills	82	82	34	34
U.S. Treasury notes	29,382	29,602	49,479	49,527
U.S. Agency bonds	36,149	36,380	30,765	30,715
U.S. Agency discount notes	188,246	188,362	169,327	169,240
Certificates of Deposits	-	-	89	89
Total Other Investments	253,859	254,426	249,694	249,605
Total Investments	$263,841	$264,648	$275,553	$275,932

Temporary investments, made up of funds available from amounts for which the expense has been recognized but not cleared by the bank, approximated $5.8 million and $4.1 million in 1990 and 1989, respectively, and are included in the total investments noted above.

Due to seasonal cash flows during 1990 and 1989, MMWEC, from time to time, invested in repurchase agreements with its depository bank that were collateralized by securities in MMWEC's name held by the depository bank. MMWEC's practice is to monitor the market value of the underlying securities to ensure that the market value equals or exceeds the amount invested.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY:

We have audited and reported separately herein on the financial statements of Massachusetts Municipal Wholesale Electric Company as of and for the years ended December 31, 1990 and 1989.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Massachusetts Municipal Wholesale Electric Company taken as a whole. The supplementary information included in pages 21-23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick

March 18, 1991

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1990
(In Thousands)

ASSETS	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT NO. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
Electric Plant											
In Service	$ 2,582	$ 59,201	$128,257	$258,759	$ 70,817	$500,481	$ 56,219	$146,429	$ 7,349	-	$1,230,094
Accumulated Depreciation	(1,848)	(7,335)	(18,293)	(4,612)	(1,262)	(8,924)	(18,137)	(52,229)	(2,598)	-	(115,238)
	734	51,866	109,964	254,147	69,555	491,557	38,082	94,200	4,751	-	1,114,856
Nuclear Fuel - net of amortization	-	1,919	3,226	10,888	2,960	21,867	-	-	-	-	40,860
Total Electric Plant	734	53,785	113,190	265,035	72,515	513,424	38,082	94,200	4,751	-	1,155,716
Special Funds											
Construction Fund	-	16,696	-	4,372	1,344	5,010	-	-	-	-	27,422
Bond Fund	-	1,482	1,071	1,416	419	1,382	850	2,278	105	-	9,003
Bond Reserve Fund	-	12,383	18,333	22,228	7,139	65,273	8,907	13,145	600	-	148,008
Reserve and Contingency Fund	-	3,215	2,777	4,082	1,238	6,457	990	1,765	293	-	20,817
Revenue Fund	-	2,082	3,032	2,877	900	3,859	8,340	19,970	999	-	42,059
Working Capital Funds	8,981	-	-	-	-	-	-	-	-	(37)	8,944
	8,981	35,858	25,213	34,975	11,040	81,981	19,087	37,158	1,997	(37)	256,253
Current Assets											
Cash and Temporary Investments	1,812	-	-	-	-	-	-	-	-	(3)	1,809
Accounts Receivable	4,027	48	351	33	6	92	199	854	23	103	5,736
Unbilled Revenues	9,124	-	-	-	-	-	-	-	-	(59)	9,065
Inventories at cost	-	61	-	1,640	415	2,27[illegible]	2,141	10,291	362	-	17,1[illegible]2
Advances to (from) Projects	2,044	(54)	(59)	(177)	(72)	(828)	3	(845)	(12)	-	-
Prepaid Expenses	295	631	1,137	1,609	407	1,290	49	191	207	-	5,816
	17,302	686	1,429	3,105	756	2,826	2,392	10,491	580	41	39,608
Total Special Funds and Current Assets	26,283	36,544	26,642	38,080	11,796	84,807	21,479	47,649	2,577	4	295,861
Deferred Charges											
Amounts Recoverable (Payable) Under Terms of the Power Sales Agreements	-	75,017	60,173	(48,981)	(9,647)	(90,564)	(1,796)	10,947	(11)	-	(4,862)
Unamortized Debt Discount and Expenses	-	2,782	4,713	6,019	2,153	14,316	1,645	5,072	135	-	36,835
Other	-	425	766	1,079	273	1,493	-	-	-	581	4,617
	-	78,224	65,652	(41,883)	(7,221)	(74,755)	(151)	16,019	124	581	36,590
	$27,017	$168,553	$205,484	$261,232	$ 77,090	$523,476	$ 59,410	$157,868	$ 7,452	$ 58[illegible]	$1,488,167

LIABILITIES	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT NO. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
Long-Term Debt											
Bonds Payable	$ -	$163,855	$200,750	$253,105	$ 74,745	$510,270	$ 54,355	$145,880	$ 6,815	$ -	$1,409,775
Current Liabilities											
Current Maturities of Long-Term Debt	-	2,960	1,445	2,825	830	2,765	1,690	4,555	210	-	17,280
Notes Payable	-	-	-	-	-	-	-	-	-	1	1
Accounts Payable	17,690	1,017	1,881	4,903	1,414	9,888	2,932	6,108	376	584	46,793
Accrued Expenses	9,327	721	1,408	399	101	553	433	1,325	51	-	14,318
	27,017	4,698	4,734	8,127	2,345	13,206	5,055	11,988	637	585	78,392
	$27,017	$168,553	$205,484	$261,232	$ 77,090	$523,476	$ 59,410	$157,868	$ 7,452	$ 585	$1,488,167

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1990
(In Thousands)

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	PROJECT NO. 5	PROJECT NO. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
Revenues	$88,509	$ 4,549	$21,443	$25,712	$ 7,9[illegible]	$63,351	$ 8,114	$35,082	$ 2,754	$ 210	$257,679
Interest Income	864	3,533	2,578	3,259	1[illegible]6	7,449	1,550	3,294	182	-	23,725
Total Revenues and Interest Income	$89,373	$ 8,082	$24,021	$28,971	$ [illegible],971	$70,800	$ 9,664	$38,376	$ 2,936	$ 210	$281,404
Operating and Service Expenses:											
Fuel Used in Electric Generation	$ -	$ 807	$ 1,638	$ 2,106	$ 570	$ 4,159	$ 693	$16,031	$ 1,654	$ -	$ 27,658
Purchased Power	86,911	-	-	-	-	-	-	-	-	210	87,121
Other Operating	2,335	1,656	2,896	3,380	888	5,760	1,548	4,972	374	-	23,809
Maintenance	29	289	545	454	115	630	332	1,920	186	-	4,500
Depreciation	60	1,731	3,994	4,639	1,269	8,962	2,250	5,904	224	-	29,033
Taxes Other Than Inco[illegible]	9	427	825	328	83	455	420	1,163	127	-	3,837
	89,344	4,910	9,898	10,907	2,925	19,966	5,243	29,990	2,565	210	175,958
Interest Expense:											
Interest Charges	29	11,248	17,423	21,193	6,826	63,004	5,826	11,078	450	-	137,077
Interest Charged to Projects During Construction	-	(351)	(129)	(8,421)	(2,726)	(25,195)	-	-	-	-	(36,822)
	29	10,897	17,294	12,772	4,100	37,809	5,826	11,078	450	-	100,255
Total Operating Costs and Interest Expense	89,373	15,807	27,192	23,679	7,025	57,775	11,069	41,068	3,015	210	276,213
(Increase) Decrease in Amounts Recoverable Under Terms of the Power Sales Agreements	-	(7,725)	(3,171)	5,292	1,946	13,025	(1,405)	(2,692)	(79)	-	5,191
	$89,373	$ 8,082	$24,021	$28,971	$ 8,971	$70,800	$ 9,664	$38,376	$ 2,936	$ 210	$281,404

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF CASH FLOWS
DECEMBER 31, 1990
(In Thousands)

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT NO. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
Cash flows from operating activities:											
Total Revenues and Interest Income	$89,373	$ 8,082	$ 24,021	$ 28,971	$ 8,971	$ 70,800	$ 9,664	$ 38,376	$ 2,936	$ 210	$ 281,404
Total Expenses	(89,373)	(15,807)	(27,192)	(23,679)	(7,025)	(57,775)	(11,069)	(41,068)	(3,015)	(210)	(276,213)
Adjustments to arrive at net cash provided by operating activities:											
Depreciation and decommissioning	60	1,817	4,158	4,721	1,290	9,076	2,233	5,830	223	-	29,408
Amortization	-	786	1,550	2,229	625	4,598	94	290	6	-	10,178
Change in current assets and liabilities:											
Accounts Receivable	40	41	(304)	(5)	27	(16)	260	920	200	(103)	1,058
Unbilled Revenues	(1,751)	-	-	-	-	-	-	-	-	59	(1,692)
Inventories	-	(6)	-	(170)	(43)	(236)	(446)	(3,355)	(176)	-	(4,432)
Prepaid Expenses	(43)	(132)	(155)	(1,443)	(365)	(1,060)	(3)	(13)	(5)	-	(3,219)
Accounts Payable	(991)	555	(537)	3,811	1,067	7,515	937	(420)	148	584	12,669
Accrued Expenses and Other	3,053	66	133	(52)	(14)	(74)	168	66	6	(581)	2,771
Net cash provided by (used for) operating activities	368	(4,598)	1,674	14,383	4,533	32,826	1,838	626	323	(41)	51,932
Cash flows from investing activities:											
Construction expenditures and purchases of nuclear fuel	(319)	(929)	(1,626)	(3,004)	(801)	(5,576)	(39)	(203)	(13)	-	(12,510)
Interest charged to Projects during Construction	-	(351)	(129)	(8,421)	(2,726)	(25,195)	-	-	-	-	(36,822)
Net increase (decrease) in Special Funds	(196)	8,763	1,753	(119)	(161)	754	(470)	3,081	(110)	37	13,332
Decommissioning Trust payments	-	(113)	(213)	(160)	(40)	(221)	-	-	-	-	(747)
Proceeds from property disposal and other	158	23	46	1	-	2	221	771	-	-	1,222
Net cash provided by (used for) investing activities	(357)	7,393	(169)	(11,703)	(3,728)	(30,236)	(288)	3,649	(123)	37	(35,525)
Cash flows from financing activities:											
Payments for principal of Long-Term Debt	-	(2,795)	(1,505)	(2,680)	(805)	(2,590)	(1,550)	(4,275)	(200)	-	(16,400)
Change in Notes Payable	(25)	-	-	-	-	-	-	-	-	1	(24)
Net cash provided by (used for) financing activities	(25)	(2,795)	(1,505)	(2,680)	(805)	(2,590)	(1,550)	(4,275)	(200)	1	(16,424)
Net decrease in cash and temporary investments	(14)	-	-	-	-	-	-	-	-	(3)	(17)
Cash and temporary investments at beginning of year	1,826	-	-	-	-	-	-	-	-	$ -	1,826
Cash and temporary investments at end of year	$ 1,812	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (3)	$ 1,809
Cash paid during the year for interest (Net of amount capitalized as shown above)	$ 29	$ 10,670	$ 17,119	$ 11,679	$ 3,756	$ 35,097	$ 5,732	$ 10,788	$ 445	$ -	$ 95,315

KPMG