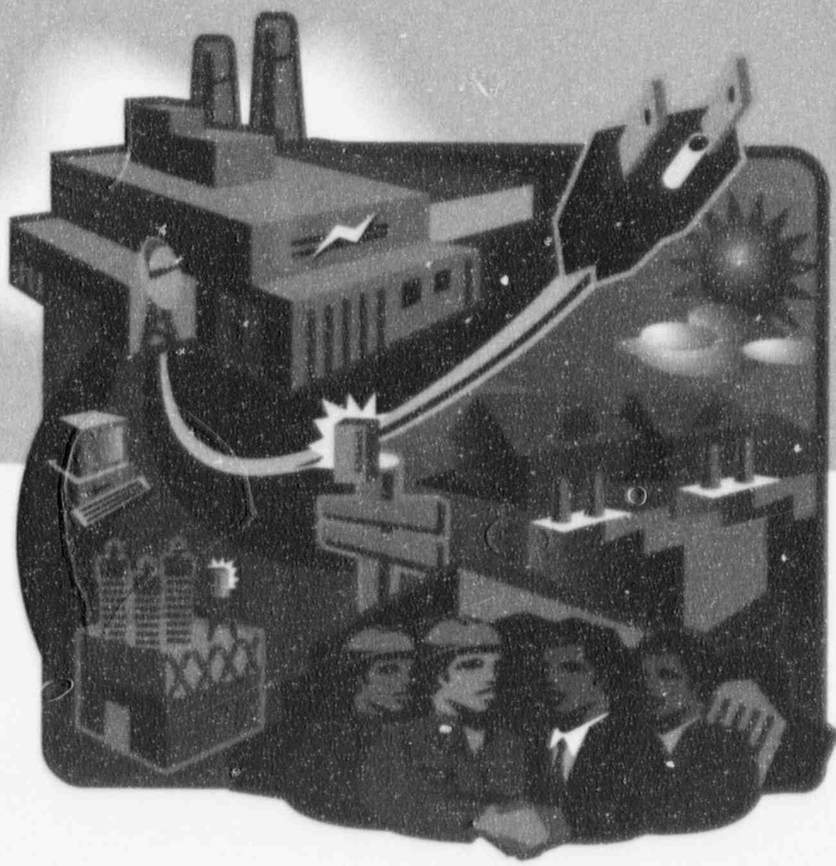
Taunton Municipal Lighting Plant

Annual Report



Our Changing World 1 9 9 4

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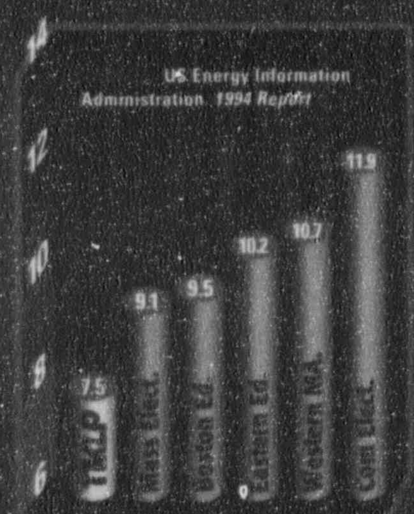

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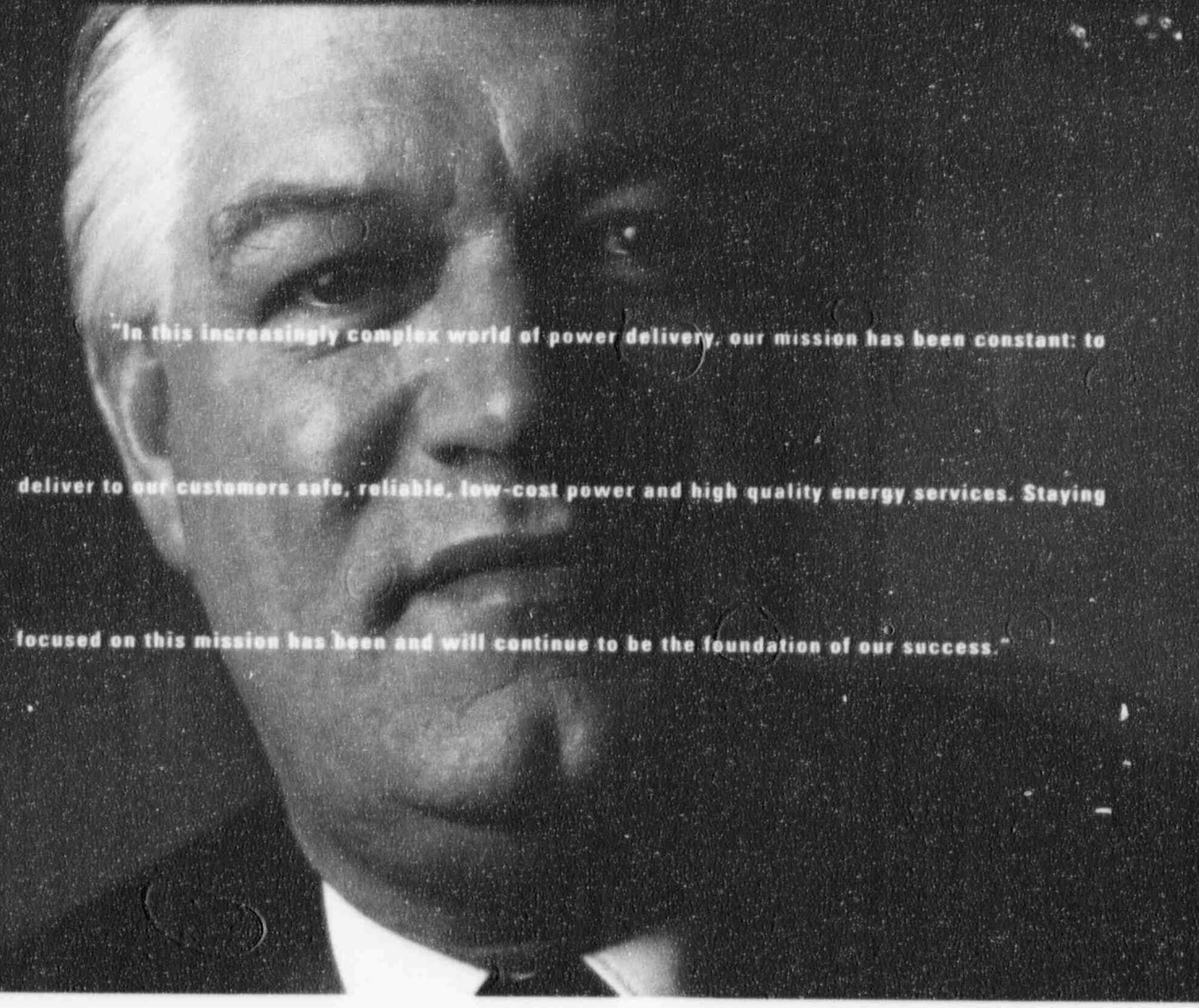


Joseph M. Blain: General Manager

A CHANGING WORLD

The business of delivering electric power grows increasingly more complex each year. It's not just the growing number of regulations, the seemingly endless siting process, or the increased cost of doing business that each of these imposes. From my perspective, at the foundation of this complexity is a fundamental shift in the way our industry does business.

In the past, the whole energy world was based on long-term planning. We built power plants that lasted 40 to 50 years. We negotiated 10, 15 and 20-year contracts. We "knew" that no matter what else happened we'd always have our service territory and our customers. And that fact alone allowed us to look and plan confidently for the long term.

All that is changing. We've seen the trend in the natural gas industry, where deregulation has created more competition, more players, more uncertainty for utilities. And there's no reason to suspect that same trend will not transform the electric power industry as well. Then, the proverbial shake-out will begin.

If small municipal utilities like TMLP expect to remain competitive in this new world of power delivery, three things seem essential. We have to use technology to our best advantage. We have to keep the cost of public power as low as possible. And we have to dedicate ourselves to a level of quality that comes only when people work together as a team.

I invite you to review our work in 1994 from these vantage points. I am confident that you will agree that TMLP is becoming well-prepared for this new, competitive world of power delivery.

Joseph M. Blain

Joseph M. Blain

Arthur Pimenta: Secretary

Joseph Medeiros: Commissioner

John Martyniak: Chairman

HARNESSING TECHNOLOGY

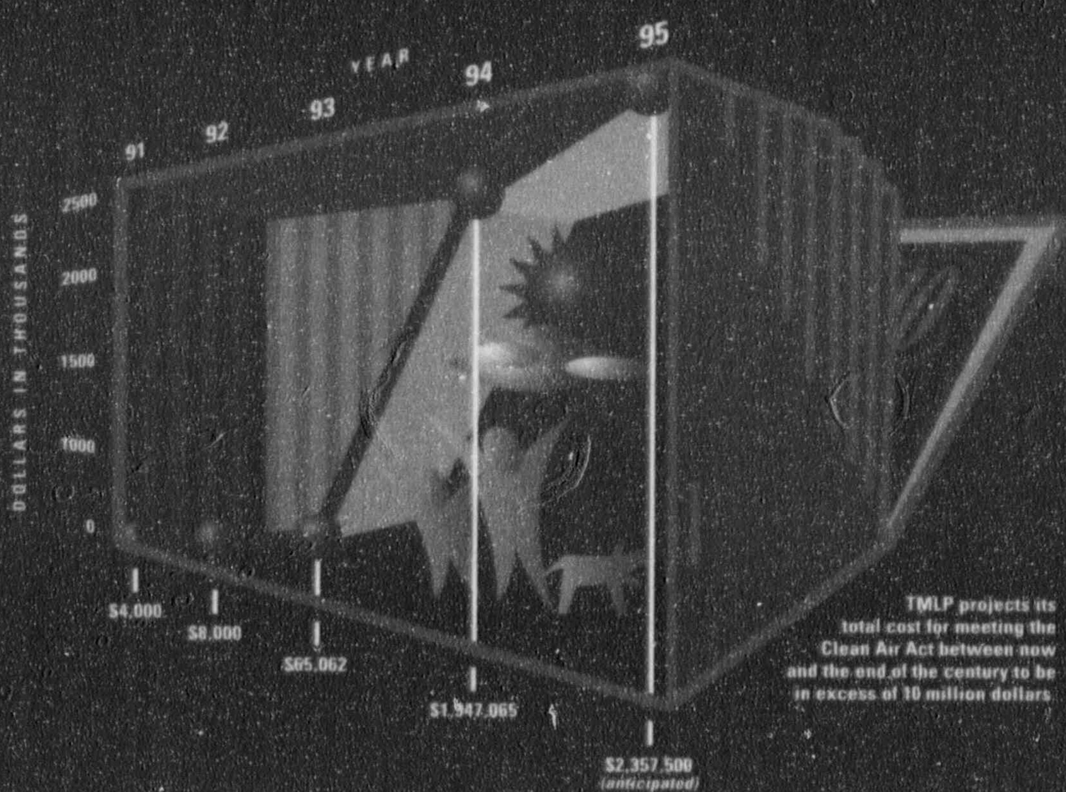
The Taunton Municipal Lighting Plant took a giant step into the future of power production technology in 1994 – to satisfy new environmental regulations, and to enhance our already strong competitive position in the energy marketplace.

Protecting the environment – electronically. After several years of meticulous planning, the Production Department successfully installed, tested and put into operation a custom-designed Continuous Emissions Monitoring System at our Cleary Flood generating station. Required by Federal law starting December 31, 1994, CEMS automatically monitors and records a variety of data on stack emissions. That data is then translated into comprehensive reports now required by the Environmental Protection Agency, to verify that utilities are operating in accordance with the amendments to the Clean Air Act of 1990.

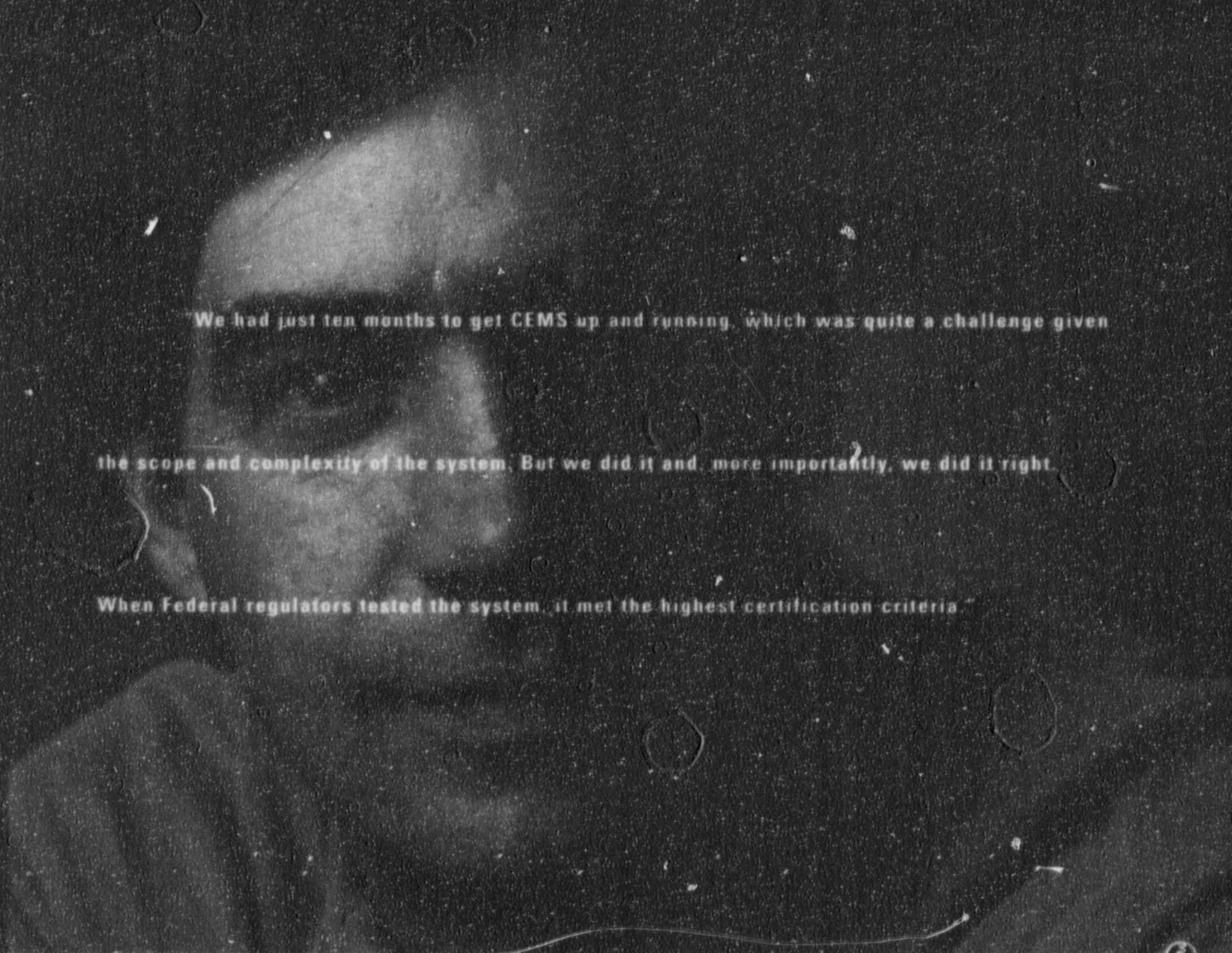
The $1.5 million system will also be used to verify TMLP's compliance with sulfur and nitrous oxide emission standards set by the Commonwealth of Massachusetts.

Nationwide, these systems are part of a continuing effort to reduce the impact of power generation on the environment. At TMLP, CEMS will serve other purposes as well. In our Energy Services and Planning Department, CEMS data will enable us to examine various dispatch models based on types of fuel, emission levels and production resources, to minimize the environmental cost of power generation. Further, accurate emissions

The Cost of Clean Air



TMLP projects its total cost for meeting the Clean Air Act between now and the end of the century to be in excess of 10 million dollars



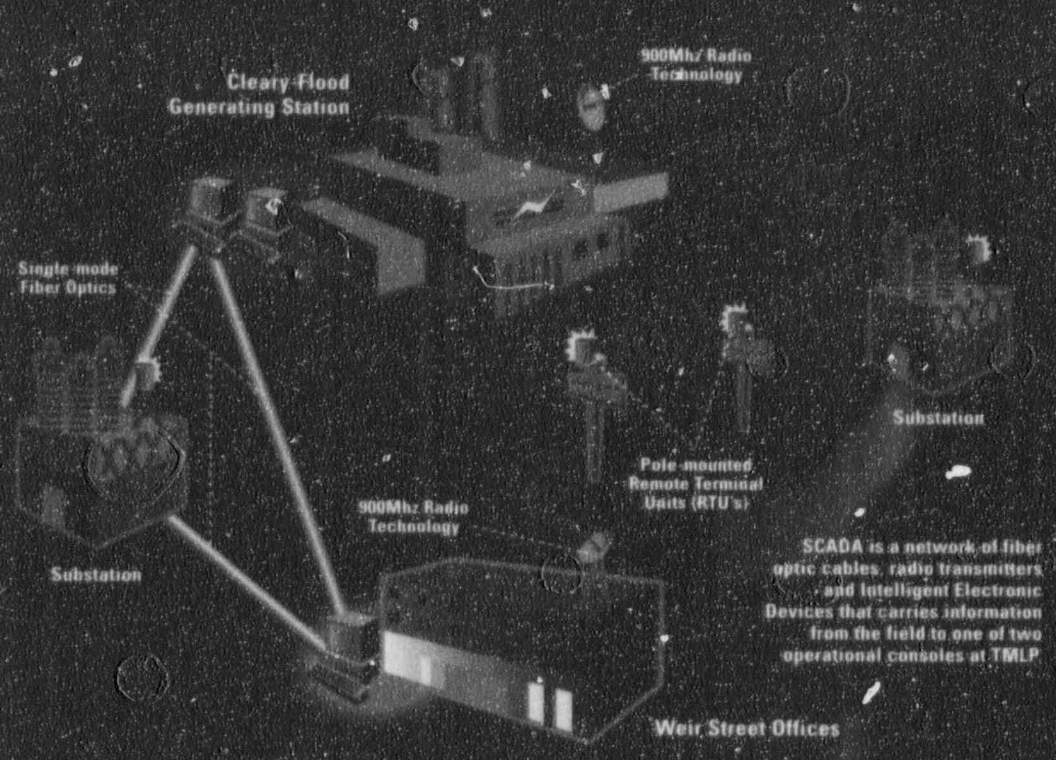
Mark Seekell: Instrument Technician

tracking will also help ES&P compete more effectively in the new emissions market, by signaling when to buy and sell the emission allowances now assigned by the Federal government.

In the Production Department, we can now use the real time data from CEMS to improve daily operations. For example, our gas turbine may now be automatically adjusted for peak efficiency based on preset emission parameters measured by CEMS. Over the long term, CEMS will provide a complete history of operations, not just a snapshot, so the Production Department will be better prepared to replicate optimal performance conditions.

A network to the future. While CEMS supports environmentally sound production, our new regional communications network promises to improve the quality of electric service – and help ensure that our rates remain among the lowest in the Commonwealth.

TMLP's Transmission and Distribution Department began procurement of the Supervisory Control and Data Acquisition/Distribution Automation (SCADA/DA) system in August, 1994. SCADA/DA, in essence, is a high tech customer service system. When the installation is on-line, it will dramatically improve our ability to monitor and troubleshoot TMLP's distribution system – 420 miles of wires, 17,200 poles and 15 substations that carry electricity to 30,542 customers in our 100 square mile service territory. With SCADA/DA, T&D can monitor this entire system, spot potential problems, pinpoint trouble spots, initiate several corrective actions and speed the dispatch of repair crews – all from one centralized location, and well before a customer has to call to report a problem. The short term result: more efficient, more responsive, more cost-effective customer service.



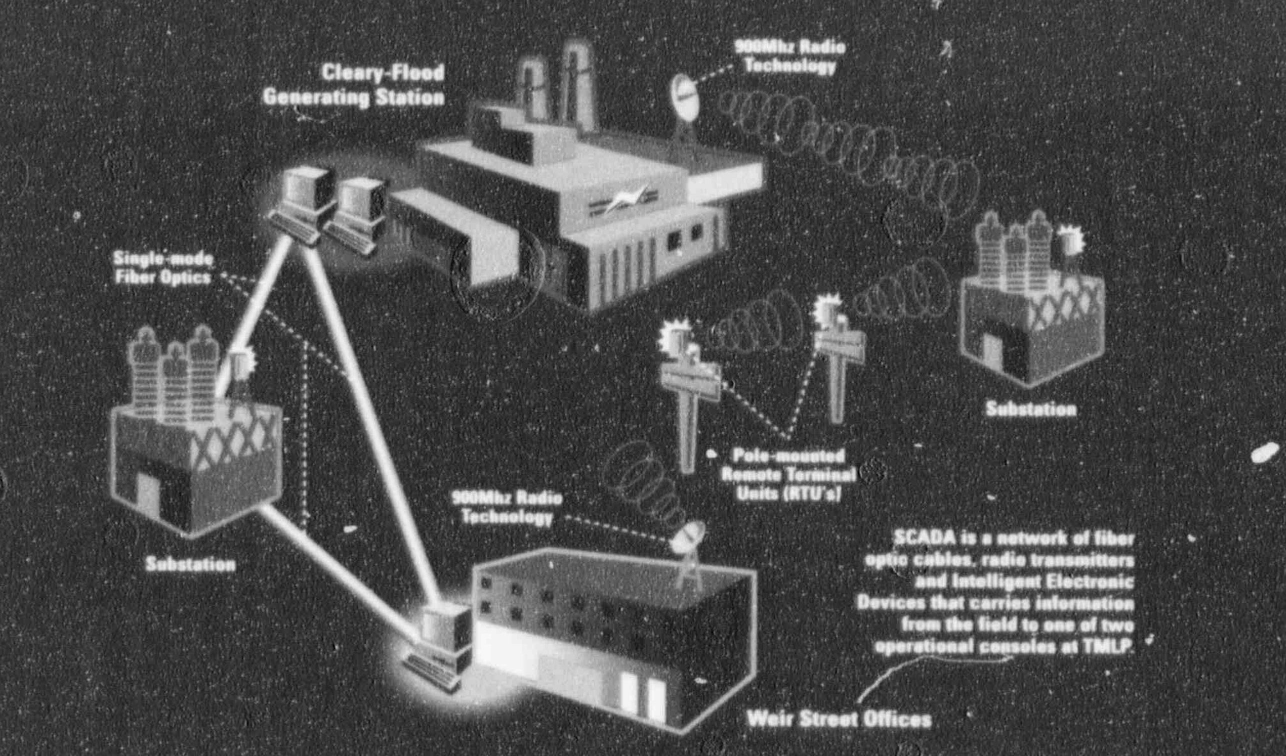
How SCADA Works

The SCADA/DA system is a network of fiber optic cables, radio transmitters and Intelligent Electronic Devices that carries information from the field to one of two operational consoles at TMLP. A two-way system, it also allows a console operator to reroute power, engage capacitor banks, read substation meters, open and close switches and make other system adjustments. And it's precisely this send-receive capability that opens up a whole range of customer services – including distribution automation and demand side management.

IMS – Tying it all together. The ability to use the SCADA/DA system to communicate with energy systems at residential, commercial and industrial sites introduces the third major technological advance initiated at TMLP in 1994 – a new Information Management System.

The benefits of the new computer system go beyond EPA reporting, analyzing customer energy loads and suggesting ways to reduce our customers' energy costs. It will also boost TMLP's daily efficiency – and cut millions of dollars from our operating costs in the years ahead.

Day to day, sophisticated planning software will analyze each department's project proposals, create master timelines, identify scheduling conflicts and help maximize manpower assignments. A centralized data base and electronic mail, running from department to department over its own fiber optic network, will support faster, more informed decision making. Inventory control programs will effect more timely purchasing. And a complete accounting package will bring bookkeeping and billing back in-house – the foundation for justifying the cost of the new system. Currently, accounting, bookkeeping and billing are contracted to an outside vendor at a cost of approximately



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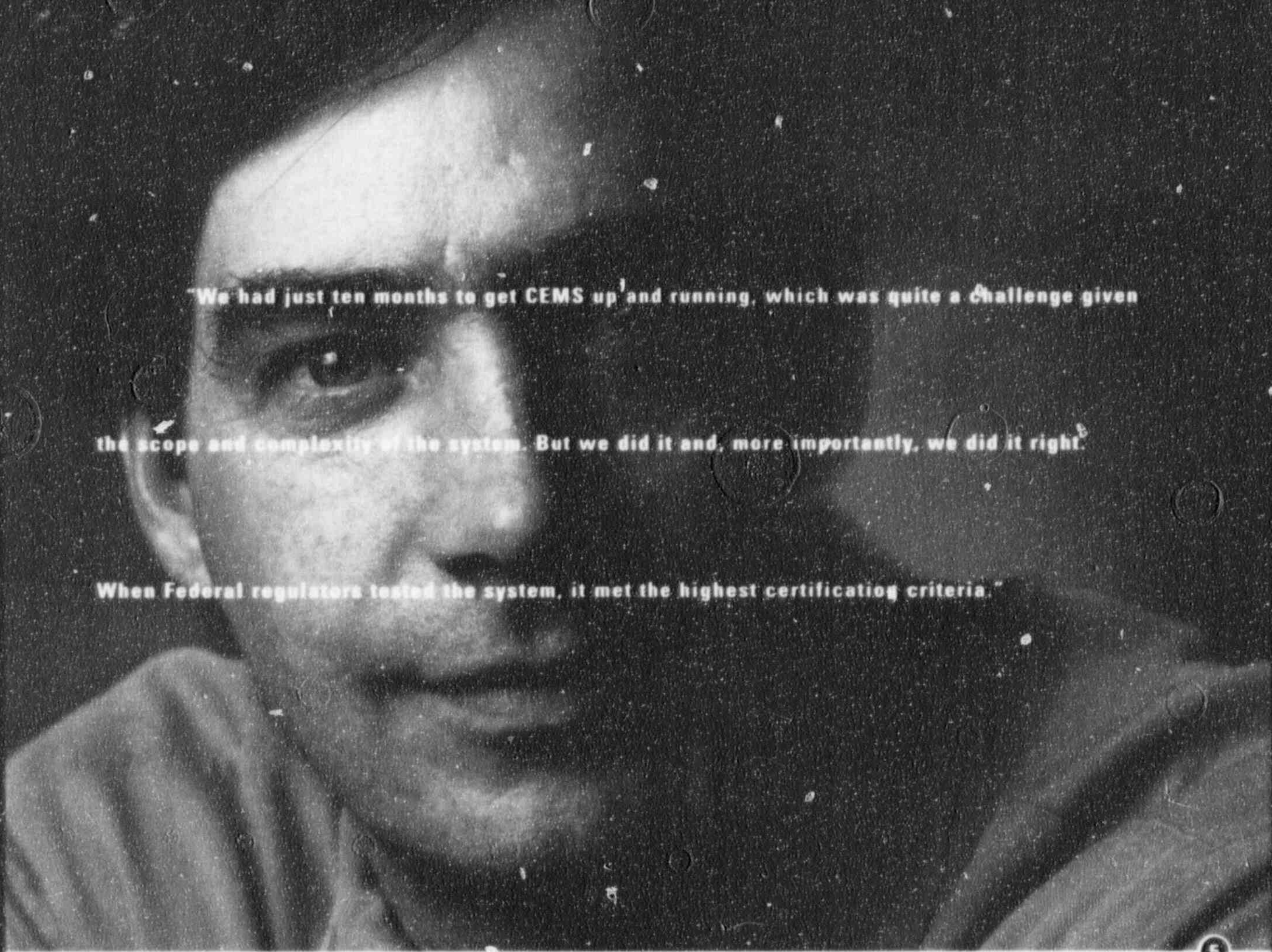

Mark Seekell: Instrument Technician

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one-half million dollars a year. Comparing those fees over the next 10 years to the cost of purchasing and operating our own system revealed a benefit-to-cost ratio of 2.7 – a savings of more than $2.3 million.

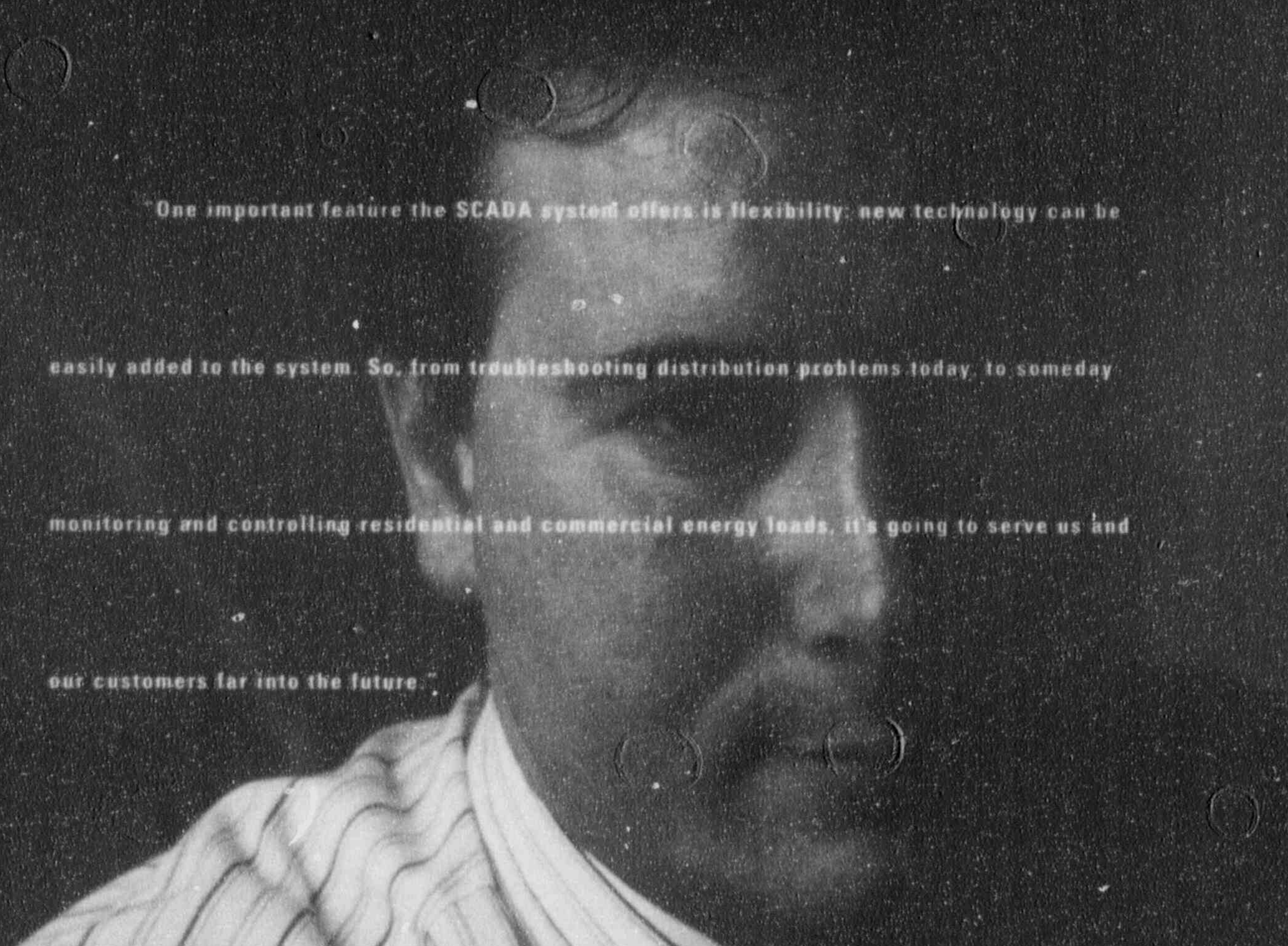
CEMS, SCADA/DA, IMS – an alphabet soup to most. But for current customers and for those who will choose Greater Taunton for their business or home address, these acronyms will become signals that this public utility is harnessing today's technology to improve service and ensure our ability to compete in the fast-changing world of power delivery.

LEAST COST POWER

An important part of our mission is to deliver safe, reliable power – at the lowest possible cost. While factors influencing that goal are becoming increasingly complex, we did fulfill that mission again in 1994. According to a report from the Massachusetts Energy Information Administration, among all utilities in the Commonwealth TMLP posted the lowest rates in every major rate category: residential, commercial and industrial.

Keeping rates low in 1994, however, did not deter us from looking for new ways to hold down the cost of power for our customers in the years ahead. We are proud to report achievements and strides in this area as well.

Craig Foley: Electrical Engineer



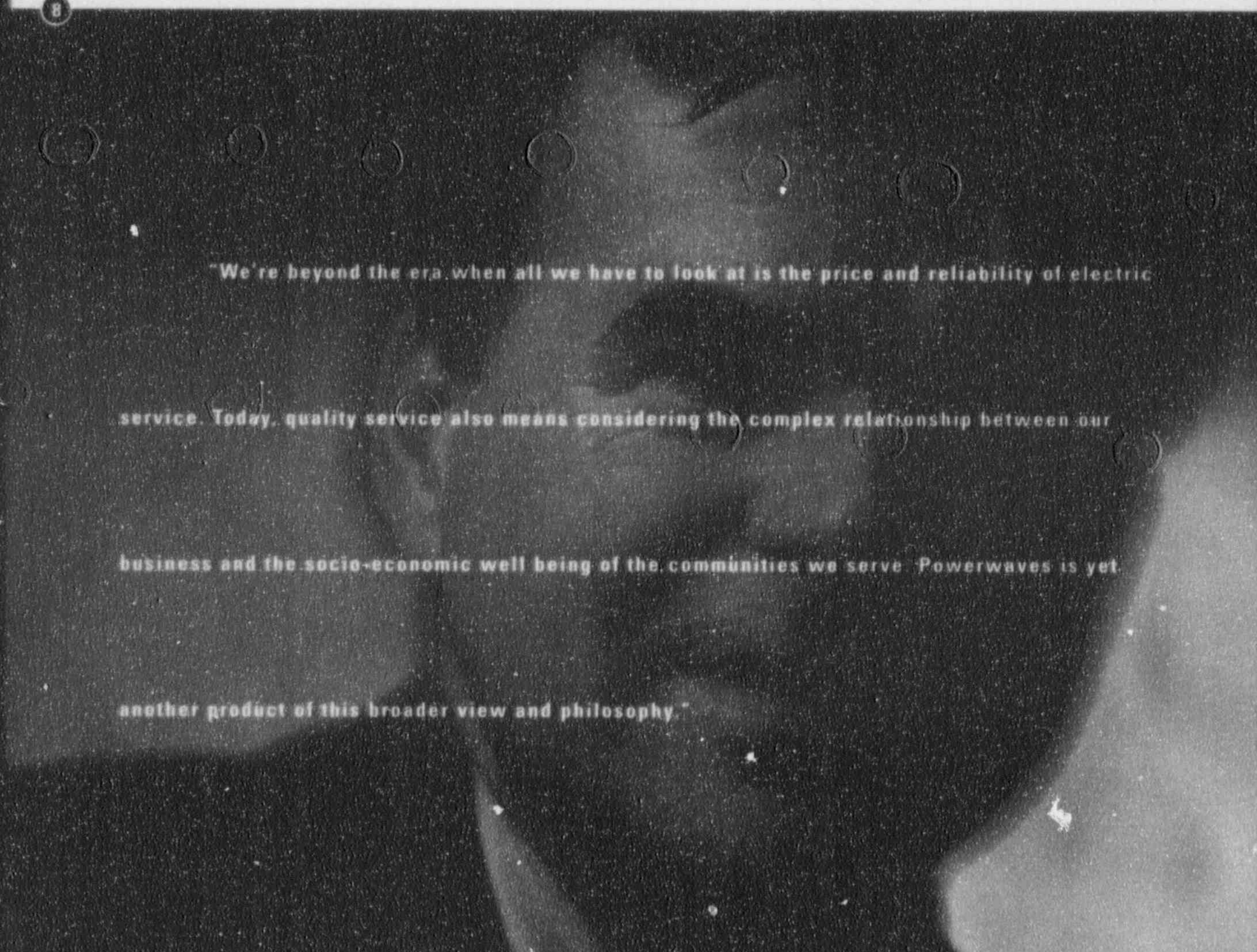
"One important feature the SCADA system offers is flexibility: new technology can be easily added to the system. So, from troubleshooting distribution problems today, to someday monitoring and controlling residential and commercial energy loads, it's going to serve us and our customers far into the future."

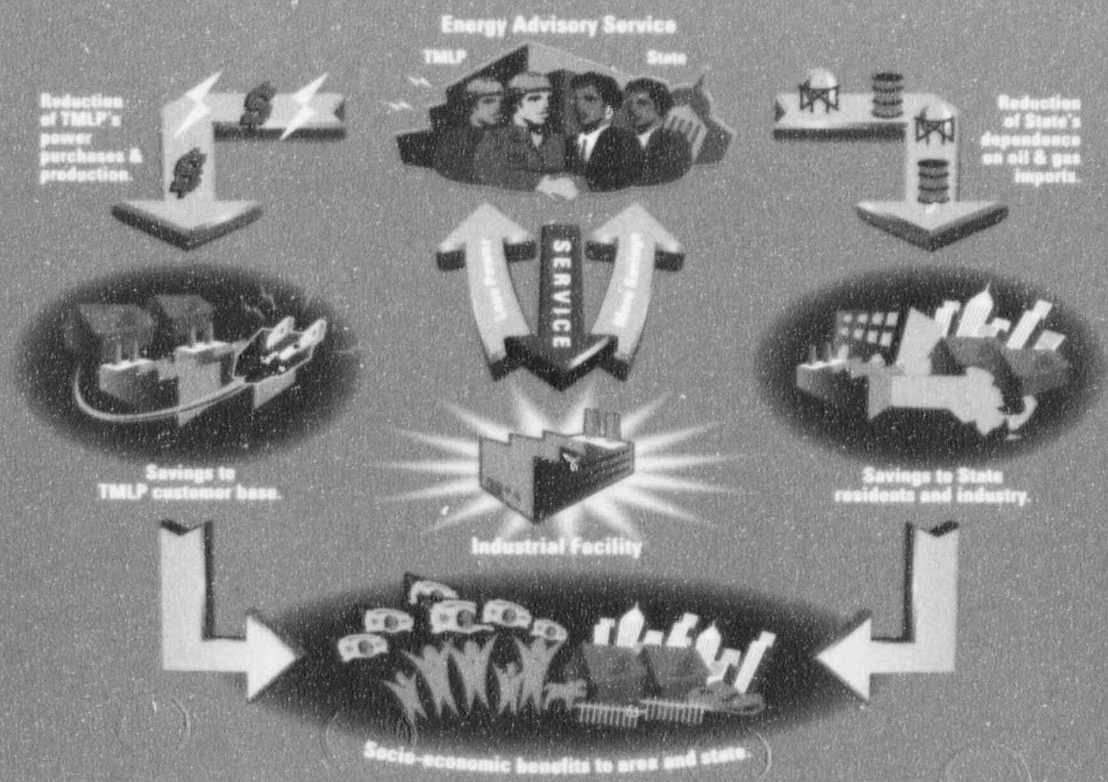
EAS meets Powerwaves. The Energy Advisor Service and Powerwaves, a cooperative power conservation effort between The Commonwealth of Massachusetts and TMLP, began reducing demand and lowering energy costs for some of TMLP's large industrial customers this year. EAS is a state-sponsored program that audits the efficiency of all power-intensive systems – motors, thermal heaters, HVAC, for example – in large industrial facilities. Powerwaves, a new financial support program from TMLP, encourages industrial customers to replace inefficient energy systems identified through an EAS audit by paying part of the replacement cost when the customer's payback period exceeds three years. Powerwaves contributes the dollars needed to reduce the payback to three years, whenever we realize a payback through demand and energy reduction within the same three year period.

In 1994, six of TMLP's largest industrial customers were selected for Powerwaves, and TMLP identified $93,076 in possible first-year electric power savings. In terms of energy reduction and dollars saved, over the next five years those customers will be able to reduce their energy usage by 5,012,250 kwh – for an estimated savings of more than $494,000.

Smartlight expands. We broadened the scope of Smartlight, our residential lighting conservation program that replaces incandescent bulbs with energy-saving compact fluorescents. Starting early in 1995, we will offer a more extensive array of bulbs, ballasts and lamp parts that will enable more customers to take advantage of this energy and money-saving program. And we will bring the program right to their front doors. Our new electric van will be on the road to demonstrate, deliver and install Smartlight products throughout our service territory.

R. Scott Whittemore: Manager - Energy Services & Planning



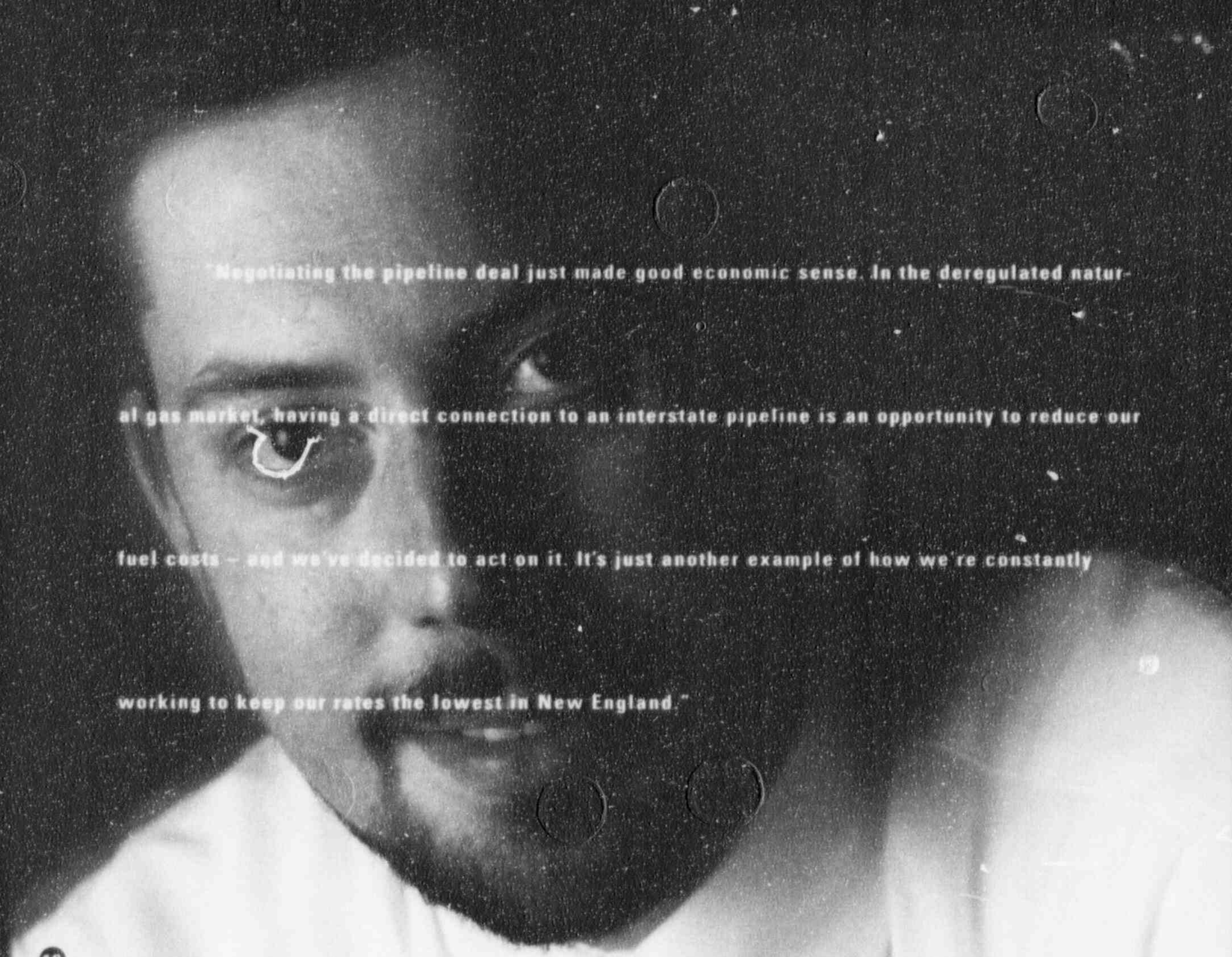


How Powerwaves Works

Smart Energy Controller Program. With the installation of the SCADA/DA network, new and exciting ways to reduce our customers' electric bills become possible. In 1994 we began to push those possibilities closer to reality with the formulation of the Smart Energy Controller Program, which will offer customers lower rates for cycling their electric loads during peak energy periods.

A typical scenario: We install a Remote Terminal Unit, a small microprocessor, in a customer's home. On a hot day in July, when demand skyrockets, our computer sends signals over the SCADA/DA network to the RTU, instructing it to "cycle" the air conditioner on and off at preset intervals. By automatically "cycling" that air conditioner (and thousands like it!), we maintain a comfortable environment in the customer's home — and significantly decrease the demand for power. For helping us reduce demand, the customer in turn gets a lower electric rate, and lower electric bills. Residential test sites could be identified by the third quarter of 1995 and on line as early as 1996. Custom load control programs for commercial and industrial customers will follow.

Pipeline to savings. On the supply side, we captured an opportunity to lower our gas bill by negotiating a new transportation contract with Bay State Gas. Instead of buying both gas and transportation services from Bay State, we entered into a 20 year contract for unlimited use of a Bay State owned pipe that transports gas from an interstate pipeline directly to the Cleary Flood generating station. With direct access to this interstate pipeline, we can now purchase gas from many different sources, from the Gulf of Mexico to Canada, based solely on lowest cost. The net result will reduce our power production costs — savings that we'll pass on to our customers.



"Negotiating the pipeline deal just made good economic sense. In the deregulated natural gas market, having a direct connection to an interstate pipeline is an opportunity to reduce our fuel costs – and we've decided to act on it. It's just another example of how we're constantly working to keep our rates the lowest in New England."

Jim Irving: Senior Research Analyst

Another trip to the landfill. We also revisited the 20-year agreement we entered into in 1993 with two new electric power projects in Halifax and East Bridgewater that will use methane gas, a natural byproduct from landfills, to produce electricity. We increased our entitlement from 4000 kW to 7,600 kW. More than diversifying our fuel supply, we pay only for what we receive, at prices fixed below fossil fuel rates. Environmentally, the increased entitlement is also good news. As an alternative to fossil fuels, this "landfill power" eliminates 40,000 tons of carbon dioxide emissions each year.

Controlling demand, negotiating long-term cost-reduction contracts, diversifying our fuel supply. In 1994, they all added up to keeping the cost of electricity low for our customers – once again, the lowest in the Commonwealth.

PARTICIPATIVE MANAGEMENT

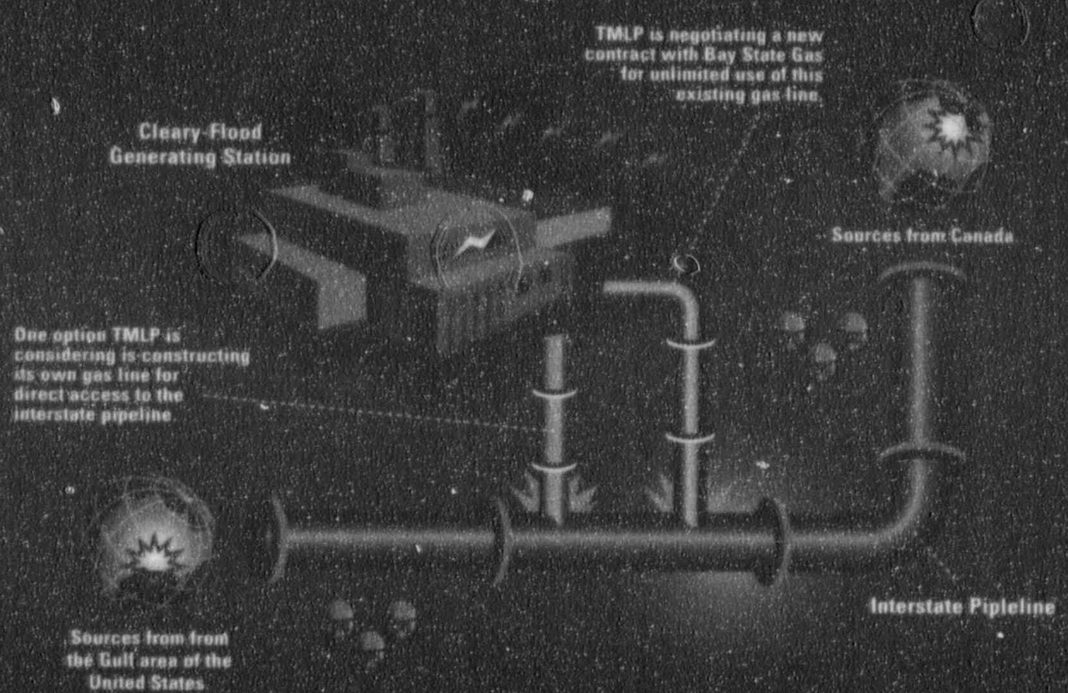
Staying competitive in this increasingly complex industry of power delivery takes more than technology and low cost power. It takes people who are committed to cooperation, dialogue and common goals. That's the foundation for success at TMLP.

The Continuous Emissions Monitoring System was not the work of one person or one department. It was a collaborative effort involving almost every department – and a long list of consultants and vendors we invited to join our team to make sure the job was done right. While the lion's share of the SCADA/DA installation falls to the Transmission and Distribution Department, this local information highway in some way will affect every department, every TMLP employee – so they also are playing an active role in its implementation. The Information Management System project follows the same pattern. Too often companies discover how things should have been after a computer system is installed. We chose to find out before – by asking those who would be using the system day in, day out. It took longer, but doing something right often does.

Management at TMLP means cooperating not competing, including not excluding, participating as equal partners – not sitting back and waiting for someone else to get the job done. We're harnessing the latest in technology; we're pushing down the cost of power for our customers. But the real reason for our success in 1994 is our 170 employees, committed to team work and committed to keeping TMLP a strong, competitive player in the power industry for many years to come.

TMLP

The Pipeline Deal



1994 EMPLOYEES

Michael Abbott
Antone Almeida, Jr.
James Araujo
Lawrence Ariete
Brett Baker
Brian Belanger
John Bisio
Mark Bissonnette
Mark Blackwell, Jr.
Mark Blackwell, Sr.
Joseph M. Blain
Richard Bolduc
Leo Bousquet
Tommie Bruce
Victor Buote
Arthur Cabral
Steven Cantwell
Bing Chan
Fred Chandler
Patricia Chandler
Roberta Chesterfield
Cynthia Clark
Carol Collagan
Margaret Cooke
David Cordeiro
Bruce Correia
David Costa
Michael Cote
Steven Cote
Thomas DeBrum
Russell Demar
Lawrence DeThomas
Wayne Dixon
John Dolan
Lorraine Donahue
Stephen Donovan
Kevin Dooley
Mary Dower
Paul Downing
Paul Dumont
Robert Drake
John Dubena
Armand Emond
Michael Emond
Dayle Escobar
Joan Faria
Charles Farrell
Joseph Fernandes
Maria Fernandez
Glenn Ferreira
Ronald Ferreira
David Fink
Craig Foley
Joseph Frates
Ernest Freste
Douglas Furtado
Paula Gallagher
Frank Gill
Thomas Goggin
Antonio Gonsalves
Edward Goulart
Kenneth Goulart
Roland Grandmont
John Haggerty
Michael Hagopian
Manuel Hathaway
Michael Horrigan
James Irving
Wallace Jones
Kevin Kiernan
Paulette Kingsbury
Stanley Koss, Jr.
Robert Krantz
Michael Larkin, Jr.
Raymond Leanues
Ronald Legere, Jr.
Daniel Lema
Theresa Levesque
Robert Linhares
Maureen Lounsbury
Kelly Lozinski
Ronald Lund
William Lyons
Valerie MacMaster
Daniel Mahoney
Linda Mason
George Mastin, Sr.
Charles McCaffrey
Francis McDermott
James McDermott
John McDonough
Diane McGrath
Laurel McGrath
Joseph McKenna
Deborah McMurray
John McRae
Robert Medeiros
Ronald Medeiros
David Melanson
Ernest Mello
Paul Menard
Paul Mercier
Joan Mulcahy
William Nickerson
Joseph Noberini
David Owen
Adeline Osso
Alice Pacheco
Diane Paiva
Richard Parker
David Pereira
Francis Pereira
Manuel Pereira
Joseph Perry
William Phipps
Anthony Pietrzyk
Frank Pirozzi
Louis Ponte
Thomas Powers
John Punda
Doris Renaud
Steven Rogers
Charlotte Romano
Manuel Rose
Richard Rose
Stephen Rose
Ronald Roy
Doreen Rua
Albert Santos
Mark Seekell
John F. Semas
John M. Semas
Robert Silva
Edmund Silveira
Katrina Silveira
Cynthia Silvia
Debra Silvia
Gregory Simmons
Rita Smith
Robert Smith
Kathleen Smyth
Scott Souza
Nancy Stankiewicz
Kevin Steadman
William Strojny
Ralph Strollo, Jr.
John Thomas
Frederick Tompson
Judy Torres
John Valcovic
Joseph Vasconcellos
Richard Velez
Anna May Vieira
Shirley Vincent
James Warren
R. Scott Whittemore
Thomas Zagorski

Municipal Light Commission of the City of Taunton

Taunton, Massachusetts

We have audited the accompanying balance sheets of the Taunton Municipal Lighting Plant (a department of the City of Taunton) as of December 31, 1994 and 1993, and the related statements of earnings, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Plant'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 our audits provide a reasonable basis for our opinion.

As discussed in note H to the financial statements, certain disclosures required by the Governmental Accounting Standards Board relating to pensions have been omitted.

In our opinion, except for the omission of certain pension plan disclosures required by the Governmental Accounting Standards Board, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Taunton Municipal Lighting Plant as of December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in note A of notes to the financial statements, the Plant changed its method of accounting for vacation pay during 1994.

Boston, Massachusetts

February 24, 1995

Grant Thornton LLP

Balance Sheets

Assets December 31,	1994	1993
Utility Plant – At Cost		
Plant in service	$91,447,840	$88,157,501
Less accumulated depreciation (note A2)	56,046,338	52,319,897
Net utility plant in service	35,401,502	35,837,604
Investment in Seabrook (notes A7 and C)	3,189,676	3,332,311
Construction work in progress (note I)	6,431,926	3,934,774
Total utility plant	45,023,104	43,104,689
Depreciation Fund (including certificates of deposit of $3,320,000 and $5,820,000 in 1994 and 1993, respectively) (notes A2 and B)	12,547,801	11,836,705
Sick Leave Trust Fund (note A5)	2,891,221	2,621,405
Other Assets		
Investment in Hydro Quebec Project (note G)	311,472	311,472
Lightwaves (note D)	286,124	262,863
Other deferred debits (note J)	530,432	903,824
Current Assets		
Cash (note B)	3,644,671	1,838,983
Customer deposits (note B)	346,761	302,125
Accounts receivable, less allowance for doubtful accounts of $703,154 and $448,706, respectively	3,273,919	3,352,012
Due from TMLP Retirement Trust (notes A3 and H)	451,320	387,836
Materials and supplies inventory (note A4)	1,848,482	1,934,681
Prepaid expenses	261,433	112,618
Total current assets	9,826,586	7,928,255
	$71,416,740	$66,969,213

Retained Earnings and Liabilities December 31,	1994	1993
Retained Earnings		
Appropriated retained earnings		
Loans repayment	$16,837,000	$16,062,000
Construction repayment	32,434	32,434
	16,869,434	16,094,434
Unappropriated retained earnings	26,777,454	25,209,458
Total retained earnings	43,646,888	41,303,892
Long-Term Debt (note E)	15,476,862	16,320,216
Current Liabilities		
Accounts payable	2,430,151	1,898,232
Customer credits (note A6)	4,301,356	2,213,766
Customer deposits	364,414	308,653
Current maturities of long-term debt (note E)	840,000	775,000
Accrued liabilities		
Sick leave (note A5)	3,087,851	2,871,835
Vacation (note A9)	550,819	527,679
Interest	554,907	579,771
Payroll	153,335	154,376
Other	10,157	15,793
Total current liabilities	12,292,990	9,345,105
Commitments and Contingencies (notes C, G, H, I, K and L)	$71,416,740	$66,969,213

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

Statements of Earnings

Years ended December 31,	1994	1993
Operating revenues (note A1)		
Sales of electricity		
Commercial and industrial	**$20,149,485**	$20,570,402
Residential	**14,061,642**	13,865,978
Sales for resale (note G)	**2,750,653**	2,607,432
Municipal	**1,695,950**	1,895,935
	38,657,730	38,939,747
Other operating revenues	**224,284**	362,451
Total operating revenues	**38,882,014**	39,302,198
Operating expenses		
Power production	**20,359,073**	20,642,646
Transmission and distribution	**2,726,964**	2,830,378
Customer accounting	**1,374,869**	1,399,784
Administrative and general (notes A3, A5 and H)	**4,700,143**	5,441,016
Depreciation and amortization (note A2)	**3,876,795**	3,840,534
Nuclear expense	**212,887**	203,282
Total operating expenses	**33,250,731**	34,357,640
Earnings from operations	**5,631,283**	4,944,558
Other expense (income)		
Interest expense	**1,317,094**	1,359,329
Other expense		2,805
Interest income	**(276,044)**	(443,508)
Other income (note G)	**(112,763)**	(158,361)
Total other expense	**928,287**	760,265
Net earnings before provision for payment in lieu of taxes	**4,702,996**	4,184,293
Provision for payment in lieu of taxes (note F)	**2,360,000**	2,360,000
Net Earnings	**$ 2,342,996**	$ 1,824,293

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Statements of Retained Earnings

	Appropriated Retained Earnings		
Years ended December 31, 1994 and 1993	Loan Repayment	Construction Repayment	Unappropriated Retained Earnings
Balance at December 31,1992	$15,347,000	$32,434	$24,577,502
Prior period adjustment (note A9)			(477,337)
Balance at December 31, 1992 (as restated)			24,100,165
Transfer for bond repayment	715,000		(715,000)
Net earnings			1,824,293
Balance at December 31, 1993	16,062,000	32,434	25,209,458
Transfer for bond repayment	775,000		(775,000)
Net earnings			2,342,996
Balance at December 31, 1994	**$16,837,000**	**$32,434**	**$26,777,454**

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

Statements of Cash Flows

Years ended December 31,	1994	1993
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities:		
Net earnings	**$ 2,342,996**	$ 1,824,293
Adjustments to reconcile net earnings to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	**3,876,795**	3,840,534
Amortization of bond premium	**(3,354)**	(3,354)
Equity in losses of Seabrook investment	**(18,579)**	(12,614)
Change in assets and liabilities:		
(Increase) decrease in customer deposit funds	**(44,636)**	9,922
Decrease in accounts receivable	**78,093**	206,504
Increase in due from retirement trust	**(63,484)**	(387,836)
Decrease (increase) in inventory	**86,199**	(31,935)
(Increase) decrease in prepaid expenses	**(148,815)**	3,775
Increase in Lightwaves	**(23,261)**	(67,549)
Decrease in deferred debits	**373,392**	373,392
Increase in accounts payable	**531,919**	10,892
Increase (decrease) in customer credits	**2,087,590**	(466,033)
Increase in customer deposits	**55,761**	5,475
Increase in accrued sick leave and vacation	**239,156**	407,018
(Decrease) increase in other accrued liabilities	**(31,541)**	37,501
Net cash provided by operating activities	**9,338,231**	5,749,985
Cash flows from investing activities:		
Net additions to utility plant	**(5,776,631)**	(4,450,888)
Investment in certificate of deposit - depreciation fund		(5,820,000)
Proceeds from maturing certificate of deposits - depreciation fund	**2,500,000**	
Increase in Sick Leave Trust Fund	**(269,816)**	(207,088)
Net cash used in investing activities	**(3,546,447)**	(10,477,976)
Cash flows from financing activities:		
Payment of long-term debt	**$ (775,000)**	$ (715,000)
Net increase (decrease) in cash and cash equivalents	**5,016,784**	(5,442,991)
Cash and cash equivalents at beginning of year	**7,855,688**	13,298,679
Cash and cash equivalents at end of year	**$12,872,472**	$ 7,855,688
Cash and cash equivalents at end of year is reflected on the balance sheets as follows:		
Depreciation funds	**$ 9,227,801**	$ 6,016,705
Cash	**3,644,671**	1,838,983
	$12,872,472	$ 7,855,688
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	**$ 1,341,958**	$ 1,381,971

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

Note A – Summary of Significant Accounting Policies

A summary of Taunton Municipal Lighting Plant's (the "Plant") significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Rates Taunton Municipal Lighting Plant is an enterprise fund of the City of Taunton, Massachusetts (the City). The Plant is under the charge and control of the Municipal Light Plant Commissioners in accordance with Chapter 164, Section 55 of the General Laws of the Commonwealth of Massachusetts. Electric power is both produced and purchased and is distributed to customers within their service area. The rates charged by the Plant to its customers are filed with the Massachusetts Department of Public Utilities (MDPU) and are subject to Chapter 164, Section 58 of the General Laws, which provides that prices shall be fixed to yield not more than 8% per annum on the cost of the plant after repayment of operating expenses, interest on outstanding debt and depreciation. The Plant's resulting net earnings amounted to 3.9% and 3.6% of utility plant in 1994 and 1993, respectively.

2. Depreciation Pursuant to the Department of Public Utilities regulations, depreciation is calculated as a percentage of depreciable property at January 1. Depreciation is computed at 4% of the cost of depreciable property. Depreciation fund cash is used in accordance with state laws for replacements and additions to the utility plant in service.

3. Pension Plan Substantially all employees of the Plant are covered by a contributory pension plan administered by the City of Taunton in conformity with State Retirement Board requirements (see note H).

4. Inventory Materials and supplies inventory is carried at cost, principally on the average cost method.

5. Sick Leave Trust Fund The Plant established a Sick Leave Trust Fund ("Trust") in 1982 for the financing of future sick leave payments. It is the Plant's intention that the Trust be funded to the extent of the Plant's sick leave liability and that future sick leave expense will be paid by the Trust once full funding is achieved. The assets of the Trust are shown in the financial statements to provide a more meaningful presentation, as the assets of the Trust are for the sole benefit of the Plant. The assets of the Trust are shown at cost. The market value of the trust assets at December 31, 1994 and 1993, were $2,750,723 and $2,687,059, respectively. The funds are invested in money market funds, treasury notes, mutual funds which invest in government securities, common stocks, and corporate bonds. Net investment income for the Trust of approximately $147,000 and $208,000 in 1994 and 1993, respectively, is reflected in the statements of earnings as an offset to compensated absence expense, as these funds are restricted and can only be used for the payment of sick leave benefits. The net expense for sick leave was approximately $283,000 and $179,000 for the years ended December 31, 1994 and 1993, respectively.

6. Customer Credits The Plant's rates include a Purchased Power Cost Adjustment (PPCA) which allows an adjustment of rates charged to customers in order to recover all changes in power costs from stipulated base costs. The PPCA provides for a quarterly reconciliation of total power costs billed with the actual cost of power incurred. Any excess or deficiency in amounts collected as compared to costs incurred is deferred and either credited or billed to customers over subsequent periods.

7. Investment in Seabrook The Plant's Investment in Seabrook represents a 0.10034% joint ownership share. The Plant records annually depreciation computed at 4% of the initial investment in Seabrook. The Plant's percentage share of new plant additions are capitalized and their share of operating and maintenance expenses, and decommissioning expenses (see note C) are charged against earnings.

8. Cash Equivalents For purposes of the Statement of Cash Flows, the Plant considers certificates of deposit with maturities of three months or less to be cash equivalents.

9. Vacation In 1994, the Plant adopted Governmental Accounting Standards Board Statement No. 16 (GASB No. 16), "Accounting for Compensated Absences". In accordance with GASB No. 16, the Plant has retroactively restated unappropriated retained earnings at December 31, 1992. The effect of the adoption was not material to operations in 1994 and 1993.

10. Reclassifications Certain amounts in the financial statements for the year ended December 31, 1993 have been reclassified to conform to the current year presentation.

Note B – Cash and Certificates of Deposit

The Plant's cash is deposited with the City of Taunton Treasurer who commingles it with other City funds. The City invests the cash and credits the Plant each year with interest earned on the cash deposits.

Cash and certificates of deposit deposited with the City of Taunton consists of the following at December 31,	**1994**	1993
Interest bearing pooled funds including restricted customer deposits of $346,761 and $302,125, respectively	**$12,309,233**	$ 5,459,451
Certificates of deposit with rates of 4.95% - 5.25% maturing at various dates during 1995	**910,000**	
Certificates of deposit with rates of 2.90% - 4% maturing at various dates during 1994		5,198,362
Certificates of deposit with rates of 5.08% maturing 1996	**3,320,000**	3,320,000
	$16,539,233	$13,977,813

Cash and certificates of deposit at December 31, is reflected as follows:	**1994**	1993
Depreciation fund	**$ 8,696,950**	$ 8,399,816
Depreciation fund - Unit 9 principal and interest	**3,850,851**	3,436,889
Cash	**3,644,671**	1,838,983
Customer deposit principal and interest fund	**346,761**	302,125
	$16,539,233	$13,977,813

Continued on next page

Note C – Investment in Seabrook

The Plant is a 0.10034% joint owner of the Seabrook New Hampshire Unit 1.

The joint owners of Seabrook have established a Decommissioning Fund that is currently held by a Trustee. The Plant's share of the estimated decommissioning liability is approximately $324,000 as of December 31, 1994. The Plant is currently contributing based on a present value formula, $435 per month over 36 years.

Note D – Lightwaves

The Plant has initiated an energy saving program for commercial and industrial customers known as Lightwaves. The program entitles the customer to a free energy audit and installation of energy efficient equipment. Customers are required to pay a monthly fee for a 60 month period. The fee is based upon the administrative costs related to the program. The related administrative costs are being deferred and amortized over the 60 month billing period. As of December 31, 1994 and 1993, the Plant has deferred these costs which will be billed to customers.

Note E – Long-Term Debt

Long-term debt is comprised of the following bonds:

	1994	1993
Electric loan, Act of 1969 Interest rate - various rates from 7.3% to 8%, interest payable February 1 and August 1, due serially to February 1, 2006	$16,280,000	$17,055,000
Unamortized premium	**36,862**	40,216
	16,316,862	17,095,216
Less current maturities	**840,000**	775,000
Total long-term debt	**$15,476,862**	$16,320,216

Aggregate maturities of long-term debt at December 31, 1994, are as follows:

1995	$ 840,000
1996	910,000
1997	985,000
1998	1,065,000
1999	1,150,000
Thereafter	11,330,000
	$16,280,000

Note F – Contribution in Lieu of Taxes

The Plant contributed $2,360,000 in 1994 and 1993 to the City of Taunton in lieu of taxes. All contributions to the City are voted by the Municipal Light Commission.

Note G – Commitments and Contingencies

Interconnection Agreement

The City of Taunton, acting by vote of its Municipal Lighting Plant Commission, entered into an agreement with Montaup Electric Company ("Montaup"), dated July 31, 1970, as amended, concerning interconnection of electrical operations, purchase and sale of kilowatt capacity, and construction by Taunton of a generating unit of approximately 110 megawatt capability. The agreement, originally for the twelve (12) years following the commencement of operations of Unit No. 9 on December 1, 1975, was amended and the term extended to October 31, 1988. Under the current interconnection agreement, the City agrees to exchange with Montaup Electric Company fifteen (15) megawatts of Unit No. 9 capacity for ten (10) megawatts of capacity from the Canal No. 2 generating unit 50% of which is owned by Montaup. The Plant credited to sales for resale $317,755 and $265,287 of capacity and energy charges billed to Montaup Electric Company in 1994 and 1993, respectively, for its share of power under the interconnection agreement.

Continued on next page

Note G – Commitments and Contingencies (cont.)

Hydro-Quebec Agreement

In 1988, the Plant entered into an agreement with the Massachusetts Municipal Wholesale Electric Company and other New England Utilities to support the operation of a transmission line to permit the interchange of electricity between such utilities and Hydro-Quebec Electric Corporation (HydroQuebec). In connection with the agreement, the Plant advanced approximately $800,000 toward development of the project of which approximately $450,000 was returned after the project had obtained financing. In 1991, the Hydro Quebec project was completed. Upon completion of this project, each participant received stock in the New England Hydro Transmission Electric Company and The New England Hydro Transmission Corporation proportional to their advances. The investment is being accounted for on the cost basis. The stock received is not readily marketable, but gives the holder rights to purchase power at a percentage of the fossil fuel rate.

During the years ended December 31, 1994 and 1993, the Plant received dividends from the above noted Companies in the amounts of $55,055 and $76,762, respectively.

Note H – Pension Plans

The Plant contributes to the City of Taunton Employees' Retirement System ("System"), a public employee retirement system that acts as the investment and administrative agent for the City. All full-time employees participate in the System.

Instituted in 1937, the System is a member of the Massachusetts Contributory System and is governed by Massachusetts General Laws Chapter 32. Membership in the System is mandatory upon the commencement of employment for all permanent, full-time employees.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

Members of the System become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the City's payroll on January 1, 1978, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Active members contribute either 5%, 7% or 8% of their regular compensation depending on the date upon which their membership began. The System also provides death and disability benefits.

The System does not make a separate measurement of assets and the pension benefit obligation for the Plant. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The Plant performed a separate valuation to estimate its portion of the total System benefit obligation and assets. As of July 1, 1991 (the most current valuation date), the Plant's pension benefit obligation was $22,800,000 determined through an actuarial valuation performed for the Plant. The System's net assets available for benefits, allocated to the Plant, on July 1, 1991 (valued at market) were $8,700,000 (excluding assets held in Employee Retirement Trust Fund), leaving an unfunded pension benefit obligation of $14,100,000.

The Plant has established a separate Employees Retirement Trust Fund (Trust Fund) for the financing of future pension payments. The Trust Fund had net assets (at cost) of $12,806,000 and $12,656,000 at December 31, 1994 and 1993, respectively. The market value of the net assets at December 31, 1994 and 1993 was $12,373,000 and $13,188,000, respectively. These funds are invested in money market funds, fixed income securities including government and corporate bonds and other equity securities. The Plant has made no contributions to the Trust Fund in either 1994 or 1993.

Beginning on July 1, 1993, the Plant is to receive from the Trust Fund, over the next thirty-two years, an amount equal to eighty-five percent of the annual amortization of the unfunded pension liability. The remaining fifteen percent of the unfunded pension liability will be contributed from current year operations.

The following represents the components of the Plant's recorded pension expense:

	1994	December 31, 1993
Contributions to the System	$1,364,761	$1,378,005
Contributions (from) to the Trust Fund	(839,146)	(387,830)
Recorded pension expense	$ 525,615	$ 990,175

Prior to 1993, the System's funding policy for the participating entities was not actuarially determined. The participating entities were required to contribute each fiscal year an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). Effective for fiscal year ends 1993 and beyond, the System has removed the "pay-as-you-go" method and will amortize the unfunded pension benefit obligation over thirty-two years. This change has been approved by PERA.

Accounting standards require certain related disclosures be made including the components of pension costs and the funded status of the System. The effect of omitting such disclosure on the accompanying financial statements has not been determined for the year ended December 31, 1994.

Continued on next page

Note I – Coal-Fired Electric Generating Facility

On January 31, 1991, the Plant entered into contracts with Silver City Energy Limited Partnership (the "Developer"), a Delaware limited partnership. The contracts pertain to the leasing of a 25 acre parcel, owed by the Plant, adjacent to the Plant's Cleary-Flood Station and the subsequent building of a coal fired electric generating facility (coal plant) by the Developer. The ground lease extends for a period of forty years. Rental payments to the Plant were $50,000 per year until September 15, 1994, $500,000 per year until operations commence, and $1,100,000 per year for the remaining lease term.

The Plant has agreed to purchase 20% of the power generated once the coal plant is in operation, which is approximately 30 megawatts. The agreement is for twenty years.

The Plant has secured a mortgage on the buildings and facilities to be constructed to secure payment of the aggregate differential. The aggregate differential represents funds to be paid to the Plant in the event that the project is not completed. Payment is based on a dollar value per kilowatt which increases over the duration of the construction period.

If operations do not commence by September 15, 1996, the Plant may terminate all contracts with the Developer. In the event of termination of the contracts, the Plant may be entitled to reimbursement by the Developer of up to 50% of certain costs incurred by the Plant.

As of December 31, 1994, the Plant has capitalized approximately $1,560,000 of legal and administrative costs which are included in construction work in progress. These costs will be amortized over the contract period once operations have commenced.

With respect to the proposed plant construction, the Plant is involved in certain legal matters relating to zoning. In the opinion of management, the resolution of these matters will not effect the ultimate completion of this project.

Note J – Deferred Maintenance

A unit of the Plant underwent a maintenance overhaul, of which the related costs are being amortized over a five-year period. The unamortized balance at December 31, 1994 and 1993 is $530,432 and $903,824, respectively.

Note K – Post Employment Benefits

In addition to the pension benefits described in note H, the Plant provides post employment health care benefits to retirees that meet certain requirements. Retirees of the Plant under age 65 are eligible for the same health benefits as active employees, while retirees over the age of 65 are eligible for MEDEX. The costs of the benefits provided to retirees are borne 75% by the Plant, and 25% by the retirees. Retiree's survivors must bear the full cost of the benefits.

The Plant is charged their prorata portion of the "pay-as-you-go" cost of benefits based on an allocation by the City done annually. For 1994 and 1993, the costs allocated to the Plant were $330,879 and $346,842, respectively.

Note L – Contingencies

The Plant is involved in various legal matters incident to its business, none of which is believed by management to be significant to the financial condition of the Plant.

These financial statements were printed on recycled paper.

TMLP Taunton Municipal Lighting Plant 55 Weir Street Taunton, MA 02780

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Accountants and
Management Consultants

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FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
TAUNTON MUNICIPAL LIGHTING PLANT
December 31, 1994 and 1993

C O N T E N T S

98 North Washington Street
Boston, MA 02114-1913
617 723-7900
FAX 617 723-3640

Grant Thornton

GRANT THORNTON LLP Accountants and Management Consultants

The U.S. Member Firm of Grant Thornton International

Report of Independent Certified Public Accountants

Municipal Light Commission
of the City of Taunton
Taunton, Massachusetts

We have audited the accompanying balance sheets of the Taunton Municipal Lighting Plant (a department of the City of Taunton) as of December 31, 1994 and 1993, and the related statements of earnings, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Plant'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 our audits provide a reasonable basis for our opinion.

As discussed in note H to the financial statements, certain disclosures required by the Governmental Accounting Standards Board relating to pensions have been omitted.

In our opinion, except for the omission of certain pension plan disclosures required by the Governmental Accounting Standards Board, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Taunton Municipal Lighting Plant as of December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in note A of notes to the financial statements, the Plant changed its method of accounting for vacation pay during 1994.

Grant Thornton LLP

Boston, Massachusetts
February 24, 1995

Taunton Municipal Lighting Plant

BALANCE SHEETS

December 31,

ASSETS

	1994	1993
UTILITY PLANT - AT COST		
Plant in service	$91,447,840	$88,157,501
Less accumulated depreciation (note A2)	56,046,338	52,319,897
Net utility plant in service	35,401,502	35,837,604
Investment in Seabrook (notes A7 and C)	3,189,676	3,332,311
Construction work in progress (note I)	6,431,926	3,934,774
Total utility plant	45,023,104	43,104,689
DEPRECIATION FUND (including certificates of deposit of $3,320,000 and $5,820,000 in 1994 and 1993, respectively) (notes A2 and B)	12,547,801	11,836,705
SICK LEAVE TRUST FUND (note A5)	2,891,221	2,621,405
OTHER ASSETS		
Investment in Hydro Quebec Project (note G)	311,472	311,472
Lightwaves (note D)	286,124	262,863
Other deferred debits (note J)	530,432	903,824
CURRENT ASSETS		
Cash (note B)	3,644,671	1,838,983
Customer deposits (note B)	346,761	302,125
Accounts receivable, less allowance for doubtful accounts of $703,154 and $448,706, respectively	3,273,919	3,352,012
Due from TMLP Retirement Trust (notes A3 and H)	451,320	387,836
Materials and supplies inventory (note A4)	1,848,482	1,934,681
Prepaid expenses	261,433	112,618
Total current assets	9,826,586	7,928,255
	$71,416,740	$66,969,213

RETAINED EARNINGS AND LIABILITIES

	1994	1993
RETAINED EARNINGS		
Appropriated retained earnings		
Loans repayment	$16,837,000	$16,062,000
Construction repayment	32,434	32,434
	16,869,434	16,094,434
Unappropriated retained earnings	26,777,454	25,209,458
Total retained earnings	43,646,888	41,303,892
LONG-TERM DEBT (note E)	15,476,862	16,320,216
CURRENT LIABILITIES		
Accounts payable	2,430,151	1,898,232
Customer credits (note A6)	4,301,356	2,213,766
Customer deposits	364,414	308,653
Current maturities of long-term debt (note E)	840,000	775,000
Accrued liabilities		
Sick leave (note A5)	3,087,851	2,871,835
Vacation (note A9)	550,819	527,679
Interest	554,907	579,771
Payroll	153,335	154,376
Other	10,157	15,793
Total current liabilities	12,292,990	9,345,105
COMMITMENTS AND CONTINGENCIES (notes C, G, H, I, K and L)		
	$71,416,740	$66,969,213

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

STATEMENTS OF EARNINGS

Years ended December 31,

	1994	1993
Operating revenues (note A1)		
Sales of electricity		
Commercial and industrial	$20,149,485	$20,570,402
Residential	14,061,642	13,865,978
Sales for resale (note G)	2,750,653	2,607,432
Municipal	1,695,950	1,895,935
	38,657,730	38,939,747
Other operating revenues	224,284	362,451
Total operating revenues	38,882,014	39,302,198
Operating expenses		
Power production	20,359,073	20,642,646
Transmission and distribution	2,726,964	2,830,378
Customer accounting	1,374,869	1,399,784
Administrative and general (notes A3, A5 and H)	4,700,143	5,441,016
Depreciation and amortization (note A2)	3,876,795	3,840,534
Nuclear expense	212,887	203,282
Total operating expenses	33,250,731	34,357,640
Earnings from operations	5,631,283	4,944,558
Other expense (income)		
Interest expense	1,317,094	1,359,329
Other expense	-	2,805
Interest income	(276,044)	(443,508)
Other income (note G)	(112,763)	(158,361)
Total other expense	928,287	760,265
Net earnings before provision for payment in lieu of taxes	4,702,996	4,184,293
Provision for payment in lieu of taxes (note F)	2,360,000	2,360,000
NET EARNINGS	$ 2,342,996	$ 1,824,293

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 1994 and 1993

	Appropriated Retained Earnings		Unappropriated
	Loan Repayment	Construction Repayment	Retained Earnings
Balance at December 31, 1992	$15,347,000	$32,434	$24,577,502
Prior period adjustment (note A9)			(477,337)
Balance at December 31, 1992 (as restated)			24,100,165
Transfer for bond repayment	715,000		(715,000)
Net earnings			1,824,293
Balance at December 31, 1993	16,062,000	32,434	25,209,458
Transfer for bond repayment	775,000		(775,000)
Net earnings			2,342,996
Balance at December 31, 1994	$16,837,000	$32,434	$26,777,454

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

STATEMENTS OF CASH FLOWS

Years ended December 31,

	1994	1993
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities:		
Net earnings	$ 2,342,996	$ 1,824,293
Adjustments to reconcile net earnings to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	3,876,795	3,840,534
Amortization of bond premium	(3,354)	(3,354)
Equity in losses of Seabrook investment	(18,579)	(12,614)
Change in assets and liabilities:		
(Increase) decrease in customer deposit funds	(44,636)	9,922
Decrease in accounts receivable	78,093	206,504
Increase in due from retirement trust	(63,484)	(387,836)
Decrease (increase) in inventory	86,199	(31,935)
(Increase) decrease in prepaid expenses	(148,815)	3,775
Increase in Lightwaves	(23,261)	(67,549)
Decrease in deferred debits	373,392	373,392
Increase in accounts payable	531,919	10,892
Increase (decrease) in customer credits	2,087,590	(466,033)
Increase in customer deposits	55,761	5,475
Increase in accrued sick leave and vacation	239,156	407,018
(Decrease) increase in other accrued liabilities	(31,541)	37,501
Net cash provided by operating activities	9,338,231	5,749,985
Cash flows from investing activities:		
Net additions to utility plant	(5,776,631)	(4,450,888)
Investment in certificate of deposit - depreciation fund	-	(5,820,000)
Proceeds from maturing certificate of deposits - depreciation fund	2,500,000	
Increase in Sick Leave Trust Fund	(269,816)	(207,088)
Net cash used in investing activities	(3,546,447)	(10,477,976)

Taunton Municipal Lighting Plant

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended December 31,

	1994	1993
Cash flows from financing activities:		
Payment of long-term debt	$ (775,000)	$ (715,000)
Net increase (decrease) in cash and cash equivalents	5,016,784	(5,442,991)
Cash and cash equivalents at beginning of year	7,855,688	13,298,679
Cash and cash equivalents at end of year	$12,872,472	$ 7,855,688
Cash and cash equivalents at end of year is reflected on the balance sheets as follows:		
Depreciation funds	$ 9,227,801	$ 6,016,705
Cash	3,644,671	1,838,983
	$12,872,472	$ 7,855,688

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	$ 1,341,958	$ 1,381,971

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

NOTES TO FINANCIAL STATEMENTS

December 31, 1994 and 1993

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of Taunton Municipal Lighting Plant's (the "Plant") significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Rates

   Taunton Municipal Lighting Plant is an enterprise fund of the City of Taunton, Massachusetts (the City). The Plant is under the charge and control of the Municipal Light Plant Commissioners in accordance with Chapter 164, Section 55 of the General Laws of the Commonwealth of Massachusetts. Electric power is both produced and purchased and is distributed to customers within their service area. The rates charged by the Plant to its customers are filed with the Massachusetts Department of Public Utilities (MDPU) and are subject to Chapter 164, Section 58 of the General Laws, which provides that prices shall be fixed to yield not more than 8% per annum on the cost of the plant after repayment of operating expenses, interest on outstanding debt and depreciation. The Plant's resulting net earnings amounted to 3.9% and 3.6% of utility plant in 1994 and 1993, respectively.

2. Depreciation

   Pursuant to the Department of Public Utilities regulations, depreciation is calculated as a percentage of depreciable property at January 1. Depreciation is computed at 4% of the cost of depreciable property.

   Depreciation fund cash is used in accordance with state laws for replacements and additions to the utility plant in service.

3. Pension Plan

   Substantially all employees of the Plant are covered by a contributory pension plan administered by the City of Taunton in conformity with State Retirement Board requirements (see note H).

4. Inventory

   Materials and supplies inventory is carried at cost, principally on the average cost method.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Sick Leave Trust Fund

The Plant established a Sick Leave Trust Fund ("Trust") in 1982 for the financing of future sick leave payments. It is the Plant's intention that the Trust be funded to the extent of the Plant's sick leave liability and that future sick leave expense will be paid by the Trust once full funding is achieved. The assets of the Trust are shown in the financial statements to provide a more meaningful presentation, as the assets of the Trust are for the sole benefit of the Plant. The assets of the Trust are shown at cost. The market value of the trust assets at December 31, 1994 and 1993, were $2,750,723 and $2,687,059, respectively. The funds are invested in money market funds, treasury notes, mutual funds which invest in government securities, common stocks, and corporate bonds. Net investment income for the Trust of approximately $147,000 and $208,000 in 1994 and 1993, respectively, is reflected in the statements of earnings as an offset to compensated absence expense, as these funds are restricted and can only be used for the payment of sick leave benefits. The net expense for sick leave was approximately $283,000 and $179,000 for the years ended December 31, 1994 and 1993, respectively.

6. Customer Credits

The Plant's rates include a Purchased Power Cost Adjustment (PPCA) which allows an adjustment of rates charged to customers in order to recover all changes in power costs from stipulated base costs. The PPCA provides for a quarterly reconciliation of total power costs billed with the actual cost of power incurred. Any excess or deficiency in amounts collected as compared to costs incurred is deferred and either credited or billed to customers over subsequent periods.

7. Investment in Seabrook

The Plant's Investment in Seabrook represents a 0.10034% joint ownership share. The Plant records annually depreciation computed at 4% of the initial investment in Seabrook. The Plant's percentage share of new plant additions are capitalized and their share of operating and maintenance expenses, and decommissioning expenses (see note C) are charged against earnings.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Cash Equivalents

For purposes of the Statement of Cash Flows, the Plant considers certificates of deposit with maturities of three months or less to be cash equivalents.

9. Vacation

In 1994, the Plant adopted Governmental Accounting Standards Board Statement No. 16 (GASB No. 16), "Accounting for Compensated Absences". In accordance with GASB No. 16, the Plant has retroactively restated unappropriated retained earnings at December 31, 1992. The effect of the adoption was not material to operations in 1994 and 1993.

10. Reclassifications

Certain amounts in the financial statements for the year ended December 31, 1993 have been reclassified to conform to the current year presentation.

NOTE B - CASH AND CERTIFICATES OF DEPOSIT

The Plant's cash is deposited with the City of Taunton Treasurer who commingles it with other City funds. The City invests the cash and credits the Plant each year with interest earned on the cash deposits.

Cash and certificates of deposit deposited with the City of Taunton consists of the following at December 31,

	1994	1993
Interest bearing pooled funds including restricted customer deposits of $346,761 and $302,125, respectively	$12,309,233	$ 5,459,451
Certificates of deposit with rates of 4.95% - 5.25% maturing at various dates during 1995	910,000	-
Certificates of deposit with rates of 2.90% - 4% maturing at various dates during 1994	-	5,198,362
Certificates of deposit with rates of 5.08% maturing 1996	3,320,000	3,320,000
	$16,539,233	$13,977,813

NOTE B - CASH AND CERTIFICATES OF DEPOSIT - Continued

	1994	1993
Cash and certificates of deposit at December 31, is reflected as follows:		
Depreciation fund	$ 8,696,950	$ 8,399,816
Depreciation fund - Unit 9 principal and interest	3,850,851	3,436,889
Cash	3,644,671	1,838,983
Customer deposit principal and interest fund	346,761	302,125
	$16,539,233	$13,977,813

NOTE C - INVESTMENT IN SEABROOK

The Plant is a 0.10034% joint owner of the Seabrook New Hampshire Unit 1.

The joint owners of Seabrook have established a Decommissioning Fund that is currently held by a Trustee. The Plant's share of the estimated decommissioning liability is approximately $324,000 as of December 31, 1994. The Plant is currently contributing based on a present value formula, $435 per month over 36 years.

NOTE D - LIGHTWAVES

The Plant has initiated an energy saving program for commercial and industrial customers known as Lightwaves. The program entitles the customer to a free energy audit and installation of energy efficient equipment. Customers are required to pay a monthly fee for a 60 month period. The fee is based upon the administrative costs related to the program. The related administrative costs are being deferred and amortized over the 60 month billing period. As of December 31, 1994 and 1993, the Plant has deferred these costs which will be billed to customers.

NOTE E - LONG-TERM DEBT

Long-term debt is comprised of the following bonds:

	1994	1993
Electric loan, Act of 1969 Interest rate - various rates from 7.3% to 8%, interest payable February 1 and August 1, due serially to February 1, 2006	$16,280,000	$17,055,000
Unamortized premium	36,862	40,216
	16,316,862	17,095,216
Less current maturities	840,000	775,000
Total long-term debt	$15,476,862	$16,320,216

Aggregate maturities of long-term debt at December 31, 1994, are as follows:

1995	$ 840,000
1996	910,000
1997	985,000
1998	1,065,000
1999	1,150,000
Thereafter	11,330,000
	$16,280,000

NOTE F - CONTRIBUTION IN LIEU OF TAXES

The Plant contributed $2,360,000 in 1994 and 1993 to the City of Taunton in lieu of taxes. All contributions to the City are voted by the Municipal Light Commission.

NOTE G - COMMITMENTS AND CONTINGENCIES

Interconnection Agreement

The City of Taunton, acting by vote of its Municipal Lighting Plant Commission, entered into an agreement with Montaup Electric Company ("Montaup"), dated July 31, 1970, as amended, concerning interconnection of electrical operations, purchase and sale of kilowatt capacity, and construction by Taunton of a generating unit of approximately 110 megawatt capability. The agreement, originally for the twelve (12) years following the commencement of operations

NOTE G - COMMITMENTS AND CONTINGENCIES - Continued

of Unit No. 9 on December 1, 1975, was amended and the term extended to October 31, 1988. Under the current interconnection agreement, the City agrees to exchange with Montaup Electric Company fifteen (15) megawatts of Unit No. 9 capacity for ten (10) megawatts of capacity from the Canal No. 2 generating unit, 50% of which is owned by Montaup. The Plant credited to sales for resale $317,755 and $265,287 of capacity and energy charges billed to Montaup Electric Company in 1994 and 1993, respectively, for its share of power under the interconnection agreement.

Hydro-Quebec Agreement

In 1988, the Plant entered into an agreement with the Massachusetts Municipal Wholesale Electric Company and other New England Utilities to support the operation of a transmission line to permit the interchange of electricity between such utilities and Hydro-Quebec Electric Corporation (HydroQuebec). In connection with the agreement, the Plant advanced approximately $800,000 toward development of the project of which approximately $450,000 was returned after the project had obtained financing. In 1991, the Hydro Quebec project was completed. Upon completion of this project, each participant received stock in the New England Hydro Transmission Electric Company and The New England Hydro Transmission Corporation proportional to their advances. The investment is being accounted for on the cost basis. The stock received is not readily marketable, but gives the holder rights to purchase power at a percentage of the fossil fuel rate.

During the years ended December 31, 1994 and 1993, the Plant received dividends from the above noted Companies in the amounts of $55,055 and $76,762, respectively.

NOTE H - PENSION PLANS

The Plant contributes to the City of Taunton Employees' Retirement System ("System"), a public employee retirement system that acts as the investment and administrative agent for the City. All full-time employees participate in the System.

Instituted in 1937, the System is a member of the Massachusetts Contributory System and is governed by Massachusetts General Laws Chapter 32. Membership in the System is mandatory upon the commencement of employment for all permanent, full-time employees.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

NOTE H - PENSION PLANS - Continued

Members of the System become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the City's payroll on January 1, 1978, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Active members contribute either 5%, 7% or 8% of their regular compensation depending on the date upon which their membership began. The System also provides death and disability benefits.

The System does not make a separate measurement of assets and the pension benefit obligation for the Plant. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The Plant performed a separate valuation to estimate its portion of the total System benefit obligation and assets. As of July 1, 1991 (the most current valuation date), the Plant's pension benefit obligation was $22,800,000 determined through an actuarial valuation performed for the Plant. The System's net assets available for benefits, allocated to the Plant, on July 1, 1991 (valued at market) were $8,700,000 (excluding assets held in Employee Retirement Trust Fund), leaving an unfunded pension benefit obligation of $14,100,000.

The Plant has established a separate Employees Retirement Trust Fund (Trust Fund) for the financing of future pension payments. The Trust Fund had net assets (at cost) of $12,806,000 and $12,656,000 at December 31, 1994 and 1993, respectively. The market value of the net assets at December 31, 1994 and 1993 was $12,373,000 and $13,188,000, respectively. These funds are invested in money market funds, fixed income securities including government and corporate bonds and other equity securities. The Plant has made no contributions to the Trust Fund in either 1994 or 1993.

Beginning on July 1, 1993, the Plant is to receive from the Trust Fund, over the next thirty-two years, an amount equal to eighty-five percent of the annual amortization of the unfunded pension liability. The remaining fifteen percent of the unfunded pension liability will be contributed from current year operations.

Taunton Municipal Lighting Plant

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 1994 and 1993

NOTE H - PENSION PLANS - Continued

The following represents the components of the Plant's recorded pension expense:

	December 31, 1994	December 31, 1993
Contributions to the System	$1,364,761	$1,378,005
Contributions (from) to the Trust Fund	([illegible]146)	(387,830)
Recorded pension expense	$5[illegible],615	$990,175

Prior to 1993, the System's funding policy for the participating entities was not actuarially determined. The participating entities were required to contribute each fiscal year an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). Effective for fiscal year ends 1993 and beyond, the System has removed the "pay-as-you-go" method and will amortize the unfunded pension benefit obligation over thirty-two years. This change has been approved by PERA.

Accounting standards require certain related disclosures be made including the components of pension costs and the funded status of the System. The effect of omitting such disclosure on the accompanying financial statements has not been determined for the year ended December 31, 1994.

NOTE I - COAL FIRE ELECTRIC GENERATING FACILITY

On January 31, 1991, the Plant entered into contracts with Silver City Energy Limited Partnership (the "Developer"), a Delaware limited partnership. The contracts pertain to the leasing of a 25 acre parcel, owed by the Plant, adjacent to the Plant's Cleary-Flood Station and the subsequent building of a coal fired electric generating facility (coal plant) by the Developer.

NOTE I - COAL FIRE ELECTRIC GENERATING FACILITY - Continued

The ground lease extends for a period of forty years. Rental payments to the Plant were $50,000 per year until September 15, 1994, $500,000 per year until operations commence, and $1,100,000 per year for the remaining lease term.

The Plant has agreed to purchase 20% of the power generated once the coal plant is in operation, which is approximately 30 megawatts. The agreement is for twenty years.

The Plant has secured a mortgage on the buildings and facilities to be constructed to secure payment of the aggregate differential. The aggregate differential represents funds to be paid to the Plant in the event that the project is not completed. Payment is based on a dollar value per kilowatt which increases over the duration of the construction period.

If operations do not commence by September 15, 1996, the Plant may terminate all contracts with the Developer. In the event of termination of the contracts, the Plant may be entitled to reimbursement by the Developer of up to 50% of certain costs incurred by the Plant.

As of December 31, 1994, the Plant has capitalized approximately $1,560,000 of legal and administrative costs which are included in construction work in progress. These costs will be amortized over the contract period once operations have commenced.

With respect to the proposed plant construction, the Plant is involved in certain legal matters relating to zoning. In the opinion of management, the resolution of these matters will not effect the ultimate completion of this project.

NOTE J - DEFERRED MAINTENANCE

A unit of the Plant underwent a maintenance overhaul, of which the related costs are being amortized over a five-year period. The unamortized balance at December 31, 1994 and 1993 is $530,432 and $903,824, respectively.

NOTE K - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in note H, the Plant provides post employment health care benefits to retirees that meet certain requirements. Retirees of the Plant under age 65 are eligible for the same health benefits as active employees, while retirees over the age of 65 are eligible for MEDEX. The costs of the benefits provided to retirees are borne 75% by the Plant, and 25% by the retirees. Retiree's survivors must bear the full cost of the benefits.

The Plant is charged their prorata portion of the "pay-as-you-go" cost of benefits based on an allocation by the City done annually. For 1994 and 1993, the costs allocated to the Plant were $330,879 and $346,842, respectively.

NOTE L - CONTINGENCIES

The Plant is involved in various legal matters incident to its business, none of which is believed by management to be significant to the financial condition of the Plant.

SUPPLEMENTAL INFORMATION

<u>Report of Independent Certified Public Accountants</u>
<u>on Supplemental Information</u>

Taunton Municipal Lighting Plant

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole of Taunton Municipal Lighting Plant for the year ended December 31, 1994, which are presented in the preceding section of this report. The supplemental information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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.

Grant Thornton LLP

Boston, Massachusetts
February 24, 1995

Taunton Municipal Lighting Plant
Utility Plant
For Period Ending December 31, 1994

Title of Account	Balance 01/01/94	Additions	Retirements	Balance 12/31/94	Accumulated Depreciation 12/31/94	Depreciated Value 12/31/94
Station Production Plant						
Land and Land Rights	$749,366	$0	$0	$749,366	$0	$749,366
Structures & Improvements	7,511,107	(111,933)	0	7,399,174	5,799,335	1,599,839
Boiler Plant Equipment	19,026,490	232,955	115,823	19,143,622	13,601,778	5,541,844
Turbo Generator Units	18,035,371	194,319	0	18,229,690	11,114,861	7,114,829
Acessory Electric Group	2,636,262	30,609	0	2,666,871	2,689,489	(22,618)
Misc Power Plant Equip.	660,790	40,303	21,830	679,263	485,544	193,719
Total Steam Production Plant	48,619,386	386,253	137,653	48,867,986	33,691,007	15,176,979
Other Production Plant						
Fuel Holders & Accessories	516,437	25,607	0	542,044	361,594	180,450
Generators	83,407	0	0	83,407	59,315	24,092
Accessory Electric Group	407,598	0	0	407,598	286,555	121,043
Total Other Production Plant	1,007,442	25,607	0	1,033,049	707,464	325,585
Transmission Plant						
Land & Land Rights	218,577	(2,335)	0	216,242	0	216,242
Clearing Land Right of Way	35,022	0	0	35,022	0	35,022
Structures & Improvements	133,392	0	0	133,392	84,664	48,728
Station Equipment	2,381,737	14,117	0	2,395,854	1,507,255	888,599
Towers & Fixtures	908,333	0	0	908,333	621,285	287,048
Poles & Fixtures	2,116,259	23,650	0	2,139,909	703,105	1,436,804
Overhead Conductor Device	1,227,329	0	0	1,227,329	445,821	781,508
Underground Conduit Elec	3,104	0	0	3,104	2,092	1,012
Underground Conductor Elec	6,170	0	0	6,170	3,759	2,411
Total Transmission Plant	7,029,923	35,432	0	7,065,355	3,367,981	3,697,374

Taunton Municipal Lighting Plant
Utility Plant
For Period Ending December 31, 1994

Title of Account	Balance 01/01/94	Additions	Retirements	Balance 12/31/94	Accumulated Depreciation 12/31/94	Depreciated Value 12/31/94
Distribution Plant						
Land & Land Rights	156,833	2,656	0	159,489	0	159,489
Structures & Improvements	663,585	3,900	0	667,485	249,466	418,019
Station Equipment	2,517,804	277,439	0	2,795,243	2,344,992	450,251
Storage Battery Equip	1,437	5	0	1,442	161	1,281
Poles Towers & Fixtures	3,812,272	228,052	0	4,040,324	2,903,872	1,136,452
Overhead Conduit & Device	5,187,197	546,422	86,642	5,646,977	2,295,971	3,351,006
Underground Conduit	2,421,938	180,712	0	2,602,650	1,833,520	769,130
Underground Conductor & Devic	2,233,965	150,921	0	2,384,886	1,682,579	702,307
Line Transformers	3,867,199	265,976	0	4,133,175	1,742,523	2,390,652
Services	664,702	59,733	0	724,435	277,200	447,235
Meters	1,665,357	44,150	0	1,709,507	1,327,595	381,912
E C S Program	2,834,960	447,590	0	3,282,550	1,021,278	2,261,272
St. Light & Signal Systems	1,489,392	37,258	0	1,526,650	808,294	718,356
Total Distribution Plant	27,516,641	2,244,814	86,642	29,674,813	16,487,451	13,187,362
General Plant						
Land & Land Rights	40,972	0	0	40,972	0	40,972
Structures & Improvements	1,442,217	560,335	0	2,002,552	581,454	1,421,098
Office Furniture & Equipment	690,251	109,020	0	799,271	288,867	510,404
Transporation Equipment	1,403,788	72,070	9,038	1,466,820	713,083	753,737
Store Equipment	162,001	8,099	0	170,100	10,553	159,547
Tool Shop Garage Equip	33,283	(958)	0	32,325	20,017	12,308
Laboratory Equipment	15,204	0	0	15,204	16,325	(1,121)
Power Operated Equipment	28,194	374	0	28,568	28,265	303
Communication Equipment	128,946	72,328	0	201,274	83,866	117,408
Misc. Equipment	103,410	10,299	0	113,709	50,005	63,704
Total General Plant	4,048,266	831,567	9,038	4,870,795	1,792,435	3,078,360
LESS CONTRIBUTION IN AID OF CONSTRUCTION	(64,158)			(64,158)		(64,158)
Total Utility Plant in Service	88,157,500	3,523,673	233,333	91,447,840	56,046,338	35,401,502
Construction W.I.P.	3,934,774	5,603,141	3,105,989	6,431,926	0	6,431,926
	$92,092,274	$9,126,814	$3,339,322	$97,879,766	$56,046,338	$41,833,428

Taunton Municipal Lighting Plant

OPERATING EXPENSES

For the year ended December 31,

	1994	1993
POWER PRODUCTION		
Operation		
Supervision and engineering	$ 649,953	$ 596,800
Fuel	2,594,936	2,152,428
Labor and expenses	1,850,835	1,862,052
	5,095,724	4,611,280
Maintenance		
Supervision and engineering	337,342	307,718
Structures	210,138	120,332
Boiler plant	826,422	721,759
Electric plant	497,693	841,911
Miscellaneous	219,876	239,284
	2,091,471	2,231,004
Purchased power	13,171,878	13,800,362
Total power production	20,359,073	20,642,646
TRANSMISSION AND DISTRIBUTION		
Operation		
Supervision and engineering	159,522	153,572
Labor	20,445	20,381
Supplies and expenses	10,269	13,642
Meter expenses	167,969	158,044
Customer installation	17,896	20,524
Transmission by others	172,927	188,466
Overhead lines	114,406	128,840
Miscellaneous	246,906	170,892
	910,340	854,361
Maintenance		
Supervision and engineering	341,599	340,393
Lines - electric	1,156,615	1,299,638
Street lighting and signal systems	147,579	138,276
Meters	9,117	8,877
Structures and equipment	11,786	5,854
Line transformers	51,205	64,773
Station equipment	88,307	105,801
Miscellaneous	10,416	12,405
	1,816,624	1,976,017
Total transmission and distribution	2,726,964	2,830,378
Forward	23,086,037	23,473,024

Taunton Municipal Lighting Plant

OPERATING EXPENSES - CONTINUED

Year ended December 31,

	1994	1993
Brought forward	$23,086,037	$23,473,024
CUSTOMER ACCOUNTING		
Meter reading labor and expenses	72,994	91,347
Accounting and collecting expenses	1,013,663	1,077,561
Uncollectible accounts	282,234	222,000
Advertising expense	5,978	8,876
Total customer accounting	1,374,869	1,399,784
ADMINISTRATIVE AND GENERAL		
Operation		
Administrative and general salaries	809,065	922,925
Office supplies and expenses	209,479	227,747
Outside services employed	175,767	215,254
Property insurance	125,092	103,241
Injuries and damages	465,372	549,944
Employee pensions and benefits	2,072,702	2,450,273
Miscellaneous general expenses	306,524	425,728
Transportation expenses	238,964	217,486
Regulatory commission expense	116,290	140,832
	4,519,255	5,253,430
Maintenance		
General plant	180,888	187,586
Total administrative and general	4,700,143	5,441,016
DEPRECIATION AND AMORTIZATION	3,876,795	3,840,534
NUCLEAR EXPENSE	212,887	203,282
	$33,250,731	$34,357,640

KPMG

The Global Leader

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

DECEMBER 31, 1994, 1993 AND 1992
WITH INDEPENDENT AUDITORS' REPORT THEREON

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION
DECEMBER 31, 1994, 1993 AND 1992

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KPMG Peat Marwick LLP

One Boston Place
Boston, MA 02108-4563

Telephone 617 723 7700

Telefax 617 723 6864

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, 1994, 1993 and 1992 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, 1994, 1993 and 1992, 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 LLP

March 10, 1995

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1994, 1993 AND 1992
(In Thousands)

ASSETS

	1994	1993	1992
Electric Plant			
In Service (Note 4)	$ 1,233,829	$ 1,233,845	$ 1,231,359
Accumulated Depreciation	(285,104)	(243,440)	(201,172)
	948,725	990,405	1,030,187
Nuclear Fuel - Net of Amortization	14,731	19,553	24,626
Total Electric Plant	963,456	1,009,958	1,054,813
Special Funds (Notes 2 and 7)	182,830	191,099	196,259
Current Assets			
Cash and Temporary Investments (Note 7)	989	1,013	3,619
Accounts Receivable	5,027	9,361	6,163
Unbilled Revenues	5,104	7,813	8,491
Inventories	15,597	14,846	15,261
Prepaid Expenses	7,413	7,636	6,652
Total Current Assets	34,130	40,669	40,186
Total Special Funds and Current Assets	216,960	231,768	236,445
Deferred Charges			
Amounts Recoverable Under Terms of the Power Sales Agreements (Note 2)	214,217	189,808	132,312
Unamortized Debt Discount and Expenses	35,817	39,340	40,272
Nuclear Decommissioning Trusts (Note 8)	6,110	4,683	3,423
Other	4,253	2,966	2,498
	260,397	236,797	178,505
	$ 1,440,813	$ 1,478,523	$ 1,469,763

LIABILITIES

	1994	1993	1992
Long-Term Debt			
Bonds Payable (Note 3 and 8)	$ 1,341,215	$ 1,374,605	$ 1,376,700
Current Liabilities			
Current Maturities of Long-Term Debt (Note 3 and 8)	36,420	33,175	28,110
Notes Payable (Note 3)	-	64	113
Accounts Payable	8,525	8,332	11,081
Accrued Expenses	10,969	11,734	7,779
Member and Participant Advances and Reserves	36,479	44,786	42,592
	92,393	98,091	89,675
Deferred Credits	7,205	5,827	3,388
Commitments and Contingencies (Note 6)			
	$ 1,440,813	$ 1,478,523	$ 1,469,763

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

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992
(In Thousands)

	1994	1993	1992
Revenues (Note 2)	$ 233,910	$ 248,630	$ 275,041
Interest Income	11,139	11,083	13,435
Total Revenues and Interest Income	$ 245,049	$ 259,713	$ 288,476
Operating and Service Expenses:			
Fuel Used in Electric Generation	$ 16,359	$ 20,062	$ 23,831
Purchased Power	61,940	74,134	78,925
Other Operating	35,500	29,451	32,533
Maintenance	9,746	10,470	11,873
Depreciation	44,366	44,187	44,101
Taxes Other Than Income	5,139	6,076	8,225
	173,050	184,380	199,488
Interest Expense:			
Interest Charges	81,489	89,742	114,459
Interest Charged to Projects During Construction (Note 2)	(36)	(169)	(466)
	81,453	89,573	113,993
Total Operating Costs and Interest Expense	254,503	273,953	313,481
Cost of Advance Refunding - Net (Note 3)	12,902	43,857	73,180
Gain on Cancelled Units - Net (Note 4)	(6)	(601)	(671)
Gain on Retirement of Debt	-	-	(207)
	12,896	43,256	72,302
Increase in Amounts Recoverable Under the Power Sales Agreements due to Excess of Expenses over Revenues (Note 2)	(22,350)	(57,496)	(97,307)
	$ 245,049	$ 259,713	$ 288,476

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

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992
(In Thousands)

	1994	1993	1992
Cash flows from operating activities:			
Total Revenues and Interest Income	$ 245,049	$ 259,713	$ 288,476
Total Costs and Expenses, net	(267,399)	(317,209)	(385,783)
Adjustments to arrive at net cash provided (used) by operating activities:			
Depreciation and Decommissioning	45,387	45,112	44,978
Amortization	9,922	14,517	15,315
Write off of Debt Discount and Expenses	10,440	10,288	19,480
Change in current assets and liabilities:			
Accounts Receivable	4,334	(3,198)	(440)
Unbilled Revenues	2,709	678	227
Inventories	(751)	415	4,402
Prepaid Expenses	223	(984)	(1,009)
Accounts Payable	193	(2,749)	(4,601)
Accrued Expenses and Other	(2,024)	4,720	(361)
Member and Participant Advances and Reserves	(8,307)	2,194	(11,911)
Net cash provided (used) by operating activities	39,776	13,497	(31,227)
Cash flows from investing activities:			
Construction Expenditures and Purchases of Nuclear Fuel	(4,281)	(10,312)	(4,943)
Interest Charged to Projects During Construction	(36)	(169)	(466)
Net Reduction in Special Funds	8,269	5,160	59,928
Net Unrealized Loss on Special Funds	(2,059)	-	-
Decommissioning Trust Refunds (Payments), net	(1,427)	(1,259)	1,297
Other	425	620	426
Net cash provided (used) for investing activities	891	(5,960)	56,242
Cash flows from financing activities:			
Proceeds from Sale of Bonds	432,380	444,290	748,295
Payment for Bond Issue Costs	(10,482)	(13,064)	(27,427)
Payments for Principal of Long-Term Debt	(30,525)	(29,165)	(27,880)
Payment for Defeasance of Bonds	(432,000)	(412,155)	(716,325)
Change in Notes Payable	(64)	(49)	113
Net cash used for financing activities	(40,691)	(10,143)	(23,224)
Net increase (decrease) in cash and temporary investments	(24)	(2,606)	1,791
Cash and Temporary Investments at Beginning of Year	1,013	3,619	1,828
Cash and Temporary Investments at End of Year	$ 989	$ 1,013	$ 3,619
Cash paid during the year for interest (Net of amount capitalized as shown above)	$ 77,579	$ 86,035	$ 111,464

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

(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 (PSAs) 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, 1994, twenty-eight 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). In addition, MMWEC contracts for power for resale to its members and other utilities.

(2) Significant Accounting Policies

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

Interest Charged to Projects During Construction

MMWEC capitalizes interest as an element of the cost of electric plant and nuclear fuel in process. A corresponding amount is reflected as a reduction of interest expense. The amount of interest capitalized is 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 \$57.2, \$50.8 and \$40.0 million through December 31, 1994, 1993 and 1992, 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 fuel in the reactor. A provision for fuel disposal costs is included in Fuel Used in Electric Generation based upon disposal contracts with the Department of Energy (DOE). In addition, Fuel Used in Electric Generation includes the annual assessment, under the Energy Policy Act of 1992, for the costs of decontamination and decommissioning of uranium enrichment plants operated by the DOE. Billings from the DOE will occur over the next 13 years. At December 31, 1994, MMWEC's share of Millstone Unit 3 and Seabrook Station unbilled assessments was \$498,000 and \$749,000, respectively. The amounts are included in Other Deferred Charges and Deferred Credits on the Statements of Financial Position.

MASSACHUSETTS MUNICIPAL WHOLESALE
ELECTRIC COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1994, 1993 AND 1992

(2) Significant Accounting Policies (continued)

Special Funds

The composition of Special Funds is as follows:

Fund	1994	1993 (In Thousands)	1992
Construction Fund for deposit of bond proceeds to be used for costs of acquisition and construction	$ -	$ -	$ 517
Bond Fund Interest, Principal and Retirement Account to pay principal and interest on bonds	20,741	19,573	15,370
Bond Fund Reserve Account set at the maximum annual interest obligation to make up any deficiencies in the Bond Fund Interest, Principal and Retirement Account	77,405	88,166	102,243
Reserve and Contingency Fund to make up deficiencies in the Bond Fund and pay for renewals and extraordinary costs	17,927	17,140	18,364
Revenue Fund to receive revenues and disburse them to other funds	50,323	47,461	47,784
Working Capital Funds to maintain funds to cover operating expenses	16,434	18,759	11,981
Total Special Funds	$182,830	$191,099	$196,259

The Special Funds, other than certain working capital funds, are restricted as to their use by the General Bond Resolution, which also prescribes 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, certificates or receipts representing direct ownership of future interest or principal payments on direct obligations of, or obligations where the principal of, and interest are guaranteed by the United States, certain federal government agency securities, new housing authority bonds issued by public agencies or municipalities, tax-exempt obligations rated in the three highest rating categories or shares of investment companies which solely invest in such obligations, time deposits and certificates of deposits issued by banks insured by the Federal Deposit Insurance Corporation (FDIC) which deposits are either fully insured by the FDIC, collateralized by government securities or which deposits are issued by a party whose long-term unsecured debt is rated in one of the three highest long-term rating categories, and repurchase agreements provided that a specific written repurchase agreement governs the transaction and the security underlying the repurchase agreement is held by an independent third party. Also, included are bonds or other obligations of any state of the United States or any agency or local government unit of a state which

(2) Significant Accounting Policies (continued)

Special Funds (continued)

have been advance refunded and are not callable, domestic dollar denominator money market mutual funds rated in the two highest rating categories, participation units in the combined investments fund created under Massachusetts laws for the purposes of investment by local governments, and shares of investment companies which are authorized to invest in assets or securities comprised of government securities, agency securities, new housing bonds, tax-exempt bonds, and repurchase agreements noted above. Certain Special Funds are more restricted as to which of the aforementioned investments can be purchased.

Special Funds include amounts held in trust under Power Purchase Agreements, working capital arrangements and agency contracts. These trusteed funds are invested in securities as outlined within the General Bond Resolution, and in repurchase agreements secured by certain securities at banks where MMWEC has established accounts, although the working capital arrangement and agency contracts are not governed by the General Bond Resolution.

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 invests in repurchase agreements with banks where MMWEC has established accounts.

Inventories

Fuel oil and spare parts inventory are recorded and accounted for by the average cost method. At December 31, 1994, 1993 and 1992, fuel oil inventory was valued at \$5.1, \$4.2 and \$3.4 million, and spare parts inventory amounted to \$10.5, \$10.6 and \$11.9 million, respectively.

Revenues and Unbilled Revenues

Revenues include electric sales for resale provided from MMWEC's operating units and power purchases and billings for administrative and general services provided to MMWEC's Service Participants. These and additional details of revenues are as follows:

Revenues	1994	1993	1992
		(In Thousands)	
Electric sales for resale	\$229,586	\$243,817	\$270,455
Service	2,324	2,813	2,586
PSNH Settlement	2,000	2,000	2,000
Total Revenues	\$233,910	\$248,630	\$275,041

(2) Significant Accounting Policies (continued)

Revenues and Unbilled Revenues (continued)

MMWEC bills its members for costs incurred in providing services and purchased power obtained on their behalf under terms of the Service Agreement and 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.

Amounts Recoverable Under Terms of the Power Sales Agreements

Billings to Project Participants are designed to recover costs in accordance with the PSAs. The billings are 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 versus expensed is charged or credited to Amounts Recoverable Under Terms of the PSAs. Amounts will be recovered through future billings or an expense will be recognized to offset credit balances. The principal differences include depreciation, fuel amortization, costs associated with cancelled Projects, cost of refunding, billing for certain interest, reserves, net unrealized gain or loss on securities available for sale and other costs. An increase in Amounts Recoverable Under Terms of the PSAs is primarily caused by recognition of depreciation expense in excess of bond principal payments related to a Project and the cost of refinancing programs. Individual Projects have a cumulative deferral of costs which total $220.3, $201.4 and $164.9 million and Projects have cumulative billings in excess of costs which total $6.1, $11.6 and $32.6 million at December 31, 1994, 1993 and 1992, respectively. These amounts have been netted in the Statements of Financial Position.

The December 31, 1994 balance of $214.2 million reflects the Statements of Operations net increase of $22.4 million and the net unrealized loss of $2.0 million on securities available for sale.

Nuclear Decommissioning Trusts

MMWEC maintains external trust funds, as promulgated by Nuclear Regulatory Commission (NRC) and state regulations, to provide for the decommissioning activities of Millstone Unit 3 and Seabrook Station. The December 31, 1994 Millstone Unit 3 and Seabrook Station balances of $3.4 and $2.7 million, respectively, are stated at cost and included as part of the Deferred Charges and Deferred Credits on the Statements of Financial Position. MMWEC's share of the estimated reserve requirement for the prompt dismantling and removal of the Millstone Unit 3 and Seabrook Station, at the expiration of their original operating licenses in 2025 and 2026, is $20 and $44 million, respectively.

Depreciation

Electric plant in service is depreciated using the straight-line method. The aggregate annual provisions for depreciation for 1994, 1993 and 1992 averaged 4% of the original cost of depreciable property.

(2) Significant Accounting Policies (continued)

Interest Rate Protection Agreement

Premiums paid for purchase of an Interest Rate Protection Agreement are amortized to interest expense over the term of the agreement. Unamortized premiums are included in Other Deferred Charges in the Statements of Financial Position.

Reclassifications

Certain reclassifications have been made to the Financial Statements for prior years to conform to the 1994 presentation.

(3) Debt

Power Supply System Revenue Bonds

To finance the ownership interests in electric generating facilities under its General Bond Resolution, MMWEC issued 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 the terms of the PSAs and from the ownership and operation of the Projects in its power supply system. Pursuant to the PSAs, 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.

MMWEC financings, other than obligations maturing within one year, require Massachusetts Department of Public Utilities' (DPU) authorization. In 1994, 1993 and 1992, MMWEC issued $432.4, $444.3 and $748.3 million of refunding bonds, respectively. The proceeds of the 1994 Series bonds, when combined with $9.8 million from the Bond Fund Reserve Account and Bond Retirement Account, were utilized to defease $432 million of the 1977 Series A and B bonds and portions of the 1992 Series A, 1992 Series B, 1992 Series D, 1992 Series E, 1993 Series A and 1994 Series B bonds. The proceeds of the 1993 Series bonds, when combined with $14.5 million from the Bond Fund Reserve Account and Bond Fund Principal Account, were utilized to defease $412.1 million of the 1976 Series A bonds and portions of the 1978 Series A, 1979 Series A and 1987 Series A bonds. The proceeds of the 1992 Series bonds, when combined with $49.1 million from the Bond Fund Reserve Account, Construction Fund and Bond Fund Principal Account, were utilized to defease $716.3 million of bonds comprised of the 1980 through 1982 Series bonds and portions of the 1984 Series A, 1985 Series B and 1987 Series B bonds. The proceeds from the refunding bonds and the available funds have been deposited in irrevocable escrow accounts and used to purchase direct obligations of the United States Government in an amount sufficient to pay the debt service requirements of the refunded bonds through the redemption dates. The aggregate balances of defeased debt at December 31, 1994, 1993 and 1992 was $285.2, $296.1 and $111.8 million, respectively.

(3) Debt (continued)

Power Supply System Revenue Bonds (continued)

The net cost of the 1994, 1993 and 1992 refundings equalled \$12.9, \$43.9 and \$73.2 million, net of \$2.7, \$2.8 and \$7.9 million of expenses, respectively. MMWEC's 1994, 1993 and 1992 refinancing programs in effect reduced the aggregate debt service payments by \$107.9, \$146.6 and \$693.4 million over the remaining life of the bonds and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$45.9, \$65.5 and \$288.2 million, respectively.

Bonds Payable consists of serial, term and variable bonds and are comprised of the following issues. The serial and term bonds are generally subject to optional redemption approximately ten years after the issue date, at 103% of the principal amount, descending periodically thereafter to 100%.

Issue	Net Interest Cost	December 31, 1994	1993	1992
			(In Thousands)	
1976 Series A	7.2%	$ -	$ -	$ 56,005
1977 Series A	6.4%	-	144,240	147,815
1977 Series B	6.1%	-	74,325	75,910
1978 Series A	6.8%	-	1,085	60,045
1979 Series A	7.0%	-	-	118,125
1984 Series A	11.0%	-	800	1,515
1985 Series B	13.5%	185	525	825
1987 Series A	8.9%	10,250	10,730	195,815
1987 Series B	11.8%	-	-	540
1992 Series A	7.0%	100,875	104,910	104,910
1992 Series B	7.0%	201,410	322,665	326,335
1992 Series C	6.9%	60,345	61,070	61,070
1992 Series D	6.3%	87,190	104,690	105,805
1992 Series E	6.0%	115,745	140,050	149,040
1992 Series F	5.3%	-	-	1,055
1993 Series A	5.3%	390,275	441,255	-
1993 Series B	5.9%	930	1,435	-
1994 Series A	5.3%	115,640	-	-
1994 Series B	5.1%	197,190	-	-
1994 Series C	Variable	97,600	-	-
Bonds Payable		1,377,635	1,407,780	1,404,810
Less: Current Maturities		(36,420)	(33,175)	(28,110)
Total Long-Term Debt		$1,341,215	$1,374,605	$1,376,700

(3) Debt (continued)

Power Supply System Revenue Bonds (continued)

The aggregate annual principal payments due on the bonds in the next five years are as follows: 1995 - \$36,420,000; 1996 - \$37,750,000; 1997 - \$39,415,000; 1998 - \$41,315,000; and 1999 - \$44,650,000.

The interest rates on the 1994 Series C variable-rate bonds are adjusted from time-to-time. Bondholders may require repurchase of the 1994 Series C bonds at the time of such interest rate adjustment. MMWEC has entered into an agreement to provide for the remarketing of the 1994 Series C bonds if repurchase is required. Also, MMWEC has entered into an agreement with a bank which generally provides for the purchase by the bank of the 1994 Series C bonds if not remarketed and issuance of bank bonds under a separate letter of credit facility. The debt service on the 1994 Series C bonds is on a parity with the senior lien fixed-rate bonds to the extent that the debt service on the 1994 Series C bonds is equal to or less than the debt service on the bonds refunded by the 1994 Series C bonds in a given bond year.

Debt Service Forward Delivery Agreement

In conjunction with the issuance of the 1994 Series C bonds, MMWEC also entered into an investment instrument, known as a "Debt Service Forward Delivery Agreement" (Forward Agreement) for purposes other than trading. The purpose of the Forward Agreement is to improve the return on the investment of monies on a portion of the Bond Fund during the seven year term of the agreement. MMWEC currently makes monthly deposits to the various accounts within the Bond Fund for the semiannual payment of debt service on its outstanding bonds. The Forward Agreement relates to the investment of these monies prior to the time such deposits are to be used for semiannual debt service payments. In exchange for the right to dictate the investment of such monies, the counterparty pays a fixed amount to MMWEC on a periodic basis, providing MMWEC a fixed return on the funds available during the term of the Forward Agreement. The counterparty has the right to sell to MMWEC Government Obligations that mature prior to the relevant debt service payment dates during the term of the Forward Agreement. The effect of the agreement will allow MMWEC to earn a yield on these investments equal to the yield that could be earned on a security with a five to seven year comparable maturity purchased at the time the contract was executed, while complying with the maturity limitations for investments in the Bond Fund under the terms of the General Bond Resolution.

(3) Debt (continued)

Debt Service Forward Delivery Agreement (continued)

MMWEC reserves the right to terminate the Forward Agreement in whole or in part in connection with any purchase, redemption or refunding of fixed-rate bonds. In that event, the Forward Agreement provides for the calculation and payment of liquidated damages. In general, if interest rates at the time of the termination are higher than the level at the time the Forward Agreement was executed, then MMWEC would be required to pay damages to the counterparty. Conversely, if interest rates at the time of termination are lower than at the time of execution of the Forward Agreement, then the counterparty would be required to pay damages to MMWEC. In addition, MMWEC may terminate the agreement in the event of a default by the other party. The defaulting party would be responsible for paying damages as a result of termination, based on the market value of the Forward Agreement. Additionally, MMWEC has the right to terminate the Forward Agreement if the counterparty's credit rating falls below "investment grade" category. In that event, the Forward Agreement provides for the calculation and payment of a termination payment designed to be in an amount sufficient to enable MMWEC to enter into an equivalent agreement with another qualified entity.

The cash requirement under the Forward Agreement requires MMWEC to make available to the counterparty an average balance of $30.3 million over the seven year term of the agreement in exchange for investments in Government Securities to be held by MMWEC's trustee which mature prior to MMWEC's debt payment dates.

The Forward Agreement is not recognized in the Statements of Financial Position to the extent that settlement of cash in exchange for financial instruments has not occurred. To the extent cash has been exchanged for Government Securities, the Government Securities are recorded on the Statements of Financial Position as Special Funds.

Interest Rate Protection Agreement

The 1994 Series C bonds were issued to provide a hedge against interest rate risk on the net funding cost of approximately $100 million of short-term floating rate investment assets. MMWEC purchased an Interest Rate Protection Agreement (Cap Agreement) to limit the interest rate exposure on a portion of the 1994 Series C variable-rate debt to the extent that the variable debt costs exceed the fixed-rate received on the Forward Agreement described above.

MMWEC purchased the right to receive annually an amount by which an index-based interest rate, which approximates the interest rate on the 1994 Series C bonds, exceeds the protection rate in the Cap Agreement. The Cap Agreement provides MMWEC with the right to terminate the Cap Agreement if the Cap Agreement provider or its guarantor's credit rating falls below a double A. Upon the occurrence of such event, MMWEC may choose to receive payment of liquidation damages in an amount designed to enable MMWEC to enter into an equivalent agreement with another qualified institution.

(3) Debt (continued)

Interest Rate Protection Agreement (continued)

The $41 million Cap Agreement is comprised of an $11 million tranche with a protection rate of 6.85% which expires on June 30, 2000, and a $30 million tranche with a protection rate of 7.25% that expires on June 30, 2002. The cost of the Cap Agreement was paid up front and is included in Other Deferred Charges on the Statements of Financial Position. There are no future MMWEC cash requirements under the terms of the Cap Agreement. The Cap Agreement was purchased for purposes other than trading.

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 the 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, 1994, 1993, 1992 and prior years, MMWEC met the General Bond Resolution debt service coverage requirements for the applicable MMWEC Projects.

	Contract Year Ended June 30,		
	1994	1993	1992
		(In Thousands)	
Debt Service Coverage:			
Revenues	$162,980	$168,531	$195,952
Other Billings	588	661	713
Reserve and Contingency Fund Billings	11,549	12,444	14,542
Total	175,117	181,636	211,207
Less: Operating & Maintenance Expenses	(48,078)	(44,747)	(51,251)
Available Revenues Net of Expenses	$127,039	$136,889	$159,956
Debt Service Requirement	$115,490	$124,444	$145,414
Coverage (110% Required)	110%	110%	110%

(3) Debt (continued)

Notes Payable

MMWEC maintains a $5 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, $64,000 and $113,000 as of December 31, 1994, 1993 and 1992, respectively, with a maximum outstanding balance of $197,000, $641,000 and $556,000 during 1994, 1993 and 1992, respectively. Interest charged on borrowings under the line of credit is at the bank's prime rate. In addition, a commitment fee of one quarter of 1% per annum is charged on the unused portion of the line based on the average daily principal amount of the loan outstanding.

(4) Electric Generation Facilities and Financing

MMWEC's power supply capacity includes interests in the Stony Brook Peaking and Intermediate units which it operates. MMWEC is a nonoperating joint owner in the W.F. Wyman No. 4, Millstone Unit 3 and Seabrook Station units. Electric Plant In Service also includes MMWEC's Service Operations which totalled $2.4, $2.3 and $2.3 million in 1994, 1993 and 1992, respectively.

Projects	Facility and MMWEC Share of Capability (MW)		Amounts as of December 31 1994	1993	1992
				(In Thousands)	
Peaking Project	Stony Brook	170.0	$ 56,242	$ 56,330	$ 56,289
Intermediate Project	Stony Brook	311.3	150,579	150,322	147,973
Wyman Project	W.F.Wyman No. 4	22.7	7,372	7,357	7,394
Nuclear Project No. 3	Millstone Unit 3	36.8	129,079	128,651	128,372
Nuclear Mix No. 1	Millstone Unit 3	18.4	51,031	50,816	50,677
Nuclear Mix No. 1	Seabrook Station	1.9	8,562	8,575	8,579
Nuclear Project No. 4	Seabrook Station	49.8	258,202	258,545	258,665
Nuclear Project No. 5	Seabrook Station	12.6	70,676	70,764	70,794
Project No. 6	Seabrook Station	69.0	499,711	500,186	500,352
			$1,231,454	$1,231,546	$1,229,095

MMWEC's investment in Seabrook Station represents a substantial portion of its plant investment and financing. In January 1988, Public Service of New Hampshire (PSNH), then the lead owner of Seabrook Station, filed for protection from its creditors under Chapter 11 of the Federal Bankruptcy Code. In June 1992, in accordance with a court-approved plan of reorganization, Northeast Utilities (NU) acquired PSNH and placed Seabrook Station in a separate single asset subsidiary corporation.

(4) Electric Generation Facilities and Financing (continued)

In June 1988, MMWEC's Board of Directors adopted a strategic plan of action relating to its Seabrook Station joint ownership interests. MMWEC and PSNH subsequently entered into a Memorandum of Understanding whereby PSNH paid MMWEC's capital costs up to $30 million, MMWEC maintained its full ownership in Seabrook Station and agreed to a Comprehensive Settlement Agreement which was approved by the bankruptcy court. The Agreement provided for amendments to the Seabrook Joint Ownership Agreement, notices of default being rescinded, certain covenants not to sue, PSNH to pay MMWEC $2 million per year for eight years upon commercial operation of Seabrook, joint termination of the Sellback Agreement between MMWEC and PSNH and certain other considerations.

MMWEC's net costs, including capitalized interest expenses and $126.4 million incurred for the cancelled Seabrook Unit 2, have been deferred and are being recovered under the terms of the PSAs.

(5) Benefit Plans

MMWEC has two non-contributory defined benefit 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.

The Pension Benefit Obligation was computed as part of an actuarial valuation performed as of January 1, 1994. Significant actuarial assumptions used in the valuation include a weighted-average discount rate of 7.5% a year compounded annually, and projected salary increases of 5.5% a year compounded annually. The Pension Benefit Obligation for both plans is as follows:

	Amounts as of January 1,		
	1994	1993	1992
		(In Thousands)	
Retirees currently receiving benefits and terminated employees not yet receiving benefits	$ 282	$ 137	$ 123
Current Employees:			
Vested	1,710	1,423	1,172
Non-vested	2,015	1,447	1,239
Total Pension Benefit Obligation	4,007	3,007	2,534
Net assets available for benefits, at market	3,025	2,395	1,859
Unfunded Pension Benefit Obligation	$ 982	$ 612	$ 675

(5) Benefit Plans (continued)

Net assets available for benefits, at market as a percentage of the Pension Benefit Obligation, were 75.5%, 79.6% and 73.3%, as of January 1, 1994, 1993 and 1992, respectively. The unfunded Pension Benefit Obligation as a percentage of covered payroll was 17.8%, 11.4% and 12.9% for the years ended January 1, 1994, 1993 and 1992, respectively.

MMWEC makes annual contributions to the pension plans equal to the amounts recorded as pension expense, which were $471,000, $489,000 and $467,000, for the years ended December 31, 1994, 1993 and 1992, respectively. Contributions as a percentage of MMWEC's covered payroll were 7.9%, 8.9% and 8.3% for the years ended December 31, 1994, 1993 and 1992, 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. In addition to the actuarial assumptions outlined above, the assumed long-term rate of return used in determining pension expense was 8.5%. Pension costs applicable to prior years' service are amortized over thirty years. Ten-year 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 a employee savings plan administered by an 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 contributions vest immediately. MMWEC contributed $104,000, $105,000 and $94,000 while the employees contributed $167,000, $170,000 and $165,000 during the years ended December 31, 1994, 1993 and 1992, respectively.

(6) Commitments and Contingencies

Power Purchases

MMWEC entered into agreements for participation in the transmission 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 million is MMWEC's share to support. MMWEC 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 Phase II equity investment approximates 0.6% or $3.3 million. MMWEC has corresponding agreements with certain of its members and another utility to recover MMWEC's share of the costs associated with the interconnection.

(6) Commitments and Contingencies (continued)

Power Sales Agreements

MMWEC sells the Project Capability of each of its Projects to its members and other utilities (Project Participants) under PSAs.

In 1988, the Vermont Supreme Court ruled that the Project No. 6 PSAs between MMWEC and the Vermont Project Participants were void since inception. Consequently, pursuant to the PSAs, MMWEC increased the remaining Project No. 6 Participants pro rata shares of Project Capability to cover the shortfall (step-up), which action was challenged by certain Massachusetts Participants. The Supreme Judicial Court for the Commonwealth of Massachusetts in MMWEC et. al. v. Town of Danvers et. al. noted that "the Project 6 PSAs executed by the defendants are valid and that the step-up provisions therein have been properly invoked".

Inasmuch as the Stony Brook Intermediate Project has approximately 8.2% of its Project Capability under PSAs with Vermont entities, which PSAs are virtually identical to the Project No. 6 PSA, MMWEC sought a declaratory judgment and received a Vermont Supreme Court opinion which upheld the validity of the Vermont Participants' Intermediate Unit Project PSAs.

Consolidated with the Danvers case noted above, two Massachusetts systems also sued MMWEC over MMWEC's termination of a Sellback Agreement MMWEC had with PSNH (Sellback Damages Claims). The Massachusetts Appeals Court affirmed MMWEC's summary judgment granted by the Superior Court on five of seven counter claims related to the Sellback Damages Claims. MMWEC sought and received further appellate review and the Massachusetts Supreme Judicial Court is scheduled to hear arguments in April, 1995 on whether the Appeals Court erred in reversing the Superior Court on (1) whether MMWEC made certain representations to two Project Participants regarding the Sellback Agreement and (2) whether those two Project Participants reasonably relied on such representations in entering into the Project No. 6 PSAs.

The former Vermont Project No. 6 Participants, through various court actions, sought restitution of $6.1 million paid to MMWEC prior to their PSAs being declared void. MMWEC paid the $6.1 million to the former Vermont Project No. 6 Participants through satisfaction of a Vermont Superior Court judgment against MMWEC and settlement of a Vermont Federal Court action. MMWEC is recovering said amount through billings to the Project No. 6 Participants. One of the Project No. 6 Participants has paid its monthly billings in full but is challenging the allocation of such costs to Project No. 6 by seeking arbitration, as provided for within the PSA. Another Project No. 6 Participant is withholding its share of the monthly billings relating to the amount paid, and has also filed for arbitration. MMWEC is seeking a contempt of court order, to enforce a prior court injunction, which ordered said Project Participant to make all Project payments when due.

(6) Commitments and Contingencies (continued)

Power Sales Agreements (continued)

Based on bond counsels' opinions regarding the validity of the Power Sales Agreements and general counsel representations regarding the litigation, 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.

Other Issues

In August 1988, an amendment to the Price-Anderson Act was enacted, calling for a fifteen year extension of the nuclear liability indemnification process. The Act now provides approximately $9.4 billion for public liability claims from a single incident at a nuclear facility. The $200 million primary layer of insurance for the liability has been purchased in the commercial market. Secondary coverage of $8.8 billion is to be provided through a $75.5 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 $3.8 million assessment. The maximum assessment is subject to adjustment for inflation every five years. MMWEC's interest in Millstone Unit 3 and Seabrook Station could result in a maximum assessment of $3.6 and $8.8 million, respectively.

Insurance has been purchased from Nuclear Electric Insurance Limited (NEIL) to cover the cost of repair, replacement, decontamination or premature decommissioning of utility property resulting from insured occurrences at Millstone Unit 3 and Seabrook Station. MMWEC is subject to a $1 million assessment for its participation in Millstone Unit 3 and Seabrook Station for excess property damage, decontamination and decommissioning, as well as retroactive assessments if losses exceed the financial resources available to NEIL.

MMWEC is not currently covered under gradual pollution liability insurance related to MMWEC's Stony Brook power plant. Nothing has come to management's attention concerning any material pollution liability claims made during 1994 or outstanding as of December 31, 1994.

MMWEC has established a trust fund to enhance its Directors' and Officers' liability coverage. The purpose of the fund is to make available funds for the purchase of Directors' and Officers' liability insurance or indemnification of the Directors or Officers.

(7) Investments and Deposits

All bank deposits, which amounted to $313,000 at December 31, 1994, are maintained at one financial institution. The Federal Deposit Insurance Corporation currently insures up to $100,000 per depositor. MMWEC's uninsured deposits ranged from zero to $2.9 million during 1994 due to seasonal cash flows, and the timing of daily cash receipts. At December 31, 1994 investments are classified as available for sale and reported at fair value with unrealized gains of $208,000 and unrealized losses of $2.3 million excluded from earnings and reported as a component of Amounts Recoverable Under the Terms of the Power Sales Agreement on the Statements of Financial Position. At December 31, 1993 and 1992, investments are stated at cost adjusted for accretion (amortization) of the discount (premium). At December 31, 1994, 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:

	1994		1993		1992	
Type of Investment	Amortized Cost Basis	Market Value	Amortized Cost Basis	Market Value	Amortized Cost Basis	Market Value
			(In Thousands)			
Repurchase Agreements	$ 5,826	$ 5,896	$ 2,735	$ 2,893	$ 2,219	$ 2,289
Other Investments:						
U.S. Treasury bills	2,775	2,878	15	15	65	65
U.S. Treasury notes	77,250	75,090	97,283	101,090	84,681	87,257
U.S. Agency bonds	9,311	9,277	16,314	16,958	18,446	19,240
U.S. Agency discount notes	92,029	91,990	76,824	76,832	96,758	96,762
Investment in Government Mutual Funds	-	-	42	42	-	-
Total Other Investments	181,365	179,235	190,478	194,937	199,950	203,324
Total Investments	$187,191	$185,131	$193,213	$197,830	$202,169	$205,613

During 1994, the proceeds from the sale of available for sale securities were $10.1 million resulting in gross realized gains of $273,000 and gross realized losses of $2,000. The basis on which cost was determined in computing realized gain or loss was specific identification. Including repurchase agreements, the average contractual maturity of the investments in debt securities at December 31, 1994 was 545 days.

Temporary investments, made up of funds available from amounts for which the expense has been recognized but not cleared by the bank, approximate $1.8, $.8 and $2.2 million in 1994, 1993 and 1992, respectively, and are included in the total investments noted above.

(7) Investments and Deposits (continued)

Due to seasonal cash flows during 1994, 1993 and 1992, 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. Management estimated market values of the securities based on independent quoted market prices.

8) Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Investments and Decommissioning Trusts - The fair values estimated are based on quoted market prices for those or similar investments.

Long-Term Debt - The fair value is estimated based on quoted market prices for the same or similar issues.

Interest Rate Protection Agreement - The fair value is based on average quoted market prices of agreements with similar duration and strike prices.

Debt Service Forward Delivery Agreement - The fair value generally reflects the estimated amounts that MMWEC would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts.

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

	1994		1993		1992	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
			(In Thousands)			
Financial Assets:						
Investments	$ 185,131	$ 185,131	$ 193,213	$ 197,830	$ 202,169	$ 205,613
Decommissioning Trusts	6,110	5,609	4,683	4,682	3,423	3,356
Interest Rate Protection Agreement.	709	581	-	-	-	-
Financial Liabilities:						
Long-Term Debt	1,341,200	1,235,800	1,374,605	1,436,100	1,376,700	1,391,600
Unrecognized Financial Instruments:						
Debt Service Forward Delivery Agreement	-	270	-	-	-	-

The carrying amounts for Cash, Accounts Receivable, Notes Payable, Accounts Payable and Accrued Expenses approximate their fair value due to the short-term nature of these instruments.

KPMG Peat Marwick LLP

One Boston Place
Boston, MA 02108-4563

Telephone 617 723 7700

Telefax 617 723 6864

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, 1994, 1993 and 1992.

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 Schedules I through III 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 LLP

March 10, 1995

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1994
(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	$ 2,375	$ 59,593	$ 129,079	$ 258,202	$ 70,676	$ 499,711	$ 56,242	$ 150,579	$ 7,372	$ -	$ 1,233,829
Accumulated Depreciation	(2,005)	(14,496)	(33,660)	(39,779)	(10,924)	(77,933)	(26,987)	(75,879)	(3,441)	-	(285,104)
	370	45,097	95,419	218,423	59,752	421,778	29,255	74,700	3,931	-	948,725
Nuclear Fuel-Net of Amortization	-	1,152	1,981	3,944	1,036	6,618	-	-	-	-	14,731
Total Electric Plant	370	46,249	97,400	222,367	60,788	428,396	29,255	74,700	3,931	-	963,456
Special Funds											
Bond Fund											
Interest, Principal and Retirement Account	-	2,480	1,911	2,540	782	6,719	1,760	4,391	158	-	20,741
Reserve Account	-	6,798	11,207	13,959	4,352	32,218	2,410	6,177	284	-	77,405
Reserve and Contingency Fund	-	3,206	2,158	3,526	1,055	5,000	823	1,879	280	-	17,927
Revenue Fund	-	2,217	5,002	6,357	1,717	9,275	8,663	15,760	1,332	-	50,323
Working Capital Funds	16,460	-	-	-	-	-	-	-	-	(26)	16,434
	16,460	14,701	20,278	26,382	7,906	53,212	13,656	28,207	2,054	(26)	182,830
Current Assets											
Cash and Temporary Investments	991	-	-	1	-	1	-	-	-	(4)	989
Accounts Receivable	3,978	157	63	151	37	318	-	195	-	128	5,027
Unbilled Revenues	5,104	-	-	-	-	-	-	-	-	-	5,104
Inventories	-	65	-	1,731	438	2,397	1,242	9,510	214	-	15,597
Advances to (from) Projects	1,108	(89)	(125)	(113)	(37)	(371)	(80)	(282)	(11)	-	-
Prepaid Expenses	264	1,067	2,011	1,537	389	2,128	3	14	-	-	7,413
Total Current Assets	11,445	1,200	1,949	3,307	827	4,473	1,165	9,437	203	124	34,130
Total Special Funds and Current Assets	27,905	15,901	22,227	29,689	8,733	57,685	14,821	37,644	2,257	98	216,960
Deferred Charges											
Amounts Recoverable (Payable) Under Terms of the Power Sales Agreements	7	78,597	91,546	(5,564)	3,817	28,139	405	17,818	(56)	(492)	214,217
Unamortized Debt Discount and Expenses	-	3,128	4,797	7,211	2,778	15,001	470	2,418	14	-	35,817
Nuclear Decommissioning Trusts	-	1,179	2,276	1,006	255	1,394	-	-	-	-	6,110
Other	132	296	457	885	230	1,312	48	261	51	581	4,253
	139	83,200	99,076	3,538	7,080	45,846	923	20,497	9	89	26[illegible]
	$ 28,414	$ 145,350	$ 218,703	$ 255,594	$ 76,601	$ 531,927	$ 44,999	$ 132,841	$ 6,197	$ 187	$ 1,44[illegible]

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	$ -	$ 137,470	$ 209,165	$ 243,405	$ 73,350	$ 512,425	$ 39,870	$ 120,020	$ 5,510	$ -	$ 1,341,215
Current Liabilities											
Current Maturities of Long-Term Debt	-	4,855	3,680	5,420	1,505	10,855	2,920	6,880	305	-	36,420
Accounts Payable	4,324	101	98	1,313	332	1,824	24	439	45	25	8,525
Accrued Expenses	3,774	142	98	1,199	300	4,440	54	937	25	-	10,969
Member and Participant Advances and Reserves	20,316	1,457	3,115	2,994	794	633	2,131	4,565	312	162	36,479
	28,414	6,555	6,991	10,926	2,931	17,752	5,129	12,821	687	187	92,393
Deferred Credits	-	1,325	2,547	1,263	320	1,750	-	-	-	-	7,205
	$ 28,414	$ 145,350	$ 218,703	$ 255,594	$ 76,601	$ 531,927	$ 44,999	$ 132,841	$ 6,197	$ 187	$ 1,440,813

Schedule I

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 1994
(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
Revenues	$ 62,962	$ 14,695	$ 20,247	$ 28,151	$ 8,039	$ 62,219	$ 7,002	$ 28,537	$ 1,453	$ 605	$ 233,910
Interest Income	775	990	1,361	1,679	488	3,447	682	1,519	100	98	11,139
Total Revenues and Interest Income	$ 63,737	$ 15,685	$ 21,608	$ 29,830	$ 8,527	$ 65,666	$ 7,684	$ 30,056	$ 1,553	$ 703	$ 245,049
Operating and Service Expenses:											
Fuel Used in Electric Generation	$ -	$ 773	$ 1,372	$ 1,818	$ 479	$ 3,093	$ 578	$ 7,851	$ 395	$ -	$ 16,359
Purchased Power	61,335	-	-	-	-	-	-	-	-	605	61,940
Other Operating	2,282	2,051	3,646	5,335	1,376	14,596	1,145	4,761	308	-	35,500
Maintenance	43	634	1,109	2,077	526	2,876	263	2,110	108	-	9,746
Depreciation	65	1,910	4,045	9,251	2,532	17,888	2,257	6,191	227	-	44,366
Taxes Other Than Income	8	162	236	1,184	300	1,640	391	1,078	140	-	5,139
	63,733	5,530	10,408	19,665	5,213	40,093	4,634	21,991	1,178	605	173,050
Interest Expense:											
Interest Charges	4	7,555	11,775	14,612	4,502	33,640	2,532	6,561	308	-	81,489
Interest Charged to Projects During Construction	-	(4)	(13)	(6)	(2)	(11)	-	-	-	-	(36)
	4	7,551	11,762	14,606	4,500	33,629	2,532	6,561	308	-	81,453
Total Operating Costs and Interest Expense	63,737	13,081	22,170	34,271	9,713	73,722	7,166	28,552	1,486	605	254,503
Cost (Gain) of Advance Refunding - Net	-	912	1,903	896	(586)	10,895	(39)	(1,136)	57	-	12,902
Gain on Cancelled Units - Net	-	-	-	(2)	(1)	(3)	-	-	-	-	(6)
	-	912	1,903	894	(587)	10,892	(39)	(1,136)	57	-	12,896
Decrease (Increase) in Amounts Recoverable Under the Power Sales Agreements due to excess of Expenses (Revenues) over Revenues (Expenses)	-	1,692	(2,465)	(5,335)	(599)	(18,948)	557	2,640	10	98	(22,350)
	$ 63,737	$ 15,685	$ 21,608	$ 29,830	$ 8,527	$ 65,666	$ 7,684	$ 30,056	$ 1,553	$ 703	$ 245,049

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1994
(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	$ 63,737	$ 15,685	$ 21,608	$ 29,830	$ 8,527	$ 65,666	$ 7,684	$ 30,056	$ 1,553	$ 703	$ 245,049
Total Costs and Expenses, net	(63,737)	(13,993)	(24,073)	(35,165)	(9,126)	(84,614)	(7,127)	(27,416)	(1,543)	(605)	(267,399)
Adjustments to arrive at net cash provided (used) by operating activities:											
Depreciation and Decommissioning	65	2,078	4,362	9,486	2,592	18,214	2,243	6,120	227	-	45,387
Amortization	-	1,019	1,592	2,179	627	3,924	112	456	13	-	9,922
Write off of Debt Discount and Expenses	-	1,415	1,729	1,847	193	4,475	167	488	126	-	10,440
Change in current assets and liabilities:											
Accounts Receivable	1,801	93	190	740	155	1,216	89	28	23	(1)	4,334
Unbilled Revenues	2,709	-	-	-	-	-	-	-	-	-	2,709
Inventories	-	3	-	72	18	99	269	(1,324)	112	-	(751)
Prepaid Expenses	116	(349)	(725)	403	102	559	-	88	29	-	223
Accounts Payable	(306)	77	94	274	65	517	36	(604)	17	23	193
Accrued Expenses and Other	(1,910)	(349)	(697)	(486)	(130)	2,045	3	(464)	(36)	-	(2,024)
Member and Participant Advances and Reserves	(4,639)	650	2,703	(227)	(38)	(6,565)	17	(117)	43	(134)	(8,307)
Net cash provided by (used for) operating activities	(2,164)	6,329	6,783	8,953	2,985	5.536	3,493	7,311	564	(14)	39,776
Cash flows from investing activities:											
Construction Expenditures and Purchases of Nuclear Fuel	(185)	(630)	(1,207)	(650)	(165)	(901)	(19)	(499)	(25)	-	(4,281)
Interest Charged to Projects During Construction	-	(4)	(13)	(6)	(2)	(11)	-	-	-	-	(36)
Net Increase (Decrease) in Special Funds	2,311	2,737	(512)	(197)	(290)	2,811	(279)	1,608	66	14	8,269
Net Unrealized Loss on Special Funds	(7)	(412)	(327)	(308)	(96)	(679)	(71)	(153)	(6)	-	(2,059)
Decommissioning Trust Payments	-	(238)	(454)	(278)	(71)	(386)	-	-	-	-	(1,427)
Other	85	62	121	43	11	60	-	43	-	-	425
Net cash provided by (used for) investing activities	2,204	1,515	(2,392)	(1,396)	(613)	894	(369)	999	35	14	891
Cash flows from financing activities:											
Proceeds from Sale of Bonds	-	102,735	73,155	102,570	7,605	119,260	9,100	10,655	7,300	-	432,380
Payments for Bond Issue Costs	-	(2,109)	(1,736)	(2,617)	(157)	(3,580)	(104)	(125)	(54)	-	(10,482)
Payments for Principal of Long-Term Debt	-	(2,820)	(2,630)	(3,640)	(1,460)	(10,665)	(2,805)	(6,420)	(85)	-	(30,525)
Payments for Defeasance of Bonds	-	(105,650)	(73,180)	(103,870)	(8,360)	(111,445)	(9,315)	(12,420)	(7,760)	-	(432,000)
Change in Notes Payable	(64)	-	-	-	-	-	-	-	-	-	(64)
Net cash used for financing activities	(64)	(7,844)	(4,391)	(7,557)	(2,372)	(6,430)	(3,124)	(8,310)	(599)	-	(40,691)
Net (decrease) in cash and temporary investments	(24)	-	-	-	-	-	-	-	-	-	(24)
Cash and Temporary Investments at Beginning of Year	1,015	-	-	1	-	1	-	-	-	(4)	1,013
Cash and Temporary Investments at End of Year	$ 991	$ -	$ -	$ 1	$ -	$ 1	$ -	$ -	$ -	$ (4)	$ 989
Cash paid during the year for interest (Net of amount capitalized as shown above)	$ 4	$ 7,125	$ 11,235	$ 13,906	$ 4,264	$ 32,301	$ 2,388	$ 6,067	$ 289	$ -	$ 77,579

KPMG

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549-1004

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended **December 31, 1994**

OR

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

For the transition period from ______________ to ______________

Commission file number **2-30057**

CANAL ELECTRIC COMPANY
(Exact name of registrant as specified in its charter)

Massachusetts	04-1733577
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Main Street, Cambridge, Massachusetts	02142-9150
(Address of principal executive offices)	(Zip Code)

(617) 225-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
None

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock	Outstanding at March 15, 1995
Common Stock, $25 par value	1,523,200 shares

The Company meets the conditions set forth in General Instruction J(1)(a) and (b) of Form 10-K as a wholly-owned subsidiary and is therefore filing this Form with the reduced disclosure format.

Documents Incorporated by Reference	Part in Form 10-K
None	Not Applicable

List of Exhibits begins on page 32 of this report.

CANAL ELECTRIC COMPANY
FORM 10-K DECEMBER 31, 1994

TABLE OF CONTENTS

PART I

CANAL ELECTRIC COMPANY

Part I.

Item 1. Business

General

Canal Electric Company (the Company) is a wholesale electric generating company organized in 1902 under the laws of the Commonwealth of Massachusetts. The Company assumed its present corporate name in 1966 after the sale to an affiliated company of its electric distribution and transmission properties together with the right to do business in the territories served. The Company is a wholly-owned subsidiary of Commonwealth Energy System ("System"), which together with its subsidiaries is collectively referred to as "the system."

The Company's generating station is located in Sandwich, Massachusetts at the eastern end of the Cape Cod Canal. The station consists of two oil-fired steam electric generating units: Canal Unit 1, with a rated capacity of 569 MW, wholly-owned by the Company; and Canal Unit 2, with a rated capacity of 560 MW, jointly-owned by the Company and Montaup Electric Company (Montaup) (an unaffiliated company). Canal Unit 2 is operated by the Company under an agreement with Montaup which provides for the equal sharing of output, fixed charges and operating expenses. Canal Units 1 and 2 commenced operation in 1968 and in 1976, respectively.

The Company also has a 3.52% interest in the Seabrook 1 nuclear power plant located in Seabrook, New Hampshire, to provide for a portion of the capacity and energy needs of Cambridge Electric Light Company (Cambridge) and Commonwealth Electric Company (Commonwealth Electric), each of which are retail distribution companies and wholly-owned subsidiaries of the System. The plant has a rated capacity of 1,150 MW.

For additional information pertaining to the Company's relationship with the system's retail distribution companies, together with more extensive information on the Company's participation in the Seabrook plant and on other sources of power procurement, refer to the "Power Contracts" and "Power Supply Commitments and Support Agreements" sections of this Item 1.

New England Power Pool

The Company, together with other electric utility companies in the New England area, is a member of the New England Power Pool (NEPOOL), which was formed in 1971 to provide for the joint planning and operation of electric systems throughout New England.

NEPOOL operates a centralized dispatching facility to ensure reliability of service and to dispatch the most economically available generating units of the member companies to fulfill the region's energy requirements. This concept is accomplished by use of computers to monitor and forecast load requirements. In the past, this has required that Canal Unit 1 operate whenever possible since it is one of the most efficient oil-fired units in the country. Canal Unit 2 is designed for cycling operation which provides for economic changes in unit load permitting reduced generation during nights and weekends when demand is lowest. It has performed as one of New England's most efficient units in this type of service.

The Company and the System's other electric subsidiaries are also members of the Northeast Power Coordinating Council (NPCC), an advisory organization which includes the major power systems in New England and New York plus the provinces of Ontario and New Brunswick in Canada. NPCC establishes criteria and standards for reliability and serves as a vehicle for coordination in the planning and operation of these systems.

Regulation

The Company is a "public utility" within the meaning of Part II of the Federal Power Act and is subject to regulations thereunder by the FERC as to rates, accounting and other matters. The Company is subject to regulation by the DPU as to the issuance of securities.

Fuel Supply

(a) Oil

Effective July 1, 1993, the Company executed a twenty-two month contract with Coastal Oil New England, Inc. (Coastal) for the purchase of residual fuel oil. The contract provides for delivery of a set percentage of the Company's fuel requirement, the balance (a maximum of 20%) to be met by spot purchases or by Coastal at the discretion of the Company. Through December 1994, approximately 15.6% of the Company's total requirements have been met by lower-cost spot purchases resulting in savings to its customers.

Energy Supply and Credit Corporation (ESCO Massachusetts, Inc.) operates the Company's oil terminal and manages the purchase, receipt and payment of oil under assignment of the Company's supply contracts to ESCO Massachusetts, Inc. Oil in the terminal's shore tanks is held in inventory by ESCO Massachusetts, Inc. and delivered upon demand to the Company's day tanks.

Fuel oil storage facilities at the Canal site have a capacity of 1,199,000 barrels, representing approximately 60 days of normal operation of the two units. During 1994, ESCO maintained an average daily inventory of 575,000 barrels of fuel oil which represents 30 days of normal operation of the two units. This supply is maintained by tanker deliveries approximately every ten to fifteen days.

For a discussion on the cost of fuel oil, refer to "Management's Discussion and Analysis of Results of Operations" filed under Item 7 of this report.

(b) Nuclear Fuel

The nuclear fuel contract and inventory information for Seabrook 1 has been furnished to the Company by North Atlantic Energy Services Corporation (NAESCO), the plant manager responsible for operation of the unit. Seabrook's requirement for nuclear fuel components are 100% covered through 1999 by existing contracts.

There are no spent fuel reprocessing or disposal facilities currently operating in the United States. Instead, commercial nuclear electric generating units operating in the United States are required to retain high level wastes and spent fuel on-site. As required by the Nuclear Waste Policy Act of 1982 (the Act), as amended, the joint-owners entered into a contract with the Department of Energy for the transportation and disposal of spent fuel and high level radioactive waste at a national nuclear waste repository or Monitored Retrievable Storage (MRS) facility. Owners or generators of spent nuclear fuel or its associated wastes are required to bear all of the costs for such transportation and disposal through payment of a fee of approximately 1 mill/KWH based on net electric generation to the Nuclear Waste Fund. Under the Act, a temporary storage facility for nuclear waste was anticipated to be in operation by 1998; a reassessment of the project's schedule requires extending the completion date of the permanent facility until at least 2010. Seabrook 1 is currently licensed for enough on-site storage to accommodate all spent fuel expected to be accumulated through at least the year 2010.

Power Contracts

The Company is a party to substantially identical life-of-the-unit power contracts with Boston Edison Company, Montaup Electric Company and New England Power Company (unaffiliated utilities), under which each is severally obligated to purchase one-quarter of the capacity and energy of Canal Unit 1. Commonwealth Electric and Cambridge are jointly obligated to purchase the remaining one-quarter of the unit's capacity and energy. Similar contracts are in effect between the Company and Commonwealth Electric and Cambridge under which those companies are jointly obligated to purchase the Company's entire share of the capacity and energy of Canal Unit 2. The price of power is based on a two-part rate consisting of a demand charge and an energy charge. The demand charge covers all expenses except fuel costs and includes recovery of the original investment. It also provides for any adjustments to that investment over the economic lives of the units. The energy charge is based on the cost of fuel and is billed to each purchaser in proportion to its purchase of power. Purchasers are billed monthly. The power contracts are on file with the FERC.

The Company acts as agent for Commonwealth Electric and/or Cambridge in the procurement of additional capacity, or, to sell a portion of each company's entitlement in Unit 2. Exchange agreements are in place with several utilities whereby, in certain circumstances, it is possible to exchange capacity so that the mix of power improves the pricing for dispatch for both the seller and purchaser. Commonwealth Electric and Cambridge thus secure cost savings for their respective customers by planning for bulk power supply on a single system basis. A Capacity Acquisition and Disposition Agreement, which has been accepted for filing as a rate schedule by the FERC, enables the Company to recover costs incurred in connection with any transaction covered by such Agreement. Commonwealth Electric and Cambridge, in turn, bill charges to retail customers through rates subject to DPU regulation. Currently, Agreements are in effect for Seabrook 1, Phase I and Phase II of the Hydro-Quebec Project, varying amounts of power acquired from Northeast Utilities (NU), a 50 MW exchange with Central Vermont Public Service and a 50 MW exchange with New England Power Company through April 1997.

Power Supply Commitments and Support Agreements

In response to solicitations by NU and other utilities, the Company, on behalf of Commonwealth Electric and Cambridge, purchased entitlements through short-term contracts in various selected generating units. The contracts with NU covered the purchase of varying amounts of power through October 1994. These and other bulk electric power purchases are necessary in order to fulfill the system's NEPOOL obligation and for the Company to acquire and deliver electric generating capacity to meet Commonwealth Electric and Cambridge requirements. For additional information, refer to "Transactions with Affiliates" in Note 1 of Notes to Financial Statements and to "Management's Discussion and Analysis of Results of Operations" filed under Items 8 and 7, respectively, of this report.

The Company is party to support agreements for Phase I and Phase II of the Hydro-Quebec Project and is thereby obligated to pay its share of operating and capital costs for Phase II over a 25 year period ending in 2015. Future minimum lease payments for Phase II have an estimated present value of $13.8 million at December 31, 1994. In addition, the Company has an equity interest in Phase II which amounted to $3.8 million in 1994 and $3.9 million in 1993.

Construction and Financing

Information concerning the Company's financing and construction programs is contained in Note 5 of Notes to Financial Statements filed under Item 8 of this report.

Environmental Matters

The Company is subject to laws and regulations administered by federal, state and local authorities relating to the quality of the environment. These laws and regulations affect, among other things, the siting and operation of generating facilities, and will continue to impact future operations, capital costs and construction schedules.

The federal Clean Air Act, as amended, and certain state laws and regulations impose restrictions on air emissions. Some of these restrictions will become effective in 1995, and others by the year 2000. As part of its emission reduction program, the Company has been burning more lower-sulphur content fuel oil. In addition, in October 1993, the Company reached an agreement with Montaup Electric Company (50% owner of Unit 2) and Algonquin Gas Transmission Company to build a natural gas pipeline that will serve Unit 2, subject to regulatory approvals. Unit 2 will be modified to burn gas in addition to oil. The project will improve air quality on Cape Cod, enable the plant to exceed the stringent 1995 air quality standards established by the Massachusetts Department of Environmental Protection and will also strengthen the Company's bargaining position as it seeks to secure the lowest-cost fuel for its customers. Plant conversion and pipeline construction are expected to be completed in 1996.

Following the issuance of an environmental consent order in May 1993, the plant was subject to an intensive 26 week review by the Massachusetts

Department of Environmental Protection. The on-site inspection of the plant ended in December 1993, with the plant meeting all state requirements. The plant will remain under state supervision and will be subject to unannounced emissions checks in order to ensure that the highest standards of air quality are maintained.

Employees

The Company has 125 regular employees, 88 (70%) are represented by the Utility Workers' Union of America, A.F.L.-C.I.O. The existing collective bargaining agreement expires on May 31, 1997. Employee relations have generally been satisfactory.

Item 2. Properties

The Company operates a generating station located at the eastern end of the Cape Cod Canal in Sandwich, Massachusetts. The station consists of two oil-fired steam electric generating units: Canal Unit 1 with a rated capacity of 569 MW, wholly-owned by the Company; and Canal Unit 2, with a rated capacity of 580 MW, jointly-owned by the Company and Montaup Electric Company, a wholly-owned subsidiary of Eastern Utilities Associates. In addition, the Company has a 3.52% joint-ownership interest (40.5 MW of capacity) in Seabrook 1. Refer to Note 3 of Notes to Financial Statements filed under Item 8 of this report for encumbrances relative to the Company's property.

Item 3. Legal Proceedings

The Company is subject to legal claims and matters arising from its normal course of business, including its ownership interest in the Seabrook plant.

PART II.

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

(a) Principal Market

Not applicable. The Company is a wholly-owned subsidiary of Commonwealth Energy System.

(b) Number of Shareholders at December 31, 1994

One

(c) Frequency and Amount of Dividends Declared in 1994 and 1993

1994		1993	
Declaration Date	Per Share Amount	Declaration Date	Per Share Amount
April 25, 1994	$ 2.00	January 28, 1993	$ 4.35
July 18, 1994	2.00	April 26, 1993	2.65
October 24, 1994	3.00	July 26, 1993	2.62
	$ 7.00	October 18, 1993	2.50
		December 29, 1993	8.54
			$20.66

Reference is made to Note 6 of Notes to Financial Statements filed under Item 8 of this report for restrictions against the payment of cash dividends.

(d) Future dividends may vary depending upon the Company's earnings and capital requirements as well as financial and other conditions existing at that time.

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

The following is a discussion of certain significant factors which have affected operating revenues, expenses and net income during the periods included in the accompanying statements of income and is presented to facilitate an understanding of the results of operations. This discussion should be read in conjunction with the Notes to Financial Statements filed under Item 8 of this report.

A summary of the period to period changes in the principal items included in the statements of income for the years ended December 31, 1994 and 1993 is shown below:

	Years Ended December 31, 1994 and 1993		Years Ended December 31, 1993 and 1992	
	Increase (Decrease) (Dollars in Thousands)			
Electric Operating Revenues	$(4 674)	(2.3)%	$ (18 605)	(8.4)%
Operating Expenses:				
Fuel used in production	(760)	(0.9)	(13 324)	(13.9)
Electricity purchased for resale	(350)	(1.2)	(870)	(3.0)
Other operation and maintenance	(1 998)	(5.2)	(1 561)	(3.9)
Depreciation	178	1.3	(1 658)	(11.0)
Taxes -				
Federal and state income	(503)	(5.7)	(2 856)	(24.3)
Local property and other	12	0.3	(568)	(13.9)
	(3 421)	(1.9)	(20 837)	(10.5)
Operating Income	(1 253)	(5.0)	2 232	9.8
Other Income	(163)	(54.3)	(5 479)	(94.8)
Income Before Interest Charges	(1 416)	(5.6)	(3 247)	(11.4)
Interest Charges	(452)	(4.4)	978	10.6
Net Income	$ (964)	(6.4)	$ (4 225)	(19.6)
Unit Sales Decrease (MWH)	(85 345)	(1.9)	(1 076 059)	(21.8)

The following is a summary of unit sales for the periods indicated:

Period Ended December 31,	Unit Sales (MWH) Unit 1	Unit 2	Seabrook Unit 1	Purchased For Resale	Total
1994	2 594 406	1 047 214	218 560	477 506	4 337 686
1993	2 382 716	1 275 305	318 694	446 316	4 423 031
1992	3 173 668	1 590 643	273 859	460 920	5 499 090

Revenue, Fuel and Purchased Power

Operating revenues for 1994 declined by approximately $4.7 million or 2.3% due to a 1.9% decrease in unit sales. The decrease in unit sales was caused primarily by the reduced availability of Seabrook 1 due to the timing of a scheduled refueling outage which began in early April and was extended through early August 1994 for unscheduled maintenance. Somewhat offsetting the decline was an increase in purchases made on behalf of affiliated retail distribution companies. Also reflected in the change in unit sales was the increased availability of Unit 1 that was offset by the decline in generation from Unit 2 due to scheduled and unscheduled maintenance on the both Units.

During 1993, operating revenues decreased by $18.6 million or 8.4% due primarily to a 21.8% decrease in unit sales due to the timing of scheduled maintenance on Units 1 and 2, the operation of the units at reduced capacity during emissions testing and a decrease in the level of short-term purchases on behalf of affiliated retail distribution companies. A contributing factor to the decrease was the impact of the excess capacity situation which exists in New England. Somewhat offsetting the decline in unit sales was an increase in power available from Seabrook 1.

Fuel, purchased power and transmission costs (included in other operation) represented approximately 57% of the total revenue dollar in 1994, 56% in 1993 and 58% in 1992 and averaged 2.68 cents per KWH in 1994 as compared to 2.58 cents in 1993 and 2.33 cents in 1992. The per barrel cost of oil averaged $14.33 in 1994, $14.02 in 1993 and $12.95 in 1992. In conformance with restrictions on air emissions, the Commonwealth of Massachusetts mandated a reduction in sulphur dioxide emissions requiring the periodic use of more expensive lower-sulphur (1%) content oil. In 1994, 1% oil averaged $14.92 per barrel as compared to $15.16 per barrel in 1993 $17.25 per barrel in 1992. However, lower-sulphur oil displaced 70.4% of the higher sulphur (2.2%) content oil in 1994, as compared to 57.5% and 24% in 1993 and 1992, respectively.

Other Operating Expenses

Other operation includes the following:

	Years Ended December 31,		
	1994	1993	1992
	(Dollars in millions)		
Other operation:	$24.7	$23.7	$27.0
Less:			
Seabrook 1 operations	4.3	4.6	5.7
Hydro-Quebec Phase II transmission	3.5	3.5	3.5
Power purchased from affiliates	1.3	0.8	2.6
	$15.6	$14.8	$15.2

After excluding the items noted above, other operation, net, increased approximately $800,000 or 5.4% in 1994 and decreased 2.6% in 1993. The significant changes in power purchased from affiliates were due to a damaged

Unit 1 service station transformer from July 1991 through February 1992 which required the Company to buy power normally generated at the plant and a refund ($594,000) received in 1993 reflecting an overbilling which had occurred in December 1992. The refund was passed back to the Company's customers in 1993 and produced a corresponding reduction to revenues.

The decrease in maintenance expense in 1994 was due primarily to the timing of maintenance on Unit 1 and the major overhaul of Unit 2 which occurred in 1993. The increase in maintenance expense in 1993 reflects the timing of a scheduled inspection and overhaul of the Unit 2 boiler, turbine and generator.

Depreciation and Taxes

The 1.3% increase in depreciation expense in 1994 was due to a higher level of plant-in-service. Depreciation expense decreased 11%, or approximately $1.7 million, during 1993 due to a revision to accrual rates used in determining depreciation expense and an extension of the depreciable life of Unit 1 from 1996 to 2002, resulting from a study conducted as of December 31, 1992.

The 5.7% decrease in income tax expense (approximately $503,000) during 1994 was due to a lower level of pretax income. Income tax expense decreased approximately $2.9 million or 24.3% in 1993 due to a significantly lower level of pretax income offset, somewhat, by an increase in the federal income tax rate to 35%, retroactive to January 1, 1993. Local property and other taxes were virtually unchanged for 1994 reflecting the impact of slightly higher property tax rates ($73,000) being offset by a decrease in payroll-related taxes ($61,000). The decrease in local property and other taxes during 1993 reflects lower rates and a refund (approximately $300,000) associated with revisions to the nuclear station property tax assessed by the state of New Hampshire to the joint-owners of Seabrook.

Other Income

During 1994 other income decreased due primarily to lower equity earnings ($67,000) related to the Company's investment in Hydro-Quebec. The significant decrease in other income during 1993 was due to the absence of: 1) an equity component of allowance for funds used during construction (AFUDC) resulting from an adjustment to reflect the 1992 FERC settlement which finalized recovery of the Company's investment in Seabrook 1; 2) interest income related to contested tax issues; and 3) the reversal of a reserve related to the Company's Seabrook investment which was determined to be fully recoverable pursuant to the aforementioned FERC settlement.

Interest Charges

Total interest charges decreased 4.4% during 1994 reflecting a decrease in long-term interest ($984,000) due to the early redemption of the Company's Series D, 11.125% First Mortgage Bonds due in 2007. Somewhat offsetting the decrease in long-term interest was an increase in other interest charges ($427,000) caused by a higher average level of short-term borrowings coupled with higher short-term interest rates. Interest rates on bank borrowings averaged 4.3% during 1994 as compared to 3.4% for 1993. Total interest charges increased 10.6% during 1993 due to a significantly lower level of debt AFUDC reflecting the 1992 FERC Seabrook settlement, lower levels of short-term debt and lower interest rates.

Early Retirement of Debt

On December 1, 1993, the Company redeemed its Series D, 11.125% First Mortgage Bonds due December 1, 2007 totaling $9.3 million with short-term borrowings. The Company paid a premium of $279,000 on this early redemption and will amortize this amount to expense over the remaining original life of the retired issue.

Item 8. Financial Statements and Supplementary Data

The Company's financial statements required by this item are filed herewith on pages 13 through 31 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Canal Electric Company:

We have audited the accompanying balance sheets of CANAL ELECTRIC COMPANY, (a Massachusetts corporation and wholly-owned subsidiary of Commonwealth Energy System) as of December 31, 1994 and 1993, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1994. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 Canal Electric Company as of December 31, 1994 and 1993, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Note 7 to the financial statements, effective January 1, 1993, the Company changed its method of accounting for costs associated with postretirement benefits other than pensions.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index to financial statements and schedules is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Boston, Massachusetts
February 21, 1995

CANAL ELECTRIC COMPANY
INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

PART II.

SCHEDULES OMITTED

All other schedules are not submitted because they are not applicable or required or because the required information is included in the financial statements or notes thereto.

CANAL ELECTRIC COMPANY
BALANCE SHEETS
DECEMBER 31, 1994 AND 1993

ASSETS

	1994	1993
	(Dollars in Thousands)	
PROPERTY, PLANT AND EQUIPMENT, at original cost	$409 648	$404 768
Less - Accumulated depreciation and amortization	150 337	137 720
	259 311	267 048
Add - Construction work in progress	6 250	2 501
Nuclear fuel in process	139	1 641
	265 700	271 190
LEASED PROPERTY, net	13 844	14 150
INVESTMENTS		
Equity in corporate joint venture	3 802	3 861
CURRENT ASSETS		
Cash	12	12
Accounts receivable -		
Affiliated companies	7 935	12 215
Other	9 100	9 549
Unbilled revenues	-	659
Inventories, at average cost -		
Electric production fuel oil	736	663
Materials and supplies	1 408	1 471
Prepaid taxes -		
Income	132	720
Property	932	891
Other	1 277	1 472
	21 532	27 652
DEFERRED CHARGES		
Seabrook 1	7 735	9 002
Seabrook 2	5 140	6 937
Other	12 195	11 509
	25 070	27 448
	$329 948	$344 301

CANAL ELECTRIC COMPANY
BALANCE SHEETS
DECEMBER 31, 1994 AND 1993

CAPITALIZATION AND LIABILITIES

	1994	1993
	(Dollars in Thousands)	
CAPITALIZATION		
Common Equity -		
Common stock, $25 par value -		
Authorized - 2,328,200 shares		
Outstanding - 1,523,200 shares, wholly-owned by Commonwealth Energy System (Parent)	$ 38 080	$ 38 080
Amounts paid in excess of par value	8 321	8 321
Retained earnings	51 647	48 151
	98 048	94 552
Long-term debt, including premiums, less current sinking fund requirements	87 713	88 446
	185 761	182 998
CAPITAL LEASE OBLIGATIONS	13 258	13 575
CURRENT LIABILITIES		
Interim Financing -		
Notes payable to banks	11 325	28 000
Advances from affiliates	9 350	8 310
	20 675	36 310
Other Current Liabilities -		
Current sinking fund requirements	1 110	1 110
Accounts payable -		
Affiliated companies	1 932	1 829
Other	14 857	15 244
Accrued taxes -		
Local property and other	977	923
Income	71	460
Capital lease obligations	586	575
Accrued interest and other	4 120	3 547
	23 653	23 688
	44 328	59 998
DEFERRED CREDITS		
Accumulated deferred income taxes	68 732	70 854
Unamortized investment tax credits	12 658	13 360
Other	5 211	3 516
	86 601	87 730
COMMITMENTS AND CONTINGENCIES		
	$329 948	$344 301

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

CANAL ELECTRIC COMPANY
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

	1994	1993	1992
	(Dollars in Thousands)		
ELECTRIC OPERATING REVENUES			
Sales to affiliated companies	$122 310	$133 060	$144 214
Sales to non-affiliated companies	76 076	70 000	77 451
	198 386	203 060	221 665
OPERATING EXPENSES			
Fuel used in production	81 864	82 624	95 948
Electricity purchased for resale	27 627	27 977	28 847
Other operation	24 731	23 694	27 019
Maintenance	11 526	14 561	12 797
Depreciation	13 539	13 361	15 019
Amortization	3 423	3 423	3 423
Taxes -			
Income	8 390	8 893	11 749
Local property	2 793	2 720	3 392
Payroll and other	729	790	686
	174 622	178 043	198 880
OPERATING INCOME	23 764	25 017	22 785
OTHER INCOME			
Allowance for equity funds used during construction	-	-	1 827
Other, net	137	300	3 952
	137	300	5 779
INCOME BEFORE INTEREST CHARGES	23 901	25 317	28 564
INTEREST CHARGES			
Long-term debt	8 283	9 267	9 403
Other interest charges	1 546	989	1 791
Allowance for borrowed funds used during construction	(86)	(61)	(1 977)
	9 743	10 195	9 217
NET INCOME	$ 14 158	$ 15 122	$ 19 347

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

CANAL ELECTRIC COMPANY
STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

	1994	1993	1992
	(Dollars in Thousands)		
Balance at beginning of year	\$48 151	\$64 498	\$62 668
Add (Deduct)			
Net income	14 158	15 122	19 347
Cash dividends on common stock	(10 662)	(31 469)	(17 517)
Balance at end of year	\$51 647	\$48 151	\$64 498

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

CANAL ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

	1994	1993	1992
	(Dollars in Thousands)		
OPERATING ACTIVITIES			
Net income	$ 14 158	$ 15 122	$ 19 347
Effects of noncash items -			
Depreciation and amortization	18 668	20 333	22 138
Deferred income taxes	1 815	1 445	3 950
Investment tax credits	(702)	(715)	(744)
Allowance for equity funds used during construction	-	-	(1 827)
Earnings from corporate joint venture	(507)	(573)	(620)
Dividends from corporate joint venture	566	882	822
Change in working capital, exclusive of cash and interim financing -			
Accounts receivable	4 729	(513)	1 304
Unbilled revenues	659	224	(193)
Prepaid (accrued) income taxes, net	199	(990)	1 313
Local property and other taxes, net	13	(30)	(526)
Accounts payable and other	485	1 603	(2 491)
All other operating items, net	(3 571)	(2 326)	(2 988)
Net cash provided by operating activities	36 512	34 462	39 485
INVESTING ACTIVITIES			
Additions to property, plant and equipment (exclusive of AFUDC)	(9 396)	(6 574)	(5 474)
Allowance for borrowed funds used during construction	(86)	(61)	(1 977)
Net cash used for investing activities	(9 482)	(6 635)	(7 451)
FINANCING ACTIVITIES			
Proceeds from (payment of) short-term borrowings	(16 675)	8 650	(13 850)
Proceeds from affiliate borrowings	1 040	4 590	215
Payment of dividends	(10 662)	(31 469)	(17 517)
Long-term debt issue refunded	-	(9 300)	-
Retirement of long-term debt through sinking funds	(733)	(732)	(436)
Net cash used for financing activities	(27 030)	(28 261)	(31 588)
Net increase (decrease) in cash	-	(434)	446
Cash at beginning of period	12	446	-
Cash at end of period	$ 12	$ 12	$ 446

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

(1) Significant Accounting Policies

(a) General and Regulatory

Canal Electric Company (the Company) is a wholly-owned subsidiary of Commonwealth Energy System. The parent company is referred to in this report as the "System" and together with its subsidiaries is referred to as "the system." The Company is regulated as to rates, accounting and other matters by various authorities, including the Federal Energy Regulatory Commission (FERC) and the Massachusetts Department of Public Utilities (DPU). The System is an exempt holding company under the provisions of the Public Utility Holding Company Act of 1935 and, in addition to its investment in the Company, has interests in other utility companies and several non-regulated companies.

The Company has established various regulatory assets in cases where the DPU and/or the FERC have permitted or are expected to permit recovery of specific costs over time. The principal regulatory assets included in deferred charges at December 31, 1994 and 1993 were as follows:

	1994	1993
	(Dollars in Thousands)	
Seabrook related costs	$12 648	$15 774
Deferred income taxes	5 537	7 345
Postretirement benefit costs	1 242	639
Total regulatory assets	$19 427	$23 758
Regulatory assets as a percent of total assets	5.9%	6.9%

(b) Reclassifications

Certain prior year amounts are reclassified from time to time to conform with the presentation used in the current year's financial statements.

(c) Transactions with Affiliates

Transactions between the Company and other system companies include purchases and sales of electricity, including the Company's acquisition and resale of capacity entitlements and related energy generated by certain units of other New England utilities. The Company functions as the principal supplier of electric generation capacity for and on behalf of affiliates Cambridge Electric Light Company (Cambridge) and Commonwealth Electric Company (Commonwealth Electric), including abandonment and nonconstruction costs related to the Seabrook project. In addition, payments for management, accounting, data processing and other services are made to affiliate COM/Energy Services Company. Transactions with other system companies are subject to review by the FERC and the DPU.

The Company's operating revenues included the following intercompany amounts for the periods indicated:

Period Ended December 31,	Electricity Sales (Canal Units)	Purchased Power	Seabrook Units and Other
		(Dollars in Thousands)	
1994	$45 906	$31 288	$45 116
1993	53 174	31 777	48 109
1992	60 440	32 592	51 182

(d) Other Major Customers

The Company is a wholesale electric generating company that sells power under life-of-the-unit contracts, approved by FERC to Boston Edison Company, Montaup Electric Company and New England Power Company, (unaffiliated utilities). Each utility is obligated to purchase one-quarter of the capacity and energy of Canal Unit 1.

(e) Equity Method of Accounting

The Company uses the equity method of accounting for its 3.8% investment in the New England/Hydro-Quebec Phase II transmission facilities due in part to its ability to exercise significant influence over operating and financial policies of the entity. Under this method, it records as income the proportionate share of the net earnings of this project with a corresponding increase in the carrying value of the investment. The investment amount is reduced as cash dividends are received. For further information on this investment, refer to Schedule I in Part IV of this report.

(f) Depreciation and Nuclear Fuel Amortization

Depreciation is provided using the straight-line method at rates intended to amortize the original cost and the estimated cost of removal less salvage of properties over their estimated economic lives. The Company's composite depreciation rate, based on average depreciable property in service, was 3.49% in 1994, 3.47% in 1993 and 3.92% in 1992. In 1993, the depreciable life of Unit 1 was extended from 1996 to 2002 and resulted in a decrease in depreciation expense of approximately $1.7 million in that period.

The cost of nuclear fuel is amortized to fuel expense based on the quantity of energy produced. Nuclear fuel expense also includes a provision for the costs associated with the ultimate disposal of the spent nuclear fuel.

(g) Maintenance

Expenditures for repairs of property and replacement and renewal of items determined to be less than units of property are charged to maintenance expense. Additions, replacements and renewals of property considered to be units of property, are charged to the appropriate plant accounts. Upon retirement, accumulated depreciation is charged with the original cost of property units and the cost of removal net of salvage.

(h) Allowance for Funds Used During Construction

Under applicable rate-making practices, the Company is permitted to include an allowance for funds used during construction (AFUDC) as an element of its depreciable property costs. This allowance is based on the amount of construction work in progress that is not included in the rate base on which the Company earns a return. An amount equal to the AFUDC capitalized in the current period is reflected in the accompanying statements of income.

While AFUDC does not provide funds currently, these amounts are recoverable in revenues over the service life of the constructed property. The Company develops rates based upon its current cost of capital and used a compound rate of 5.25% in 1994, 3.75% in 1993 and 4.75% in 1992.

(2) Income Taxes

For financial reporting purposes, the Company provides federal and state income taxes on a separate return basis. However, for federal income tax purposes, the Company's taxable income and deductions are included in the consolidated income tax return of the System and it makes tax payments or receives refunds on the basis of its tax attributes in the tax return in accordance with applicable regulations.

The following is a summary of the provisions for income taxes for the years ended December 31, 1994, 1993 and 1992:

	1994	1993	1992
	(Dollars in Thousands)		
Federal:			
Current	$ 6 321	$ 7 192	$ 7 636
Deferred	1 460	1 476	3 506
Investment tax credits	(702)	(715)	(744)
	7 079	7 953	10 398
State:			
Current	1 138	1 181	1 147
Deferred	355	(31)	1 048
	1 493	1 150	2 195
	8 572	9 103	12 593
Amortization of regulatory liability relating to deferred income taxes	-	-	(604)
Total	$ 8 572	$ 9 103	$11 989
Federal and state income taxes charged to:			
Operating expense	$ 8 390	$ 8 893	$11 749
Other income	182	210	240
	$ 8 572	$ 9 103	$11 989

Effective January 1, 1992, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109). SFAS No. 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect in the year in which the differences are expected to reverse.

Accumulated deferred income taxes consisted of the following in 1994 and 1993:

	1994	1993
	(Dollars in Thousands)	
Liabilities		
Property-related	$77 587	$78 571
Seabrook nonconstruction	4 504	6 017
All other	1 291	1 497
	83 382	86 085
Assets		
Investment tax credit	8 170	8 623
Regulatory liability	5 189	5 189
All other	1 247	2 047
	14 606	15 859
Accumulated deferred income taxes, net	$68 776	$70 226

The net year-end deferred income tax liability above includes a current deferred tax liability of $44,000 and a current deferred tax asset of $628,000 in 1994 and 1993, respectively, which are included in accrued income taxes and prepaid income taxes, respectively, in the accompanying balance sheets.

The total income tax provision set forth on the previous page represents 38% of income before such taxes in each year. The following table reconciles the statutory federal income tax rate to these percentages:

	1994	1993	1992
Federal statutory rate	35%	35%	34%
Federal income tax expense at statutory levels	$7 956	$8 479	$10 654
Increase (Decrease) from statutory rate:			
Tax versus book depreciation	1 311	1 318	1 302
State tax, net of federal tax benefit	970	748	1 449
Amortization of investment tax credits	(689)	(671)	(671)
Allowance for equity funds used during construction	-	-	(621)
Reversals of capitalized expenses	(555)	(555)	-
Other	(421)	(216)	(124)
	$8 572	$9 103	$11 989
Effective federal tax rate	38%	38%	38%

As a result of the Revenue Reconciliation Act of 1993, the Company's federal income tax rate increased to 35% effective January 1, 1993.

(3) Long-Term Debt and Interim Financing

(a) Long-Term Debt

Long-term debt outstanding, exclusive of current sinking fund requirements and related premiums, collateralized by substantially all of the Company's property, is as follows:

	Original Issue	Balance December 31, 1994	1993
	(Dollars in Thousands)		
First Mortgage Bonds -			
Series A, 7%, due 1996	$19 000	$ 3 800	$ 4 560
Series B, 8.85%, due 2006	35 000	34 650	34 650
Series E, 7 3/8%, due 2020	10 000	10 000	10 000
Series F, 9 7/8%, due 2020	40 000	40 000	40 000
		$88 450	$89 210

The Series A First Mortgage Bonds require an annual sinking fund payment of $760,000 with an option to retire an additional $95,000 per quarter.

The Series B First and General Mortgage Bonds require an annual sinking fund payment of $350,000. The requirement may be met by payment, repurchase of bonds or certification of an amount of property additions equal to 60% of bondable property (as that term is defined in the indenture). The Company expects to certify additional bondable property in lieu of making sinking fund payments on these bonds.

The Series E and Series F First and General Mortgage Bonds were issued in conjunction with The Industrial Development Authority of the State of New Hampshire issuing Solid Waste Disposal Bonds and Pollution Control Bonds, respectively. The bonds were issued pursuant to a Loan and Trust Agreement dated December 1, 1990 among the Authority, the Company and the First National Bank of Boston, the Trustee.

(b) Notes Payable to Banks

The Company and other system companies maintain both committed and uncommitted lines of credit for the financing of their construction programs, on a short-term basis, and for other corporate purposes. As of December 31, 1994, system companies had $90 million of committed lines that will expire at varying intervals in 1995. These lines are normally renewed upon expiration and require annual fees of up to .1875% of the individual line. At December 31, 1994, the uncommitted lines of credit totaled $90 million. Interest rates on the outstanding borrowings generally are at an adjusted money market rate and averaged 4.3% and 3.4% in 1994 and 1993, respectively. The Company's notes payable to banks totaled $11,325,000 and $28,000,000 at December 31, 1994 and 1993, respectively.

(c) Advances from Affiliates

At December 31, 1994 the Company had short-term notes payable to the System totaling $9,350,000. The Company had no notes payable to the System at December 31, 1993. These notes are written for a term of up to 11 months and 29 days. Interest is at the prime rate and is adjusted for changes in that rate during the terms of the notes. This rate averaged 7.3% and 6% in 1994 and 1993, respectively.

The Company is a member of the COM/Energy Money Pool (the Pool), an arrangement among the subsidiaries of the System, whereby short-term cash surpluses are used to help meet the short-term borrowing needs of the utility subsidiaries. In general, lenders to the Pool receive a higher rate of return than they otherwise would on such investments, while borrowers pay a lower interest rate than that available from banks. Interest rates on the outstanding borrowings are based on the monthly average rate the Company would otherwise have to pay banks, less one-half the difference between that rate and the monthly average U.S. Treasury Bill weekly auction rate. The borrowings are for a period of less than one year and are payable upon demand. Rates on these borrowings averaged 4.3% and 3.2% in 1994 and 1993, respectively. The Company had no notes payable to the Pool at December 31, 1994 and had $8,310,000 of notes payable to the Pool at December 31, 1993.

(d) Disclosures About Fair Value of Financial Instruments

The fair value of certain financial instruments included in the accompanying balance sheets as of December 31, 1994 and 1993 are as follows:

	1994		1993	
	(Dollars in Thousands)			
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term Debt	$88 823	$91 020	$89 556	$104 325

The carrying amount of cash, notes payable to banks and advances from affiliates approximates the fair value because of the short maturity of these financial instruments.

The estimated fair value of long-term debt is based on quoted market prices of the same or similar issues or on the current rates offered for debt with the same remaining maturity. The fair values shown above do not purport to represent the amounts at which those obligations would be settled.

(4) Supplemental Disclosures of Cash Flow Information

The Company's supplemental information concerning cash flow activities is as follows:

	1994	1993	1992
	(Dollars in Thousands)		
Interest paid (net of capitalized amounts)	$9 224	$9 704	$8 464
Income taxes paid	9 055	9 467	8 123

(5) Commitments and Contingencies

(a) Construction

The Company is engaged in a continuous construction program presently estimated at $69.8 million for the five-year period 1995 through 1999. Of that amount, $27.4 million is estimated for 1995. The program is subject to periodic review and revision because of factors such as changes in business conditions, rates of customer growth, effects of inflation, maintenance of reliable and safe service, equipment delivery schedules, licensing delays, availability, and cost of capital and environmental factors. The Company expects to finance these expenditures on an interim basis with internally generated funds and short-term borrowings that are ultimately expected to be repaid with proceeds from sales of long-term debt and equity securities.

(b) Seabrook Nuclear Power Plant

The system's 3.52% interest in the Seabrook nuclear power plant is owned by the Company to provide for a portion of the capacity and energy needs of Cambridge and Commonwealth Electric. The Company is recovering 100% of its Seabrook 1 investment through power contracts pursuant to FERC approval.

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

	1994	1993
	(Dollars in Thousands)	
Utility plant-in-service	$232 374	$233 140
Nuclear fuel	18 500	18 514
Accumulated depreciation and amortization	(41 654)	(34 771)
Construction work in progress	651	881
	$209 871	$217 764

	1994	1993	1992
	(Dollars in Thousands)		
Operating expenses:			
Fuel	$ 1 939	$ 3 853	$ 3 952
Other operation	4 340	4 580	5 705
Maintenance	1 688	893	1 508
Depreciation	6 531	6 522	6 426
Amortization	1 320	1 319	1 320
	$15 818	$17 167	$18 911

Plant capacity (MW)	1,150	In-service date	1990
Canal's share:		Operating license	
Percent interest	3.52%	expiration date	2026
Entitlement (MW)	40.5		

The Company and the other joint-owners have established a Seabrook Nuclear Decommissioning Financing Fund to cover post operation decommissioning costs. For the years 1994, 1993 and 1992, the Company paid $271,000, $259,000 and $235,000, respectively, as its share of the cost of this fund. The estimated cost to decommission the plant is $382 million in 1994 dollars, through December 31, 1994. The Company's share of this liability (approximately $13.4 million), less its share of the market value of the decommissioning trust ($1 million), is approximately $12.4 million.

(c) Environmental Matters

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

(6) Dividend Restriction

At December 31, 1994, approximately $42,414,000 of retained earnings was restricted against the payment of cash dividends by terms of the Indenture of Trust securing long-term debt.

(7) Employee Benefit Plans

(a) Pension

The Company has a noncontributory pension plan covering substantially all regular employees who have attained the age of 21 and have completed one year of service. Pension benefits are based on an employee's years of service and compensation. The Company makes monthly contributions to the plan consistent with the funding requirements of the Employee Retirement Income Security Act of 1974.

Components of pension expense and related assumptions to develop pension expense were as follows:

	1994	1993	1992
	(Dollars in Thousands)		
Service cost	$ 457	$ 384	$ 319
Interest cost	995	960	799
Return on plan assets - (gain)/loss	220	(1 741)	(1 138)
Net amortization and deferral	(1 139)	913	386
Total pension expense	533	516	366
Transfers from affiliates, net	279	270	317
Less: Amounts capitalized and other	181	160	150
Net pension expense	$ 631	$ 626	$ 533
Discount rate	7.25%	8.50%	8.50%
Assumed rate of return	8.50	8.50	8.50
Rate of increase in future compensation	4.50	5.50	5.50

Pension expense reflects the use of the projected unit credit method which is also the actuarial cost method used in determining future funding of the plan. The funded status of the Company's pension plan (using a measurement date of December 31) is as follows:

	1994	1993
	(Dollars in Thousands)	
Accumulated benefit obligation:		
Vested	$ (8 698)	$ (9 333)
Nonvested	(1 641)	(1 614)
	$(10 339)	$(10 947)
Projected benefit obligation	$(12 579)	$(13 668)
Plan assets at fair market value	12 479	12 906
Projected benefit obligation greater than plan assets	(100)	(762)
Unamortized transition obligation	120	138
Unrecognized prior service cost	588	532
Unrecognized gain	(1 057)	(248)
Accrued pension liability	$ (449)	$ (340)

The following actuarial assumptions were used in determining the plan's year-end funded status:

	1994	1993
Discount rate	8.50%	7.25%
Rate of increase in future compensation	5.00	4.50

Plan assets consist primarily of fixed-income and equity securities. Fluctuations in the fair market value of plan assets will affect pension expense in future years.

(b) Other Postretirement Benefits

Through December 31, 1992, the Company provided postretirement health care and life insurance benefits to eligible retired employees. Employees became eligible for these benefits if their age plus years of service at retirement equaled 75 or more, provided, however, that such service was performed for the Company or another subsidiary of the System. As of January 1, 1993, the Company eliminated postretirement health care benefits for those non-bargaining employees who were less than 40 years of age or had less than 12 years of service at that date. Under certain circumstances, eligible employees are now required to make contributions for postretirement benefits.

Effective January 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106). This new standard requires the accrual of the expected cost of such benefits during the employees' years of service and the recognition of an actuarially determined postretirement benefit obligation earned by existing retirees. The assumptions and calculations involved in determining the accrual and the accumulated postretirement benefit obligation (APBO) closely parallel pension accounting requirements. The cumulative effect of implementation of

SFAS No. 106 as of January 1, 1993 was approximately $5 million, which is being amortized over twenty years. Prior to 1993, the cost of postretirement benefits was recognized as the benefits were paid. The cost of retiree medical care and life insurance benefits totaled $131,000 in 1992.

In 1993, the Company began making contributions to various voluntary employees' beneficiary association (VEBA) trusts that were established pursuant to section 501(c)9 of the Internal Revenue Code (the Code). The Company also makes contributions to a subaccount of its pension plan pursuant to section 401(h) of the Code to satisfy a portion of its postretirement benefit obligation. The Company contributed approximately $740,000 and $684,000 to these trusts during 1994 and 1993, respectively.

The net periodic postretirement benefit cost for the years ended December 31, 1994 and 1993 include the following components:

	1994	1993
	(Dollars in Thousands)	
Service cost	$ 164	$ 169
Interest cost	409	428
Return on plan assets	(11)	(35)
Amortization of transition obligation over 20 years	248	249
Net amortization and deferral	(66)	1
Total postretirement benefit cost	744	812
Transfers from affiliates, net	426	374
Less: Amounts capitalized and other	892	857
Net postretirement benefit cost	$ 278	$ 329

The funded status of the Company's postretirement benefit plan using a measurement date of December 31, 1994 and 1993 is as follows:

	1994	1993
	(Dollars in Thousands)	
Accumulated postretirement benefit obligation:		
Retirees	$(2 710)	$(2 596)
Fully eligible active plan participants	(553)	(559)
Other active plan participants	(2 250)	(2 176)
	(5 513)	(5 331)
Plan assets at fair market value	1 187	636
Projected postretirement benefit obligation greater than plan assets	(4 326)	(4 695)
Unamortized transition obligation	4 474	4 722
Unrecognized gain	(148)	(27)
	$ -	$ -

The following actuarial assumptions were used in determining the plan's year-end funded status:

	1994	1993
Discount rate	8.50%	7.25%
Rate of increase in future compensation	5.00	4.50

In determining its estimated APBO and the funded status of the plan for 1994 and 1993, the Company assumed estimated health care trend rates as follows:

	1994	1993
Medicare part B premiums	12.3%	14.9%
Medical care	8.5	9.0
Dental care	5.0	5.0

The above rates, with the exception of the dental rate, which remains constant, decrease to five percent in the year 2007 and remain at that level thereafter. A one percent change in the medical trend rate would have a $93,000 impact on the Company's annual expense (interest component-$56,000; service cost-$37,000) and would change the transition obligation by approximately $724,000.

Plan assets consist primarily of fixed-income and equity securities. Fluctuations in the fair market value of plan assets will affect postretirement benefit expense in future years.

(c) Savings Plan

The Company has an Employees Savings Plan that provides for Company contributions equal to contributions by eligible employees up to four percent of each employee's compensation rate. Effective January 1, 1993, the rate was increased to five percent for those employees no longer eligible for postretirement health benefits. The Company's contribution was $250,000 in 1994, $234,000 in 1993 and $197,000 in 1992.

(8) Lease Obligations

The Company leases equipment and office space under arrangements that are classified as operating leases. These lease agreements are for terms of one year or longer. Leases currently in effect contain no provisions that prohibit the Company from entering into future lease agreements or obligations.

The Company has entered into support agreements with other participating New England utilities for 3.8% of the Hydro-Quebec Phase II transmission facilities and makes monthly support payments to cover depreciation and interest costs.

CANAL ELECTRIC COMPANY

Future minimum lease payments, by period and in the aggregate, of capital leases and non cancelable operating leases consisted of the following at December 31, 1994:

	Operating Leases	Capital Leases
	(Dollars in Thousands)	
1995	$ 330	$ 2 080
1996	311	2 014
1997	310	1 951
1998	309	1 888
1999	309	1 825
Beyond 1999	929	22 640
Total future minimum lease payments	$2 498	32 398
Less: Estimated interest element included therein		18 554
Estimated present value of future minimum lease payments		$13 844

Total rent expense for all operating leases, except those with terms of a month or less, amounted to $421,000 in 1994, $438,000 in 1993 and $452,000 in 1992. There were no contingent rentals and no sublease rentals for the years 1994, 1993 and 1992.

PART IV.

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Index to Financial Statements

Financial statements and notes thereto of the Company together with the Report of Independent Public Accountants, are filed under Item 8 of this report and listed on the Index to Financial Statements and Schedules (page 14).

(a) 2. Index to Financial Statement Schedules

Filed herewith at page indicated are financial statement schedules of the Company:

Schedule I - Investments in, Equity Earnings of, and Dividends Received from Related Parties - Years Ended December 31, 1994, 1993 and 1992 (page 40).

(a) 3. Exhibits:

Notes to Exhibits -

a. Unless otherwise designated, the exhibits listed below are incorporated by reference to the appropriate exhibit numbers and the Securities and Exchange Commission file numbers indicated in parentheses.

b. The following is a glossary of Commonwealth Energy System and subsidiary companies' acronyms that are used throughout the following Exhibit Index:

CES....................	Commonwealth Energy System
CE.....................	Commonwealth Electric Company
CEL....................	Cambridge Electric Light Company
CEC....................	Canal Electric Company
NBGEL..................	New Bedford Gas and Edison Light Company

Exhibit Index

Exhibit 3. Articles of incorporation and by-laws.

3.1. Articles of incorporation of CEC (Exhibit 1 to CEC's 1990 Form 10-K, File No. 2-30057).

3.2. By-laws of CEC, as amended (Exhibit 2 to the CEC 1990 Form 10-K, File No. 2-30057).

Exhibit 4. Instruments defining the rights of security holders, including indentures

4.2.1 Indenture of Trust and First Mortgage between CEC and State Street Bank and Trust Company, Trustee, dated October 1, 1968 (Exhibit 4(b) to the CEC Form S-1, File No. 2-30057).

4.2.2 First and General Mortgage Indenture between CEC and Citibank, N.A., Trustee, dated September 1, 1976 (Exhibit 4(b)(2) to the CEC Form S-1, File No. 2-56915).

4.2.3 First Supplemental dated October 1, 1968 with State Street Bank and Trust Company, Trustee, dated September 1, 1976 (Exhibit 4(b)(3) to the CEC Form S-1, File No. 2-56915).

4.2.4 Third Supplemental dated September 1, 1976 with Citibank, N.A., New York, NY, Trustee, dated December 1, 1990 (Exhibit 3 to the CEC 1990 Form 10-K, File No. 2-30057).

4.2.5 Fourth Supplemental dated September 1, 1976 with Citibank, N.A., New York, NY, Trustee, dated December 1, 1990 (Exhibit 4 to the CEC 1990 Form 10-K, File No. 2-30057).

Exhibit 10. Material Contracts

10.1 Power contracts.

10.1.1 Power contracts between CEC and NBGEL and CEL dated December 1, 1965 (Exhibit 13(a)(1-4) to the CEC Form S-1, File No. 2-30057).

10.1.2.1 Agreement between CEC and Montaup Electric Company (MEC) for use of common facilities by Canal Units I and II and for allocation of related costs, executed October 14, 1975 (Exhibit 1 to the CEC 1985 Form 10-K, File No. 2-30057).

10.1.2.2 Agreement between CEC and MEC for joint-ownership of Canal Unit II, executed October 14, 1975 (Exhibit 2 to the CEC 1985 Form 10-K, File No. 2-30057).

10.1.2.3 Agreement between CEC and MEC for lease relating to Canal Unit II, executed October 14, 1975 (Exhibit 3 to the CEC 1985 Form 10-K, File No. 2-30057).

10.1.3 Contract between CEC, NBGEL and CEL, affiliated companies, for the sale of specified amounts of electricity from Canal Unit 2 dated January 12, 1976 (Exhibit 7 to the CES Form 10-K for 1985, File No. 1-7316).

10.1.4 Power contract, as amended to February 28, 1990, superseding the Power Contract dated September 1, 1986 and amendment dated June 1, 1988, between CEC (seller) and CE and CEL (purchasers) for seller's entire share of the Net Unit Capability of Seabrook 1 and related energy (Exhibit 1 to the CEC Form 10-Q (March 1990), File No. 2-30057).

10.1.5 Purchase and Sale Agreement together with an implementing Addendum dated December 31, 1981 between CEC and CE for the purchase and sale of the CE 3.52% joint-ownership interest in the Seabrook units, dated January 2, 1981 (Exhibit 1 to the Company's Form 8-K (January 13, 1982), File No. 2-30057).

10.1.6 Agreement for Joint-Ownership, Construction and Operation of the New Hampshire Nuclear Units (Seabrook) dated May 1, 1973 and filed by NBGEL as Exhibit 13(N) on Form S-1 dated October 1973, File No. 2-49013, and as amended below:

10.1.6.1 First through Fifth Amendments to 10.1.6 dated May 24, 1974, June 21, 1974, September 25, 1974, October 25, 1974, and January 31, 1975, respectively (Exhibit 13(m) to the NBGEL Form S-1 (November 7, 1975), File No. 2-54995).

10.1.6.2 Sixth through Eleventh Amendments to 10.1.6 dated April 18, 1979, April 18, 1979, April 25, 1979, June 8, 1979, October 11, 1979 and December 15, 1979, respectively (Exhibit 1 to the CEC 1989 Form 10-K, File No. 2-30057).

10.1.6.3 Twelfth and Thirteenth Amendments to 10.1.6 dated May 16, 1980 and December 31, 1980, respectively ((Exhibit 1 and 2 to the CE Form 10-Q (June 1982), File No. 2-7749).

10.1.6.4 Fourteenth Amendment to 10.1.6 dated June 1, 1982 (Exhibit 3 to the CE Form 10-Q (June 1982), File No. 2-7749).

10.1.6.5 Fifteenth and Sixteenth Amendments to 10.1.6 dated April 27, 1984 and June 15, 1984, respectively (Exhibit 1 to the CEC Form 10-Q (June 1984), File No. 2-30057).

10.1.6.6 Seventeenth Amendment to 10.1.6 dated March 8, 1985 (Exhibit 1 to the CEC Form 10-Q (March 1985), File No. 2-30057).

10.1.6.7 Eighteenth Amendment to 10.1.6 dated March 14, 1986 (Exhibit 1 to the CEC Form 10-Q (March 1986), File No. 2-30057).

10.1.6.8 Nineteenth Amendment to 10.1.6 dated May 1, 1986 (Exhibit 1 to the CEC Form 10-Q (June 1986), File No. 2-30057).

10.1.6.9 Twentieth Amendment to 10.1.6 dated September 19, 1986 (Exhibit 1 to the CEC Form 10-K for 1986, File No. 2-30057).

10.1.6.10 Twenty-First Amendment to 10.1.6 dated November 12, 1987 (Exhibit 1 to the CEC Form 10-K for 1987, File No. 2-30057).

10.1.6.11 Twenty-Second Amendment and Settlement Agreement to 10.1.6 dated January 13, 1989 (Exhibit 4 to the CEC 1988 Form 10-K, File No. 2-30057).

10.1.7 Resolutions proposed by Merrill Lynch Capital Markets and adopted by the Joint-Owners of the Seabrook Nuclear Project regarding Project financing, dated May 14, 1984 (Exhibit 1 to the CEC Form 10-Q (March 1984), File No. 2-30057).

10.1.8 Interim Agreement to Preserve and Protect the Assets of and Investment in the New Hampshire Nuclear Units by and between CEC, PSNH and other Participants dated April 27, 1984 (Exhibit 2 to the CEC Form 10-Q (June 1984), File No.2-30057).

10.1.9 Agreement for Seabrook Project Disbursing Agent establishing Yankee Atomic Electric Company as the disbursing agent under the Joint-Ownership Agreement, dated May 23, 1984 (Exhibit 4 to the CEC Form 10-Q (June 1984), File No. 2-30057).

10.1.9.1 First Amendment to 10.1.9 dated March 8, 1985 (Exhibit 2 to the CEC Form 10-Q (March 1985),File No.2-30057).

10.1.9.2 Second through Fifth Amendments to 10.1.9 dated May 20, 1985, June 18, 1985, January 2, 1986 and November 12, 1987, respectively, (Exhibit 4 to the CEC 1987 Form 10-K, File No. 2-30057).

10.1.10 Capacity Acquisition Agreement between CEC, CEL and CE dated September 25, 1980 (Exhibit 1 to the CEC 1991 Form 10-K, File No. 2-30057).

10.1.10.1 Supplement to 10.1.10 consisting of three Capacity Acquisition Commitments each dated May 7, 1987, concerning Phases I and II of the Hydro-Quebec Project and electricity acquired from Connecticut Light and Power Company (CL&P) (Exhibit 1 to the CEC Form 10-Q (September 1987), File No. 2-30057).

10.1.10.2 Supplements to 10.1.10 consisting of two Capacity Acquisition Commitments each dated October 31, 1988, concerning electricity acquired from Western Massachusetts Electric Company and/or CL&P for periods ranging from November 1, 1988 to October 31, 1994 (Exhibit 2 to the CEC Form 10-Q (September 1989), File No. 2-30057).

10.1.10.3 Amendment to 10.1.10 as amended, and restated, June 1, 1993, henceforth referred to as the Capacity Acquisition and Disposition Agreement, whereby CEC, as agent, in addition to acquiring power may also sell bulk electric power which CEL and/or CE owns or otherwise has the right to sell (Exhibit 1 to the CEC Form 10-Q (September 1993), File No. 2-30057).

10.1.10.4 Capacity Disposition Commitment dated June 25, 1993 by and between CEC (Unit 2) and CE for the sale of a portion of CE's entitlement in Unit 2 to Green Mountain Power Corporation (Exhibit 1 to the CEC Form 10-Q (September 1993), File No. 2-30057).

10.1.11 Termination Supplement between CEC, CE and CEL for Seabrook Unit 2, dated December 8, 1986 (Exhibit 3 to the CEC Form 10-K for 1986, File No. 2-30057).

10.1.12 Agreement, dated September 1, 1985, With Respect To Amendment of Agreement With Respect To Use Of Quebec Interconnection, dated December 1, 1981, among certain NEPOOL utilities to include Phase II facilities in the definition of "Project" (Exhibit 1 to the CEC Form 10-Q (September 1985), File No. 2-30057).

10.1.12.1 Amendatory Agreement No.3 with Respect to Use of Quebec Interconnection dated December 1, 1981, as amended to June 1, 1990, among certain NEPOOL utilities (Exhibit 1 to the CEC Form 10-Q (September 1990), File No. 2-30057).

10.1.13 Preliminary Quebec Interconnection Support Agreement - Phase II among certain New England electric utilities dated June 1, 1984 (Exhibit 6 to the CE Form 10-Q (June 1984), File No. 2-7749).

10.1.13.1 First through Third Amendments to 10.1.13 as amended March 1, 1985, January 1, 1986 and March 1, 1987, respectively (Exhibit 1 to the CEC Form 10-Q (March 1987), File No. 2-30057).

10.1.13.2 Fifth through Seventh Amendments to 10.1.13 as amended October 15, 1987, December 15, 1987 and March 1, 1988, respectively (Exhibit 1 to the CEC Form 10-Q (June 1988), File No. 2-30057).

10.1.13.3 Fourth and Eighth Amendments to 10.1.13 as amended July 1, 1987 and August 1, 1988, respectively (Exhibit 3 to the CEC Form 10-Q (September 1988), File No. 2-30057).

10.1.13.4 Ninth and Tenth Amendments to 10.1.13 as amended November 1, 1988 and January 15, 1989, respectively (Exhibit 2 to the CEC 1988 Form 10-K, File No. 2-30057).

10.1.13.5 Eleventh Amendment to 10.1.13 as amended November 1, 1989 (Exhibit 4 to the CEC 1989 Form 10-K, File No. 2-30057).

10.1.13.6 Twelfth Amendment to 10.1.13 as amended April 1, 1990 (Exhibit 1 to the CEC Form 10-Q (June 1990) File No. 2-30057).

10.1.14 Agreement to Preliminary Quebec Interconnection Support Agreement - Phase II among Public Service Company of New Hampshire (PSNH), New England Power Co. (NEP), Boston Edison Co. (BECO), and CEC whereby PSNH assigns a portion of its interests under the original Agreement to the other three parties, dated October 1, 1987 (Exhibit 2 to the CEC 1987 Form 10-K, File No. 2-30057).

10.1.15 Phase II Equity Funding Agreement for New England Hydro Transmission Electric Company, Inc. (New England Hydro) (Massachusetts), dated June 1, 1985, between New England Hydro and certain NEPOOL utilities (Exhibit 2 to the CEC Form 10-Q (September 1985), File No. 2-30057).

10.1.16 Phase II Equity Funding Agreement for New England Hydro Transmission Corporation (New Hampshire Hydro), dated June 1, 1985, between New Hampshire Hydro and certain NEPOOL utilities (Exhibit 3 to the CEC Form 10-Q (September 1985), File No. 2-30057).

10.1.16.1 Amendment No. 1 to 10.1.16 as amended May 1, 1986 (Exhibit 6 to the CEC Form 10-Q (March 1987), File No. 2-30057).

10.1.16.2 Amendment No. 2 to 10.1.16 as amended September 1, 1987 (Exhibit 3 to the CEC Form 10-Q (September 1987), File No. 2-30057).

10.1.17 Phase II Massachusetts Transmission Facilities Support Agreement, dated June 1, 1985, refiled as a single agreement incorporating Amendments 1 through 7 dated May 1, 1986 through January 1, 1989, respectively, between New England Hydro and certain NEPOOL utilities (Exhibit 2 to the CEC Form 10-Q (September 1990), File No. 2-30057).

10.1.18 Phase II New Hampshire Transmission Facilities Support Agreement, dated June 1, 1985, refiled as a single agreement incorporating Amendments 1 through 8 dated May 1, 1986 through January 1, 1989, respectively, between New Hampshire Hydro and certain NEPOOL utilities (Exhibit 3 to the CEC Form 10-Q (September 1990), File No. 2-30057).

10.1.19 Phase II New England Power AC Facilities Support Agreement dated June 1, 1985, between New England Power and certain NEPOOL utilities (Exhibit 6 to the CEC Form 10-Q (September 1985), File No. 2-30057).

10.1.19.1 Amendments Nos. 1 and 2 to 10.1.19 as amended May 1, 1986 and February 1, 1987, respectively (Exhibit 5 to the CEC Form 10-Q (March 1987), File No. 2-30057).

10.1.19.2 Amendments Nos. 3 and 4 to 10.1.19 as amended June 1, 1987 and September 1, 1987, respectively (Exhibit 5 to the CEC Form 10-Q (September 1987), File No. 2-30057).

10.1.20 Phase II BECO AC Facilities Support Agreement, dated June 1, 1985, between BECO and certain NEPOOL utilities (Exhibit 7 to the CEC Form 10-Q (September 1985), File No. 2-30057).

10.1.20.1 Amendments Nos. 1 and 2 to 10.1.20 as amended May 1, 1986 and February 1, 1987, respectively (Exhibit 2 to the CEC Form 10-Q (March 1987), File No. 2-30057).

10.1.20.2 Amendments Nos. 3 and 4 to 10.1.20 as amended June 1, 1987 and September 1, 1987, respectively (Exhibit 4 to the CEC Form 10-Q (September 1987), File No. 2-30057).

10.1.21 Agreement Authorizing Execution of Phase II Firm Energy Contract, dated September 1, 1985, among certain NEPOOL utilities in regard to the purchase of power from Hydro Quebec (Exhibit 8 to the CEC Form 10-Q (September 1985), File No. 2-30057).

10.1.22 Agreement to Share Certain Costs Associated with the Tewksbury-Seabrook Transmission Line, by and among certain NEPOOL utilities, amending participants, dated May 8, 1986 (Exhibit 2 to the CEC 1986 Form 10-K, File No. 2-30057).

10.1.23 Purchase Agreement dated March 1, 1991, by and between CEC (seller) and Central Vermont Public Service Corporation (CVPS) whereby CVPS will purchase 50 MW of capacity from CEC Unit 2 for the term of March 1, 1991 to October 31, 1995 (Exhibit 1 to the CEC Form 10-Q (June 1991), File No. 2-30057).

10.1.24 Power Sale Agreement dated March 1, 1991, by and between CEC (purchaser) and CVPS (seller) whereby buyer will purchase 50 MW of capacity from seller's units (25 MW from Vermont Yankee and 25 MW from Merrimack 2) for the term of March 1, 1991 to October 31, 1995 (Exhibit 2 to the CEC Form 10-Q (June 1991), File No. 2-30057).

10.1.25 Power Exchange Contract, dated March 24, 1993, between New England Power Company (NEP) and CEC for an exchange of unit capacity in which NEP will purchase 20 MW of CEC's Unit 2 capacity in exchange for CEC's purchase of 20 MW of NEP's Bear Swamp Units 1 and 2 (10 MW per unit) commencing May 31, 1993 through April 28, 1997 and NEP will purchase 50 MW of CEC's Unit 2 capacity in exchange for CEC's purchase of 50 MW of NEP's Bear Swamp Units 1 and 2 (25 MW per unit) commencing November 1, 1993 through April 28, 1997 (Exhibit 1 to the CEC Form 10-Q (March 1993), File No. 2-30057).

10.2 Other agreements.

10.2.1 Employees Savings Plan of Commonwealth Energy System and Subsidiary Companies as amended and restated as of January 1, 1993 (Exhibit 2 to the CES Form 10-Q (September 1993), File No. 1-7316).

10.2.2 Pension Plan for Employees of Commonwealth Energy System and Subsidiary Companies as amended and restated January 1, 1993 (Exhibit 1 to the CES Form 10-Q (September 1993), File No.1-7316).

10.2.3 New England Power Pool Agreement (NEPOOL) dated September 1, 1971 as amended through August 1, 1977, between NEGEA Service Corp. as agent for CEL, CEC, NBGEL, and various other electric utilities operating in New England, together with amendments dated August 15, 1978 and January 31, 1979 and February 1, 1980 (Exhibit 5(c)(13) to the CES Form S-16 (April 1980), File No. 2-64731).

10.2.3.1 Thirteenth Amendment to 10.2.3 as amended September 1, 1981 (Exhibit 5 to the CES Form 10-K for 1981, File No. 1-7316).

10.2.3.2 Fourteenth through Twentieth Amendments to 10.2.3 as amended December 1, 1981, June 1, 1982, June 15, 1983, October 1, 1983, August 1, 1985, August 15, 1985 and September 1, 1985, respectively (Exhibit 4 to the CES Form 10-Q (September 1985), File No. 1-7316).

10.2.3.3 Twenty-first Amendment to the New England Power Pool Agreement dated September 1, 1971, as amended January 1, 1986 (Exhibit 1 to the CES Form 10-Q (March 1986), File No. 1-7316).

10.2.3.4 Twenty-second Amendment to 10.2.3 as amended to September 1, 1986 (Exhibit 1 to the CES Form 10-Q (September 1986), File No. 1-7316).

10.2.3.5 Twenty-third Amendment to 10.2.3 as amended to April 30, 1987 (Exhibit 1 to the CES Form 10-Q (June 1987), File No. 1-7316).

10.2.3.6 Twenty-fourth Amendment to 10.2.3 as amended to March 1, 1988 (Exhibit 1 to the CES Form 10-K for 1987, File No. 1-7316).

10.2.3.7 Twenty-fifth Amendment to 10.2.3 as amended to May 1, 1988 (Exhibit 1 to the CES Form 10-Q (March 1988), File No. 1-7316).

10.2.3.8 Twenty-sixth Amendment to 10.2.3 as amended to March 15, 1989 (Exhibit 1 to the CES Form 10-Q (March 1989), File No. 1-7316).

10.2.3.9 Twenty-seventh Amendment to 10.2.3 as amended to October 1, 1990 (Exhibit 3 to the CES 1990 Form 10-K, File No. 1-7316).

10.2.3.10 Twenty-eighth Amendment to 10.2.3 as amended September 15, 1992 (Exhibit 1 to the CES Form 10-Q (September 1994), File No. 1-7316).

10.2.3.11 Twenty-ninth Amendment to 10.2.3 as amended May 1, 1993 (Exhibit 2 to the CES Form 10-Q (September 1994), File No. 1-7316).

10.2.4 Fuel Supply, Facilities Lease and Operating Contract by and between on the one side, ESCO (Massachusetts), Inc. and Energy Supply & Credit Corporation on the other side and CEC dated February 1, 1985 (Exhibit 1 to the CEC Form 10-K for 1984, File No. 2-30057).

10.2.4.1 Amendments Nos. 1 and 2 to 10.2.4 as amended July 1, 1986 and November 15, 1989, respectively (Exhibit 3 to the CEC 1989 Form 10-K, File No. 2-30057).

10.2.5 Oil Supply Contract by and between CEC (buyer) and Carey Energy Fuels Corporation (seller) for a portion of CEC's requirements of No. 6 residual fuel oil, dated July 1, 1991 (Exhibit 3 to the CEC Form 10-Q (June 1991), File No. 2-30057).

10.2.6 Assignment Agreement between CEC and ESCO (Massachusetts), Inc. (ESCO-Mass) and Energy Supply and Credit Corporation whereby CEC assigns to ESCO-Mass rights and obligations under the Supply Contract with Carey Energy Fuels Corporation, dated July 1, 1991 (Exhibit 4 to the CEC Form 10-Q (June 1991), File No. 2-30057).

10.2.7 Assignment and Sublease Agreement and CEC's Consent of Assignment thereto whereby ESCO-Mass assigns its rights and obligations under Part II of the Resupply Agreement dated February 1, 1985 to ESCO Terminals Inc., dated June 4, 1985 (Exhibit 4 to the CEC Form 10-Q (June 1985), File No. 2-30057).

Filed herewith:

Exhibit 27.

Financial Data Schedule for the year ended December 31, 1994 (Filed herewith as Exhibit 1)

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended December 31, 1994.

SCHEDULE I

CANAL ELECTRIC COMPANY
INVESTMENTS IN, EQUITY EARNINGS OF, AND DIVIDENDS RECEIVED FROM RELATED PARTIES

FOR THE YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992
(Dollars in Thousands)

Description of Investment and Name of Issuer	Investment Balance Beginning of Year	Shares	Equity Earnings	Dividends Received	Investment Balance End of Year
New England/Hydro-Quebec Phase II HVDC Transmission Project -					
	YEAR ENDED DECEMBER 31, 1994				
New England Hydro-Transmission Electric Company, Inc.	$ 2 408	136 656	$ 314	$ 409	$2 313
New England Hydro-Transmission Corporation	1 453	785.772	193	157	1 489
Total	$ 3 861		$ 507	$ 566	$3 802
	YEAR ENDED DECEMBER 31, 1993				
New England Hydro-Transmission Electric Company, Inc.	$ 2 580	136 656	$ 361	$ 533	$2 408
New England Hydro-Transmission Corporation	1 590	785.772	212	349	1 453
Total	$ 4 170		$ 573	$ 882	$3 861
	YEAR ENDED DECEMBER 31, 1992				
New England Hydro-Transmission Electric Company, Inc.	$ 2 753	136 656	$ 316	$ 489	$2 580
New England Hydro-Transmission Corporation	1 619	785.772	304	333	1 590
Total	$ 4 372		$ 620	$ 822	$4 170

SIGNATURES

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

CANAL ELECTRIC COMPANY
(Registrant)

By: WILLIAM G. POIST
William G. Poist,
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Principal Executive Officers:

WILLIAM G. POIST William G. Poist, Chairman of the Board and Chief Executive Officer	March 29, 1995
R. D. WRIGHT Russell D. Wright, President and Chief Operating Officer	March 29, 1995

Principal Financial Officer:

JAMES D. RAPPOLI James D. Rappoli Financial Vice President and Treasurer	March 29, 1995

Principal Accounting Officer:

JOHN A. WHALEN John A. Whalen, Comptroller	March 29, 1995

A majority of the Board of Directors:

WILLIAM G. POIST William G. Poist, Director	March 29, 1995
R. D. WRIGHT Russell D. Wright, Director	March 29, 1995
JAMES D. RAPPOLI James D. Rappoli, Director	March 29, 1995

NEW HAMPSHIRE
ELECTRIC COOPERATIVE, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 1994 AND 1993

(WITH INDEPENDENT AUDITORS' REPORT)

BERRY, DUNN, McNEIL & PARKER
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

BERRY, DUNN, McNEIL & PARKER
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Members
New Hampshire Electric Cooperative, Inc.

We have audited the accompanying balance sheet of New Hampshire Electric Cooperative, Inc. (the Cooperative) as of December 31, 1994, and the related statements of operations and accumulated deficit and cash flows for the year 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 audit. The financial statements of the Cooperative as of and for the year ended December 31, 1993, were audited by other auditors whose report dated March 18, 1994, expressed an unqualified opinion.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in *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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of New Hampshire Electric Cooperative, Inc., as of December 31, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As described in Note 1 to the financial statements, on March 20, 1992, the Bankruptcy Court entered an order confirming the Second Amended Plan of Reorganization, as modified, which became effective on December 1, 1993. Under the Plan of Reorganization, the Cooperative is required to comply with certain conditions as more fully described in Note 1.

Berry, Dunn, McNeil & Parker

Portland, Maine
March 24, 1995

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC.

Balance Sheets

December 31, 1994 and 1993

ASSETS

	1994 (000s)	1993 (000s)
Utility plant		
Nuclear production	$105,905	$106,088
Transmission	4,343	4,293
Distribution	123,818	118,644
General and other	11,952	12,893
Construction work in progress	2,189	2,082
Total utility plant	248,207	244,000
Less accumulated depreciation and amortization	52,956	48,154
Net utility plant	195,251	195,846
Investment in associated organizations, at cost	1,965	1,903
Current assets		
Cash and cash equivalents	264	266
Restricted cash	57	69
Temporary investments and special deposits	3,304	4,314
Receivables from members		
Energy sales, net of allowance for doubtful accounts $439 and $483 in 1994 and 1993, respectively	5,845	5,039
Other	332	502
Receivable, Public Service Company of New Hampshire	3,024	1,183
Materials and supplies	2,978	3,156
Prepayments and other current assets	1,146	1,347
Total current assets	16,950	15,876
Deferred debits and other assets	38,736	31,368
	$252,902	$244,993

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

LIABILITIES AND EQUITIES

	1994 (000s)	1993 (000s)
Equities		
Patronage capital	$ 13,308	$ 13,308
Accumulated deficit	(21,514)	(21,795)
Total deficit	(8,206)	(8,487)
Current liabilities		
Line of credit	3,000	-
Accounts payable	10,735	9,452
Accrued expenses	2,573	1,346
Customer deposits	300	400
Current portion of long-term obligations	2,961	2,817
Total current liabilities	19,569	14,015
Long-term obligations	241,446	239,001
Deferred credits	93	464
	$252,902	$244,993

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC.

Statements of Operations and Accumulated Deficit

Years Ended December 31, 1994 and 1993

	1994 (000s)	1993 (000s)
Operating revenues	$ 94,851	$ 95,414
Operating expenses	78,432	76,091
Operating margin before interest and other deductions	16,419	19,323
Interest and other deductions	18,758	18,293
Net operating margins (deficits)	(2,339)	1,030
Nonoperating margins (deficits)		
Reorganization items	-	(868)
Interest	3,199	2,231
Other	(579)	(100)
Total nonoperating margins	2,620	1,263
Net income	281	2,293
Assignment of 1993 operating margins to patronage capital	-	(1,030)
Accumulated deficit, beginning of year	(21,795)	(23,058)
Accumulated deficit, end of year	$(21,514)	$(21,795)

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

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC.

Statements of Cash Flows

Years Ended December 31, 1994 and 1993

	1994 (000s)	1993 (000s)
Cash flows from operating activities		
Net income	$ 281	$ 2,293
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	8,054	8,251
Gain on sale of fixed assets	(34)	-
Interest added to principal	5,178	8,148
Write-down of nuclear plant	-	160
Decrease (increase) in		
CFC Capital Term Certificates	(62)	162
Customer and other accounts receivable	(2,477)	1,173
Supplies	178	(499)
Prepaid expenses	201	(540)
Deferred debits	(7,368)	(5,106)
Increase (decrease) in		
Accounts payable	1,283	(1,563)
Accrued expenses	1,227	(7,347)
Deferred credits	(371)	(2,564)
Customer deposits	(100)	(19)
Net cash provided by operating activities before reorganization items	5,990	[illegible]
Cash flows from reorganization activities		
Reorganization expenses	-	(1,218)
Net cash used by reorganization activities	-	(1,218)
Net cash provided by operating activities	5,990	1,331
Cash flows from investing activities		
Proceeds from sale of assets	39	-
Construction and acquisition of plant	(7,432)	(8,832)
Plant removal costs	(216)	(188)
Materials salvaged from retirements	184	103
Net cash used by investing activities	(7,425)	(8,917)

(Continued next page)

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

NEW HAMPSHIRE ELECTRIC COOPERATIVE, INC.

Statements of Cash Flows (Concluded)

Years Ended December 31, 1994 and 1993

	1994 (000s)	1993 (000s)
Cash flows from financing activities		
Proceeds from credit line	$ 3,000	$ -
Principal payments of long-term obligations	(2,589)	(2,541)
Net cash provided (used) by financing activities	411	(2,541)
Net decrease in cash and cash equivalents	(1,024)	(10,127)
Cash and cash equivalents, beginning of year	4,649	14,776
Cash and cash equivalents, end of year	$ 3,625	$ 4,649
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$13,640	$14,916

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

1. Reorganization Proceedings and Basis of Presentation

On May 6, 1991, New Hampshire Electric Cooperative, Inc. (NHEC or the Cooperative) filed a petition for relief under Chapter 11 of the Federal Bankruptcy Code in the United States Bankruptcy Court for the District of New Hampshire (the Bankruptcy Court). Under Chapter 11, most actions to recover claims against NHEC in existence prior to the filing of the petition for relief under the Federal Bankruptcy Code were stayed while NHEC continued business operations, under the direction of the Bankruptcy Court, as a debtor in possession.

On January 13, 1992, a Second Amended Plan of Reorganization jointly proposed with the State of New Hampshire and Public Service Company of New Hampshire (PSNH) was submitted to the Bankruptcy Court. On March 20, 1992, the Bankruptcy Court confirmed the Second Amended Plan of Reorganization, as modified (the Plan). The Plan provided for NHEC to remain a member-owned electric cooperative and to retain all of its assets, including its 2.17391% undivided ownership interest in the Seabrook Nuclear Plant (Seabrook). Under the terms of the Plan, NHEC's indebtedness to the Rural Utilities Service (RUS) (formerly the Rural Electrification Administration) and the National Rural Utilities Cooperative Finance Corporation (CFC) was to be restructured and other creditors of NHEC paid in full.

The Plan provided for NHEC to emerge from bankruptcy with forecast revenues sufficient both to meet its obligations for debt service and to provide continuing electric service to all of its members. Forecast revenues are based on load growth studies and certain retail rate assumptions. Retail rates are regulated by the New Hampshire Public Utilities Commission (NHPUC) and, although certain assumptions have been made in the Plan, NHEC will be limited to those rates, approved in accordance with rate setting principles as implemented by the NHPUC.

In addition to the restructuring of RUS and CFC debt, the Plan provided for the full resolution and settlement of disputes between NHEC and PSNH, a subsidiary of Northeast Utilities (NU). NHEC will continue to purchase most of its wholesale power requirements from PSNH under a long-term contract through November 6, 2006, and will sell its Seabrook power to PSNH under a Sellback Contract through June 30, 2000.

On December 1, 1993, subsequent to satisfaction of all Plan conditions, the Plan became effective and the comprehensive settlement and discharge of all litigation and claims encompassed by the Plan became final. From the December 1, 1993, effective date through December 31, 1993, the Cooperative made payments totalling approximately $9 million in settlement of certain claims. As of December 31, 1993, the Cooperative had accrued $2.5 million for the payment of additional consulting fees incurred during the bankruptcy proceedings. There were no further applications for bankruptcy consulting fees made in 1994, and payment of all outstanding fees was made in 1994 pursuant to the final bankruptcy court order.

2. Significant Accounting Policies

Organization and Purpose

NHEC is a rural electric cooperative utility established under the laws of the state of New Hampshire. Financing assistance has been provided by the RUS and, therefore, NHEC is subject to certain rules and regulations promulgated for rural electric borrowers by RUS. NHEC is a distribution cooperative, providing electric power to members in certain areas of New Hampshire, and has a 2.17391% ownership in the Seabrook nuclear facility. NHEC is presently serving over 66,000 members, spread over nine of New Hampshire's ten counties.

Regulation

NHEC is subject to the rules and regulations of the NHPUC for retail sales of power and the Federal Energy Regulatory Commission (FERC) for the sales of wholesale power.

System of Accounts

NHEC maintains its accounting records in accordance with the FERC chart of accounts as modified and adopted by RUS.

Utility Plant and Depreciation

Utility plant and construction work in progress is stated at cost which includes an allowance for funds used during construction.

The provision for depreciation and amortization is computed on a straight-line method at rates based upon the estimated service lives of the assets. Depreciation and amortization expense was approximately $8,054,000 in 1994 and $8,251,000 in 1993. Major depreciable assets are estimated to have the following services lives:

	Years
Nuclear plant	36
Transmission plant	29
Distribution plant	36
General plant	6 to 33

Maintenance and repairs of utility plant are charged to operations as incurred. Replacements and betterments are capitalized. At the time units of utility plant are retired, the cost of the property retired and costs of removal, less salvage, are charged to the allowance for depreciation.

2. Significant Accounting Policies (Continued)

Allowance for Funds Used During Construction

Allowance for funds used during construction represents the cost of related borrowed funds used for construction of utility plant. The allowance is capitalized as a component of the cost of utility plant. Capitalization of interest costs related to construction was available to recommence on December 1, 1993; however, no amount was capitalized during 1993. The Cooperative capitalized $60,000 of interest in 1994.

Operating Revenues

Operating revenues are based on rates, authorized by the NHPUC, which are applied to members' consumption of electricity. NHEC bills its members on a cycle basis throughout the month. NHEC records revenues as it bills its customers. Credit is extended to electric customers based on terms dictated by the NHPUC.

Purchased Power Costs

NHEC rates reflect estimates of the cost of purchased power. Retail members are billed at a levelized power cost adjustment charge rate based on projected data for the cost of power from wholesale suppliers. To the extent that cost estimates differ from actual charges incurred, the differences are deferred and refunded or charged to members through periodic rate adjustments.

Materials and Supplies

Inventories of materials and supplies are stated at average cost.

Income Tax Status

NHEC is exempt from United States income taxes pursuant to §501(c)(12) of the Internal Revenue Code, which requires that at least 85% of a cooperative's net income be collected from its members.

Patronage Capital

The bylaws of the Cooperative provide that operating revenues from the furnishing of electric energy in excess of operating costs and expenses shall be allocated as patronage capital. All other amounts received in excess of other expenses shall be used to offset any losses incurred during the current or any prior fiscal year and, to the extent not needed for that purpose, allocated to its patrons on the basis of their patronage, and any amount so allocated shall be included as part of the capital credited to the accounts of patrons.

2. Significant Accounting Policies (Continued)

Patronage Capital (Concluded)

NHEC may refund patronage capital with the consent of certain creditors.

In the event of the dissolution or liquidation of NHEC, after all outstanding indebtedness has been paid, outstanding capital credits shall be retired without priority on a pro rata basis.

Cash and Cash Equivalents

NHEC considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

The Cooperative maintains its cash in bank deposit accounts which may exceed federally insured limits. The Cooperative has not experienced losses in such accounts, and does not believe that it is exposed to any significant risk on cash and cash equivalents.

Recently Issued Accounting Standards

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106). The Cooperative is required to adopt this statement as of January 1, 1995. This statement will require accrual of postretirement benefits (such as health care benefits) during the years an employee provides service. The Cooperative provides health care and life insurance benefits to certain retired employees that meet vesting requirements. The cost of these benefits are currently expensed on a pay-as-you-go basis. The total pay-as-you-go health and life insurance costs were approximately $54,000 and $69,000 in 1994 and 1993, respectively.

The actuarially calculated accumulated postretirement benefit obligation as of January 1, 1995, is approximately $2,250,000. This amount will be recorded as an expense over a 20-year period. The estimated yearly effect on operations will be approximately $400,000 which includes the amortization of the transition obligation. The Cooperative, based on management's understanding of the NHPUC's treatment of similar utilities, expects that the postretirement benefit costs will be recovered through current rates.

2. Significant Accounting Policies (Concluded)

Fair Value of Financial Instruments

The Cooperative has estimated, based on market values or the amounts to be ultimately realized, that the carrying value approximates fair value for all financial instruments. Long-term debt would have an estimated fair value equivalent to carrying value. These estimates are not necessarily indicative of the amounts that the Cooperative could realize in the current market and different estimation methodologies may have a material effect on the estimated fair value amounts.

Reclassifications

Certain reclassifications have been made to 1993 balances so that they are consistent with 1994 presentation.

3. Utility Plant - Nuclear

The NHPUC, by an order dated May 3, 1991, established that NHEC's "initial plant investment" in the Seabrook nuclear facility for "wholesale" rate setting purposes shall be $126 million as of the in-service date of July 1, 1990.

The Plan provides for the sale of all of the capacity and related output of NHEC's 2.17391% share of the Seabrook nuclear facility to PSNH through June 30, 2000. The terms of the sale are specified in a Unit Contract (the Sellback) between NHEC and PSNH which became effective on December 1, 1993. The Sellback also provided that the valuation of the plant will be further reduced on the effective date. As of the effective date, the value of the plant was adjusted to approximately $99 million.

Upon termination of the Sellback in June 2000, the capacity and output from NHEC's share of the Seabrook nuclear facility will be available for NHEC to use or sell. Because current electric rates to power consumers other than PSNH exclude Seabrook costs, NHEC will be required to obtain regulatory approval for any new retail rates which contain costs related to Seabrook.

In 1984, construction of Seabrook Unit 2 ceased and in November 1986 the Joint Owners in Seabrook (the Joint Owners) voted to abandon the unfinished plant and included in accrued expense is $350,000 which is provided for NHEC's share of the net costs of dismantling. Unit 2 has yet to be dismantled.

3. Utility Plant - Nuclear (Continued)

Decommissioning costs are accrued over the service life of the Seabrook Plant. Decommissioning expenses totaled approximately $163,000 and $132,000 in 1994 and 1993, respectively. The license for the plant is scheduled to expire in 2026. The Cooperative's share of the estimated decommissioning cost is approximately $35 million. These costs are currently being recovered by NHEC through the Sellback Contract with PSNH. The Cooperative contributes its share of the costs of decommissioning to an external trust fund. The Cooperative's share of the decommissioning trust fund balance and the accumulated provision for decommissioning were $507,000 and $366,000 at December 31, 1994 and 1993, respectively. The Cooperative is scheduled to make payments ranging from $100,000 to $416,000 per year, through the year 2026, to the Seabrook Decommissioning Fund. These contributions will equal approximately $8,000,000 which, with fund earnings, are scheduled to be sufficient to cover estimated decommissioning costs. These amounts are subject to review and revision semiannually.

The Cooperative's proportionate share of the direct expenses of Seabrook are included in operating expenses in the statements of operations. The Cooperative's share in the assets and liabilities of Seabrook at December 31, 1994 and 1993, is as follows:

	1994 (000s)	1993 (000s)
Nuclear plant	$105,905	$106,167
Transmission plant	1,491	1,481
Distribution plant	152	152
General plant	1,460	1,413
Construction work-in-progress	176	407
Accumulated depreciation and amortization	(12,487)	(10,025)
Net utility plant in service	96,697	99,595
Other current and accrued assets	5,254	4,013
Deferred debits and other assets	985	2,768
Total assets	$102,936	$106,376
Current and accrued liabilities	$ 1,003	$ 932
Long-term obligations	128	131
Deferred credits	93	121
Total liabilities and credits	$ 1,224	$ 1,184

3. Utility Plant - Nuclear (Concluded)

Nuclear Liability Insurance

The Price-Anderson Act (the Act), a federal statute amended in 1988 to extend to the year 2002, limits the public liability of a licensee on a nuclear plant for a nuclear incident to approximately $9 billion.

Seabrook provides the Joint Owners with a primary layer of insurance in the amount of $200 million maintained with private insurance companies. Secondary coverage of up to $8.3 billion is provided by a retrospective assessment of up to $75.5 million per incident levied on each of the licensed operating nuclear units in the United States, subject to a $10 million maximum assessment per unit in any year. Additionally, if the sum of all public utility claims and legal costs arising from any nuclear accident exceeds the maximum amount of financial protection, each licensee can be assessed an additional 5% (up to $3.8 million) of the maximum retrospective assessment. There is no limit on the number of incidents for which a licensee could be assessed these sums.

The Joint Owners are insured, through policies purchased from the Nuclear Electric Insurance Limited (NEIL), for the cost of repair, replacement, decontamination or decommissioning of the plant resulting from insured occurrences. The Joint Owners are subject to maximum potential assessments against Seabrook, with respect to losses arising during current policy years, of approximately $23.3 million for excess property damage, decontamination and decommissioning. All companies insured with NEIL are subject to retroactive assessments if losses exceed the financial resources available to NEIL.

Insurance has been purchased from American Nuclear Insurers/Mutual Atomic Energy Liability Underwriters aggregating $200 million on an industry basis for coverage of worker claims. All participating reactors insured under this coverage are subject to retroactive assessments of $3.1 million per reactor.

4. Investment in Associated Organization

Investments in associated organizations, carried at cost, at December 31, 1994 and 1993, consist of the following:

	1994 (000s)	1993 (000s)
Capital term certificates - CFC	$1,903	$1,903
Patronage capital credits - CFC	62	-
Total	$1,965	$1,903

5. Deferred Debits and Other Assets

Deferred debits and other assets at December 31, 1994 and 1993, were as follows:

	1994 (000s)	1993 (000s)
Deferred debits		
Deferred regulatory asset - Woodstock substation	$ 387	$ 417
Deferred power costs	1,952	-
Seabrook prefunding	593	930
Seabrook - other	392	271
Demand side management	235	-
Other assets		
PSNH receivable	33,611	28,143
Nuclear fuel - Seabrook	1,214	1,460
Nonoperating property	100	108
Other	252	39
Total	$38,736	$31,368

6. Long-Term Obligations

As of December 31, 1994 and 1993, long-term obligations were as follows:

	1994 (000s)	1993 (000s)
9.3% notes payable to the Rural Utilities Service (RUS) (Note A), payable in monthly installments of $625,000 of interest only through December 1995, monthly installments of $955,917, including interest commencing January 1996, through December 2022	$110,317	$107,692
2.0% note payable to RUS, payable in monthly installments of $62,031, including interest, through December 2012	11,288	11,758
5.0% note payable to RUS, payable in monthly installments of $389,724, including interest, through December 2012	55,593	57,289

6. Long-Term Obligations (Continued)

	1994 (000s)	1993 (000s)
9.3% note payable to RUS, payable in monthly installments of $200,245 of interest only through December 1995, monthly installments of $248,545, including interest, commencing January 1996, through December 2022	$ 28,721	$ 28,923
9.3% note payable to RUS (deferred note), payable in monthly installments of $980,917, including interest starting in August 1997, through July 2000	24,175	22,036
7.0% note payable to CFC (Note 1), payable in monthly installments of $2,629, including interest, through December 2012	323	331
9.5% note payable to CFC (Note 2), payable in monthly installments of $19,657, including interest, through December 2012	2,034	2,072
9.75% note payable to CFC (Note 3), payable in monthly installments of $46,632, including interest, through December 2012	4,748	4,833
6.55% note payable to CFC (Note 4), payable in monthly installments of $7,881, including interest, through December 2012	1,001	1,026
Total RUS and CFC	238,200	235,960
PSNH Note	5,930	5,517
Other long-term obligations	277	341
Total obligations	244,407	241,818
Less current portion	(2,961)	(2,817)
Total long-term obligations	$241,446	$239,001

The Plan provides for accrued interest on RUS Note A and deferred note, and the PSNH note to be added to the principal balance. Accrued interest added to principal totalled $5,178,000 in 1994 and $8,148,000 in 1993.

The mortgage agreements provide that all outstanding obligations to RUS and CFC are collateralized by substantially all assets and the rents, income, revenues, proceeds and benefits derived, received or had for any and all such assets.

6. Long-Term Obligations (Continued)

The Cooperative must also comply with certain covenants which include restrictions on the Cooperative's ability to borrow additional monies, enter into specified transactions or to pay dividends or distribute capital without first seeking the mortgagees' approval. Additional covenants address insurance coverage, the sale of assets and other nonfinancial matters.

CFC has made a commitment to the Cooperative for a $10 million line of credit through December 31, 2023. Borrowing under the line of credit was $3 million in 1994 and none in 1993. CFC also made a commitment to the Cooperative for a work plan loan of approximately $12.2 million to finance future plant additions. There were no borrowings under this commitment in 1994 and 1993.

CFC Mortgage Notes 2, 3, and 4 are subject to repricing every seven years, the first such repricing for each loan occurring in 1997, 1998, and 1994, respectively. During 1994, CFC Mortgage Note 4 was repriced from 8.75% to 6.55%.

The PSNH note began accruing interest at the rate of 7.5% per annum starting on December 1, 1993. Interest and principal will be payable as follows:

a. Annually through 2003, payments will be deemed made on the note in the amount of one cent for every kilowatt hour delivered by PSNH to NHEC under the amended wholesale power contract in excess of forecasted deliveries (deliveries credit); and

b. Any balance of interest and principal remaining unpaid on January 1, 2002, shall mature on October 31, 2006, and shall be payable by NHEC over the balance of the term of the note in equal monthly installments, adjusted for any payments in (a) above paid in 2002 and 2003, in an amount sufficient to pay such balance, and interest thereon on October 31, 2006.

A deliveries credit of $16,834 was realized in 1993; however, no deliveries credit was realized in 1994.

Under generally accepted accounting principles for entities in reorganization under the Bankruptcy Code, NHEC was required to restate its debt at its fair value on the effective date. Under the reorganization plan, the Cooperative may refinance existing debt without penalty and the principal balance of long-term debt, restated in the Plan, was considered to approximate the fair value at the effective date.

6. Long-Term Obligations (Concluded)

In addition to the five RUS notes detailed above, the Plan provided a $41.6 million contingent note. The Cooperative is obligated to principal and interest payments only to the extent that the Cooperative experiences load growth in excess of forecasted load growth, accumulates cash above a specified amount, recovers litigation proceeds, or otherwise as provided under the mortgage. The Cooperative did not realize any of those conditions, therefore, no payments were made in 1994 and 1993. Future payments to RUS under the terms of the contingent note are not expected under normal operating conditions. Interest accrues at a rate of 9.3% per annum, commencing January 1, 1993, and totalled approximately $4,225,000 at December 31, 1994. Interest accrual will cease on May 1, 2023. Any outstanding balance at May 1, 2023, will be subject to annual forgiveness in amounts not to exceed $10 million or NHEC may pay, on May 1, 2023, or each May 1 thereafter, a termination fee of $100,000 to have the note reduced to zero. Under the terms of the Plan, as long as the contingent note plus accrued interest remains unpaid, NHEC cannot apply for or receive any RUS direct or insured loans or any RUS loan guarantees.

Principal payments to be made on long-term obligations are as follows:

	(000s)
1995	$ 2,961
1996	4,139
1997	6,497
1998	14,278
1999	15,516
Thereafter	201,016
	$244,407

PSNH's payments commencing in July 1997 regarding deferred obligation to NHEC in accordance with the contract coincide with the increased debt payments related to NHEC's Seabrook ownership.

7. Patronage Equities

At December 31, 1994 and 1993, patronage capital consisted of:

	1994 (000s)	1993 (000s)
Assigned	$10,072	$10,072
Unassigned	3,236	3,236
	$13,308	$13,308

8. Long-Term Power Supply and Sale Agreements

The Cooperative has traditionally been a distribution cooperative purchasing power at wholesale to distribute to its retail customers. In 1981, in connection with its acquisition of a 2.17391% interest in the Seabrook nuclear facility, NHEC updated a partial requirements service arrangement with PSNH and entered into a Sellback Contract (Sellback) which, for a period of ten years, required PSNH to buy, at NHEC's cost, any part of NHEC's Seabrook capacity and energy determined to be in excess of NHEC's needs.

Pursuant to contracts agreed to under the Plan, PSNH will provide NHEC wholesale power at the so-called "Muni Rate" (the wholesale power rates established pursuant to the settlement among PSNH and certain municipal electric utilities approved by the FERC) through November 1, 2006, and continuing thereafter unless five years notice of termination has been provided by either party. NHEC has an exclusive option to extend the contract term until November 1, 2011, upon notice to PSNH by November 1, 2001.

PSNH will purchase power resulting from NHEC's Seabrook interest pursuant to a modified Sellback. The Sellback terms call for PSNH to purchase the entire amount of NHEC's Seabrook capacity and energy and to pay all NHEC's Seabrook and associated transmission costs, without regard to Seabrook's operating status, for the ten-year period which began on July 1, 1990. For purposes of the rates paid to the Cooperative by PSNH under the agreement, NHEC's initial cost of Seabrook was established at $126 million by order of the NHPUC. The initial cost was again reduced by depreciation and increased by capital additions. The initial cost was further reduced on the effective date by $17 million pursuant to the modified Sellback. The terms of payment also provide for phase-in of Sellback rates through a graduated deferral of costs in the first five years commencing July 1, 1990, recovered with interest during the last three years. The Cooperative deferred approximately $5,054,000 and $6,594,000 in costs during 1994 and 1993, respectively, for a cumulative deferred balance of approximately $33,611,000 at December 31, 1994, and $28,143,000 at December 31, 1993. Interest on the deferred balance is accrued at 9.3%.

8. Long-Term Power Supply and Sale Agreements (Concluded)

As part of the settlement between the Cooperative and PSNH, the Cooperative compensated PSNH for its pre-bankruptcy claim resulting from the excess of NHEC's unpaid bills from PSNH over PSNH's unpaid charges from NHEC under the Sellback (recomputed in accordance with the phase-in term discussed above). This compensation is in the form of a promissory note issued to PSNH on December 1, 1993, in the principal amount of $5.5 million (see Note 6). Additionally, a $3 million cash payment was made to PSNH on December 1, 1993. In Docket No. 92-009 issued on October 5, 1992, the NHPUC authorized a 12-month energy surcharge to recoup the $3 million due to PSNH. In accordance with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," the Cooperative accrued the $3 million due to PSNH over the same period the revenues were collected from members. This resulted in a recording of a $2,250,000 deferred debit at December 31, 1992, that was fully amortized during 1993.

In addition, capacity and energy are purchased on a wholesale customer basis under contracts from four other suppliers.

9. Deferred Credits

Deferred credits at December 31, 1994 and 1993, were as follows:

	1994 (000s)	1993 (000s)
Deferred fuel and purchased energy costs	$ -	$344
Seabrook	93	120
Other	$93	$464

10. Reorganization Items

Because the reorganization of the Cooperative was completed in 1993, there were no costs incurred during 1994. Reorganization items consisted of the following for the year ended December 31, 1993:

	(000s)
Interest income	$ 307
Professional fees	(1,023)
Severance agreements	170
Impairment in the value of Seabrook investment	(160)
Other	(162)
	$ (868)

11. Pension and 401(k) Savings Plan

Substantially all of the employees of the Cooperative participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program, a multiemployer, defined benefit pension plan. The Cooperative funds accrued pension costs on an annual basis. Since July 1, 1987, a moratorium on payments for normal and past service cost contributions has been imposed because the Pension Plan has reached funding limitations. The moratorium was lifted during 1994. The Cooperative made one annual payment for past service costs and two monthly payments for future service costs. Pension costs totalled $288,000 for December 31, 1994, and zero for December 31, 1993. The moratorium is scheduled to be reinstated in April of 1995.

The Cooperative has established a tax qualified retirement plan for the benefit of its employees and their beneficiaries. The Cooperative's contribution ranges from 1.4% - 2.0% of annual base pay; bonuses and overtime are excluded. The Cooperative's contribution totalled $89,400 and $73,000 for 1994 and 1993, respectively.

12. Employee Severance Agreements

The Plan provided for the severance of several senior management personnel. Severance agreements were entered into with these individuals and the Cooperative made payments under the agreements totalling approximately $114,000 and $70,000 in 1994 and 1993, respectively. Payments under these agreements were completed in 1994.

13. Commitments and Contingencies

The Cooperative is involved in various legal proceedings incidental to the conduct of its normal business operations. In the opinion of management, these proceedings will not have a material adverse impact on the financial condition of the Cooperative.