

1991 Annual Report

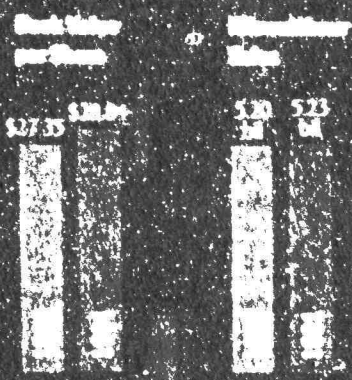
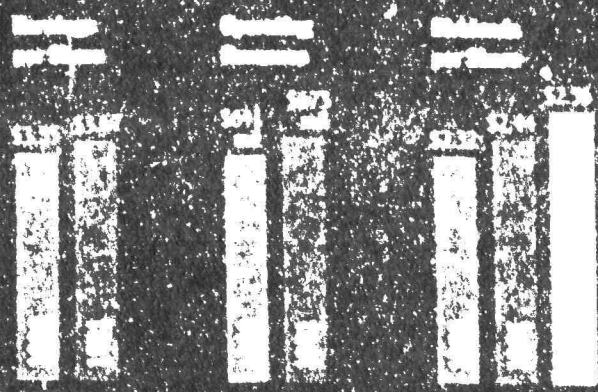
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**Financial and Statistical Highlights**

Operating Revenues (000)	\$673,371	\$640,646
Net Income (000)	\$55,550	\$54,048
Earnings per Share of Common Stock	\$3.67	\$3.35
Dividends Declared per Share of Common Stock	\$2.44	\$2.32
Payout Ratio	66%	65%
Average Return on Equity	13.81%	13.39%
Book Value per Share	\$28.84	\$27.35
Equity Capitalization	28.5%	27.3%
Common Stock Shares Outstanding	13,899,906	13,887,748
Sales of Energy (MWh)	5,234,393	5,204,804
Peak Load (MW)	1,146	1,055
Total Customers (average)	305,461	307,116
Number of Employees	1,571	1,587



1999  
 2000  
 2001  
 2002

**A**s recession strained the economy of New England for the second straight year, UI and its employees continued to adapt to challenging economic conditions. Holding the line on expenses, managing to do more with less, UI again performed strongly. We exceeded production efficiency and service reliability goals, and we met our financial performance targets. Sales, revenues, earnings and cash flow all increased. Book value continued to rise, as did the common stock capitalization ratio.

Our overall customer approval rating stands at 93%.

We earned, even slightly exceeded, our allowed return on common stock equity. Aided by our strong cash position, we were able to refinance some debt at very advantageous rates. The price of UI common stock rose 25% during 1991, with a total return, including dividends, of 33%.

In February 1992, the Board of Directors approved a 4.9% increase in the dividend to an indicated annual rate of \$2.56 per share, following last year's increase of 5.2%, right in line with our goal, established in 1990, of resuming regular, predictable increases. Over the long run, we are striving to achieve 5% annual growth in earnings and book value together with a dividend payout of about 70%. We may do better in some years than others, but we view the 5% as a challenging but attainable goal.

Behind this positive performance were operating efficiencies, the expanded generation of low-cost nuclear energy and growth in wholesale sales. Retail margins improved due to a 2.7% rate increase at the beginning of 1991, the second year of a three year rate agreement. Cost control programs continued to produce savings, with overall operation and maintenance expenses held well below the rate of inflation. Every UI department came in under budget for 1991.

In reviewing the results of a very satisfying year, we also face the future with strengths not shared by many in our business. We do not face capacity shortages or the need to raise capital for major new generating construction. Our abundance of fuel-diverse, high quality capacity provides continued opportunity for wholesale sales. Because our power plants already meet some of the nation's toughest environmental laws, we can look to the implementation of the 1990 Clean Air Act as a net plus, with sales of emissions "allowances" likely to far surpass expenses required by the new law.

We can face this future with plans in place that have carried us beyond the challenges of constructing and licensing the Seabrook nuclear plant; plans that have produced two solid years of performance in our post-Seabrook mode. We do face hard tasks, but we do so with a track record of achievement.

We will continue to achieve good results by continuing to demand excellence in performance and operations, and the kind of customer-focused pursuits you'll see in the pages that follow.





We are now in the final year of a three-year rate agreement designed to allow us to recover, over time, from the financial hardships of the 1980's, which many of you weathered with us. This agreement has worked out very well for all parties. It provides achievement incentives allowing higher returns if we perform well enough to earn them. The predictability itself of a multi-year plan has offered tremendous advantages to local business and industry in their budgeting, to us for our own planning, and to customers and investors who are spared unpleasant surprises. The Company and the DPUC have been able to focus efforts on finding ways to help out Connecticut's troubled economy with creative rate packages and programs, rather than being involved in traditional confrontational rate proceedings from year to year.

In looking ahead to a rate plan to succeed this agreement, we must consider the burdened economy in Connecticut. We see room for accommodating the needs of all parties without jeopardizing our rebuilding process.

The fact that 1991 was a good year for UI, that we met our targets and the needs of both customers and shareowners, does not blind us to serious concerns about the economic health of our communities and our state. On the contrary, we focused sharply upon these concerns during 1991 and elevated our commitment to economic development.

In this year's annual report you will read much about a commitment that goes far beyond being a "good neighbor" or a "good corporate citizen." We have always been convinced that UI must play a leadership role in revitalizing business in our area. We have the expertise; we certainly have the motivation to maintain and broaden our base of business and industrial customers and the jobs they support and create. No matter how well-managed, UI's long-term prosperity depends upon the health of our service territory. We cannot relocate; power plants and transmission lines can't be packed up and carted away; we are here for the long haul.

Since 1987, we've been promoting productive relationships between business and government to improve the economic development climate in each city and town we serve. We run seminars for manufacturers, covering such topics as energy management and taking advantage of flexible energy rates; we even assist them in getting their voices heard by legislators in Hartford to promote legislation in their interest. Finally, we have established a whole new set of advantageous rates to help preserve companies in trouble and attract new business.

These and many other economic development programs are paying off in the retention and expansion of key customer groups... a base of stable and growing entities in the medical

community: world-class hospitals, research and manufacturing facilities such as Miles Laboratories and U.S. Surgical, and stable defense contractors like Sikorsky Aircraft.

There are further causes for optimism. UI's service territory has actually fared better than most of New England. Not to minimize the hits we have taken, jobs and kilowatt-hours have been lost and two major cities here, Bridgeport and New Haven, are suffering real pain. But we are seeing a resiliency here: strength in the commercial sector, performing better than the rest of New England, and residential usage remain solid, thus producing a net kilowatt-hour sales increase for 1991.



Robert L. Fiscus

If you add up what this annual report has to say, look at the numbers, compare us with other companies, we think you will see in UI a company that has solved some significant problems; a company that's emerged stronger than ever and is establishing a good track record in hard economic times; a company with good solid plans in place to position it well for the future.

The message of achieving excellence in performance and service to our customers, and managing that excellence to achieve financial rewards for our stockholders, is not just a message delivered to you here by your president and your CEO. It is a message shared by UI's entire management and work force. It has become ingrained in our corporate culture. We're realists, prepared to produce results in tough economic times, and we're working toward the day when economic recovery will allow us to produce even better results.

In closing, we would like to express our gratitude to George W. Edwards, Jr., who resigned as UI chairman and CEO in May 1991, after six years of outstanding leadership and contributions to the success of our Company, to become chief executive of the Kansas City Southern Railway Company. We continue to enjoy working with him as a member of UI's Board of Directors.

And thanks, again, to UI employees for the high level of performance they achieve, day after day, in good times and bad. That is the bedrock upon which these gratifying financial results are based.

Richard J. Grossi

Chairman and Chief Executive Officer

Robert L. Fiscus

President and Chief Financial Officer



In hard times a company must perform better than ever to produce the kind of financial results its owners expect. Further, because price of electricity and quality of service play a fundamental role in a region's economy, an electric utility company is challenged even more to deliver value and competitive pricing. Finally, a company which clearly recognizes its own enlightened self-interest will creatively seek out opportunities to assist local communities, business and industries to cope with the difficult economy.

United Illuminating's management philosophy of offering added value through superior service is especially well suited to these challenges.

The following pages highlight some of the ways in which we implement that philosophy, by:

- **running our operations efficiently and cleanly; controlling costs**
- **focusing on the customer: helping customers use electricity**  
**paying unflinching attention to customer satisfaction**
- **contributing to the human needs of our communities**
- **working to keep Connecticut business competitive**

**1991 Performance Highlights**

**Systems Operations**

- Efficiency: heat rate of 9901 BTU per kilowatt-hour
- UI fossil fuel units ranked 7th most efficient nationally
- Unit Availability 87.9% Exceeded Company target

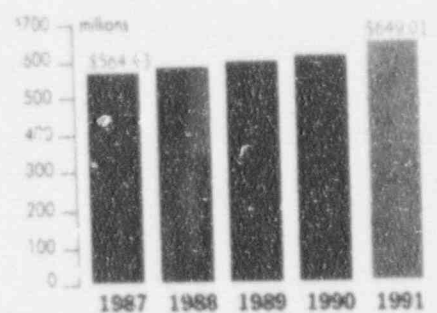
**Transmission and Distribution**

- Reliability 99.9875%
- Average outage duration 69 minutes. Exceeded Company target

**High Customer Satisfaction**

- 93% overall favorable impression of UI
- 95% favorable — quality of UI service
- 98% favorable — reliability of UI service

**Operating Revenues**  
(excluding fuel recovery)



Fuel recovery revenues contribute to total fuel cost expense and volatile energy costs.

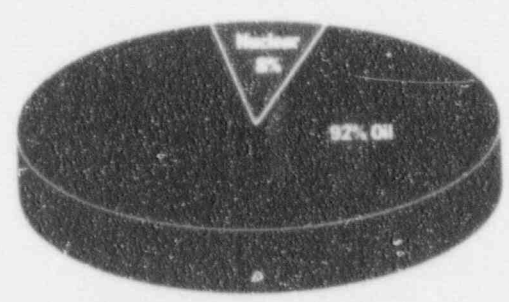
**Fuel Mix**

Throughout the 1970's and 80's, UI made large investments to implement its plan for developing a diverse, flexible and secure energy mix. Diverse: to ensure that never again would UI customers be dependent on a single fuel source, or the whim of a single supplier. Flexible: to empower UI to choose among fuels for the most economical. Secure: to protect UI customers from shortages, embargoes or other geo-political threats.

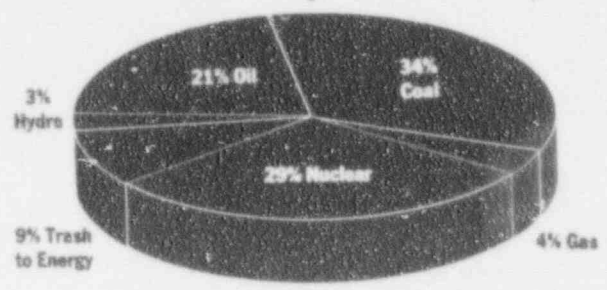
Step by step our plans have reached fruition. Today our Company and our customers are strengthened by the achievements. With nuclear from Millstone III and Seabrook added to Connecticut Yankee, with Bridgeport Harbor Unit #3 able to burn either coal or oil and New Haven Harbor either oil or natural gas, with hydro from Quebec and purchased energy from the trash-to-energy plant in Bridgeport, UI is in a position to make the fuel market compete for our business.

With one of the finest fuel mixes in the country, UI has been a leader in bringing about the competitive, price-stable fuel market we enjoy today, and in strengthening our region and our nation's resistance to foreign fuel tyranny.

**Fuel Mix 1972**

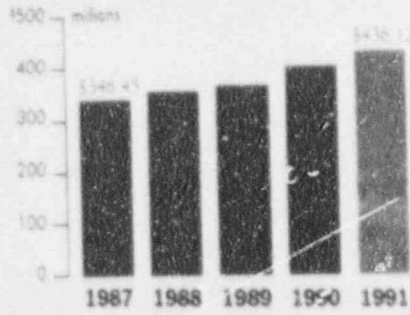


**1991**

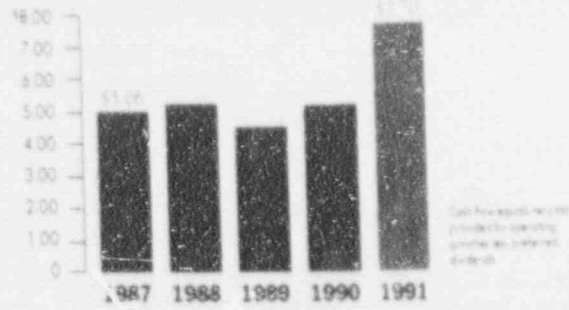


### Gross Sales Margin

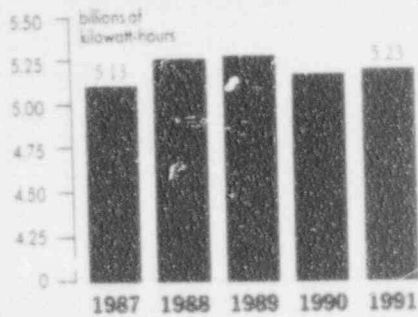
(total revenues less fuel & energy and revenue-based taxes)



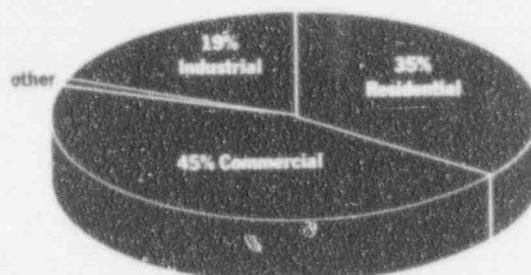
### Cash Flow per Share



### Retail Kilowatt-hour Sales

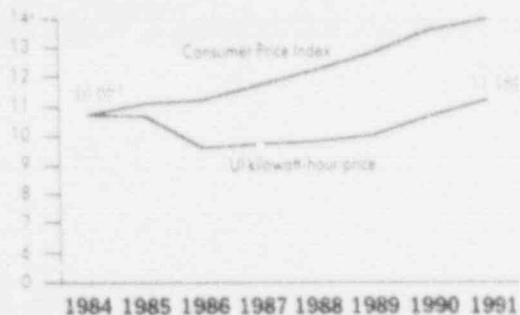


### 1991 Retail Kilowatt-hour Sales

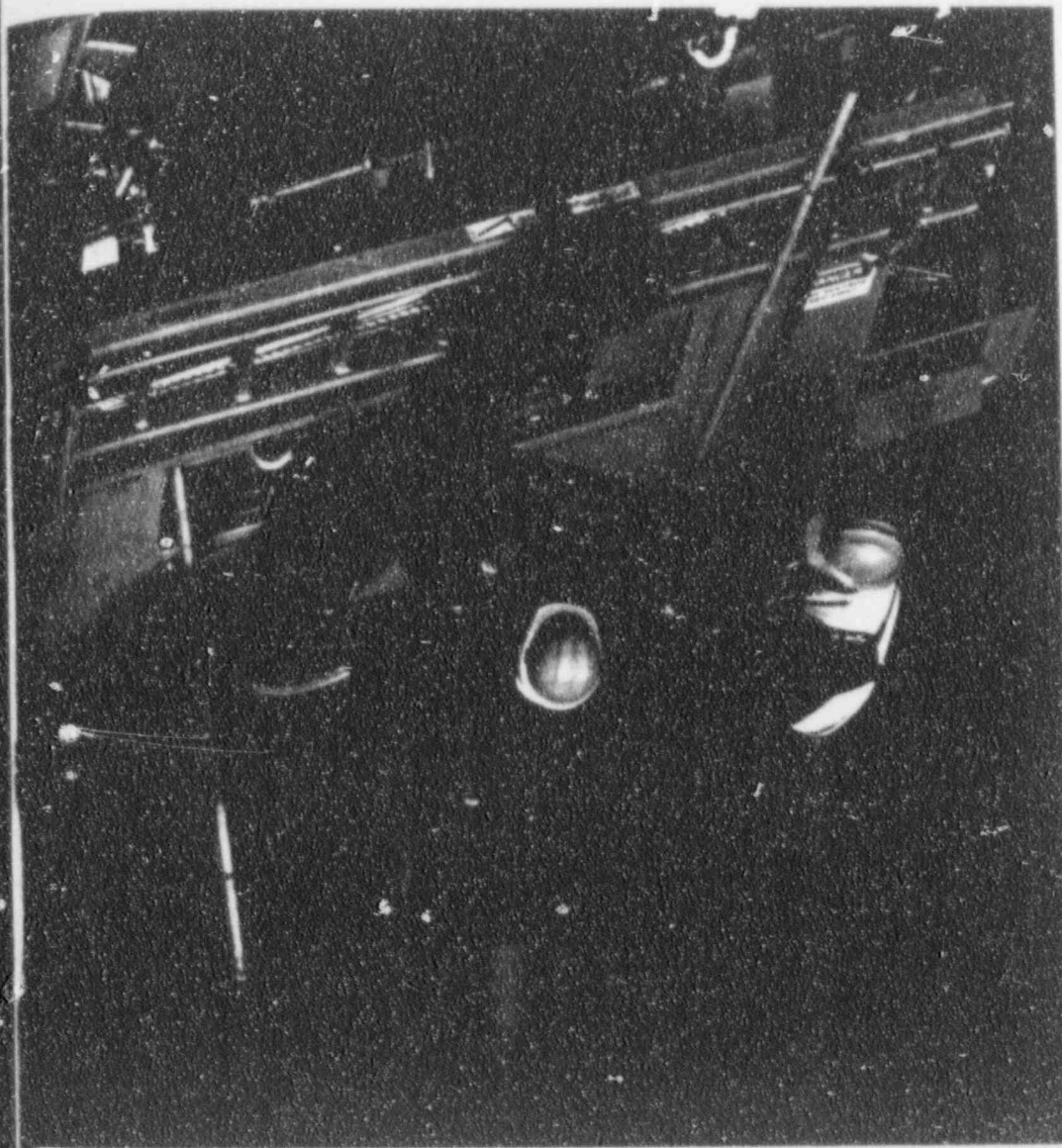
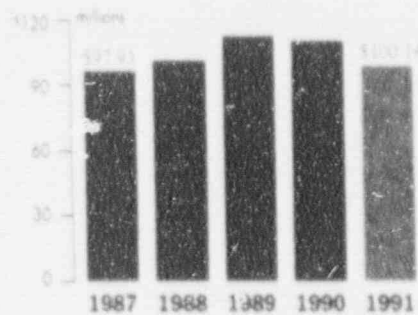




**Average Retail Kilowatt-hour Price versus inflation**



**Total Interest Expense**



**Regulation/ Legislation**

- Second year of three year agreement for 1990-1992
  - 2.7% rate increase in 1991
  - 2.5% increase on January 1, 1992
  - "Self-help" and incentive provisions
- Economic development incentives for attracting new business
- New 1991 law, Public Act 91-248, potential for rewarding Company conservation/load management and economic development programs

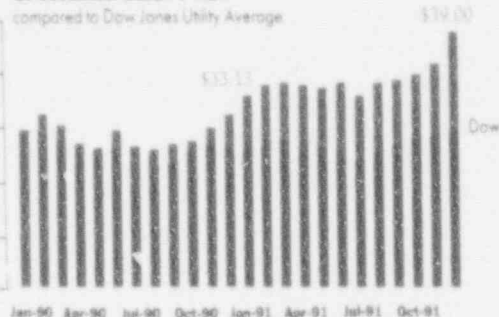
**Cost Containment**

- Debt refinancing
  - \$53 million in 3-year issues at 6.82-7.62% during 1991
  - \$50 million 3-year issue for 3 years at 6% in January 1992
  - \$50 million issue for 5 years at 7% in January 1992
  - \$9 million in interest savings from refinancing and cash flow
- Operation and maintenance expense increases (excluding mandated Hydro-Quebec) held to 1%
- UI employee incentive programs tied to budget controls - all UI departments under budget for 1991

**Number of Employees**



**UI Common Stock Price**



In southwestern Connecticut's shopping basket of consumer products and services, prices for most items have increased in real terms since the early 1980s, with an important exception — electricity. The price for UI electricity has actually declined, taking into account the effect of inflation. At the same time, the *quality* of what UI delivers for that price, like customer service and system reliability, has increased.

Any business, to be successful over time, must produce products that the customer wants and can afford. In an era of increasing competition and energy alternatives, a utility company is no exception. UI is committed to ensuring that its pricing is competitive while we enhance the value of the service we offer.

**K**ey to the value UI provides its customers are excellent operating efficiency, a balanced and secure fuel mix, power plant performance, transmission and distribution system reliability and cost containment programs.

**Plant Performance:**

In 1991, UI-operated generating facilities exceeded both their unit availability and heat rate goals. Heat rate measures the amount of electricity we are able to extract from a given amount of fuel. A high plant availability gives the Company and the New England Power Pool (NEPOOL) flexibility to select the least expensive means of supplying power. UI availability exceeded NEPOOL's projections, and resulted in a \$250,000 decrease in expenses that flowed to the bottom line.

Particularly gratifying for UI have been the operating levels achieved by the Seabrook nuclear plant, in which UI has a 17.5% interest. Seabrook has evolved from a corporate headache into a top performing corporate asset. Seabrook operated at 84% of its generating capability for its first full year of operation ending in mid 1991, one of the best first operating cycles ever recorded

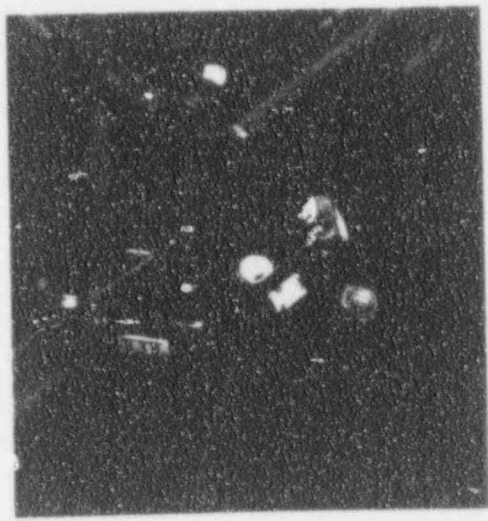
for this type of unit. Since going back on line in October 1991, after its scheduled refueling outage, Seabrook has run at virtually 100% (as of press time in late March 1992).

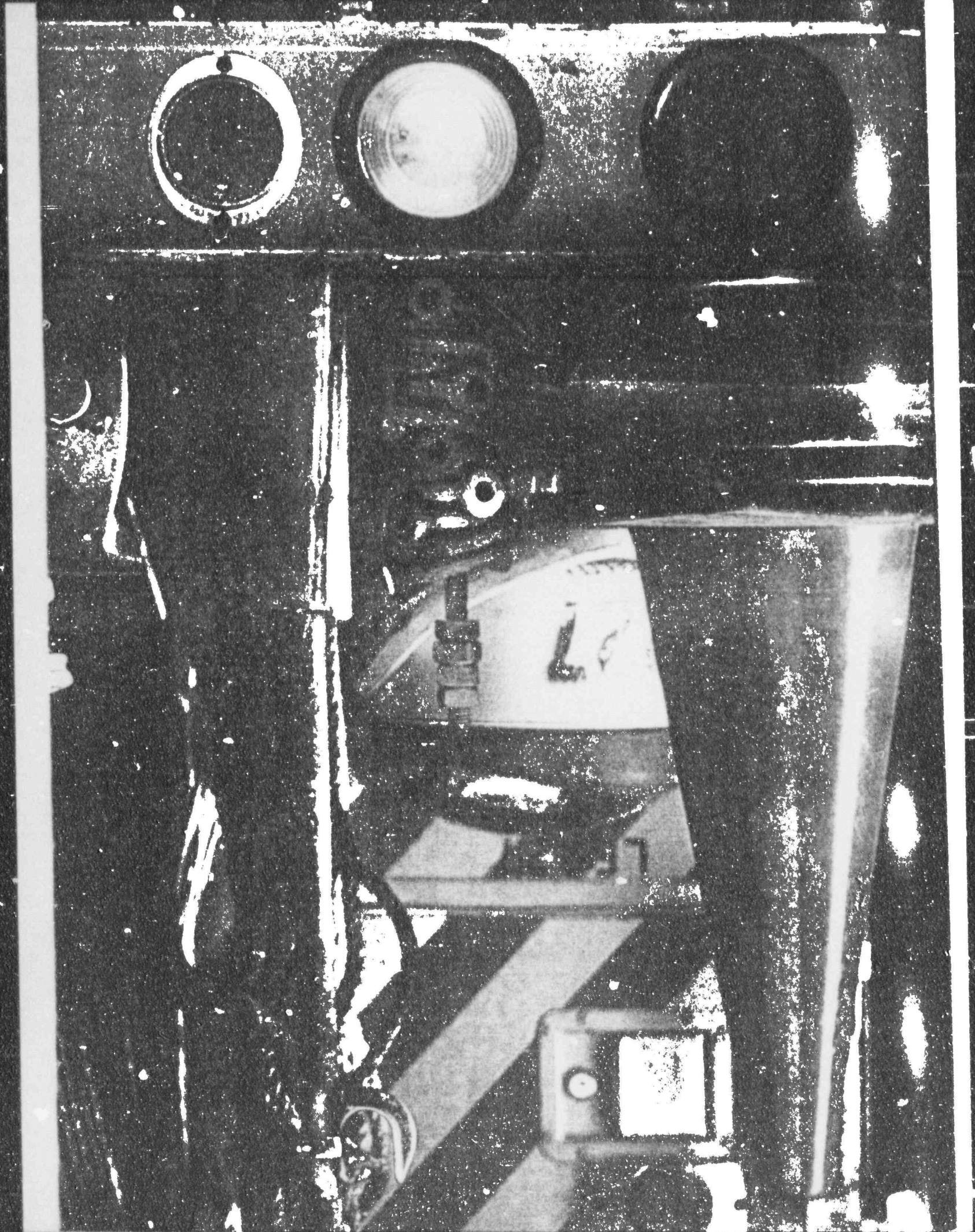
**Environmental Responsibility:**

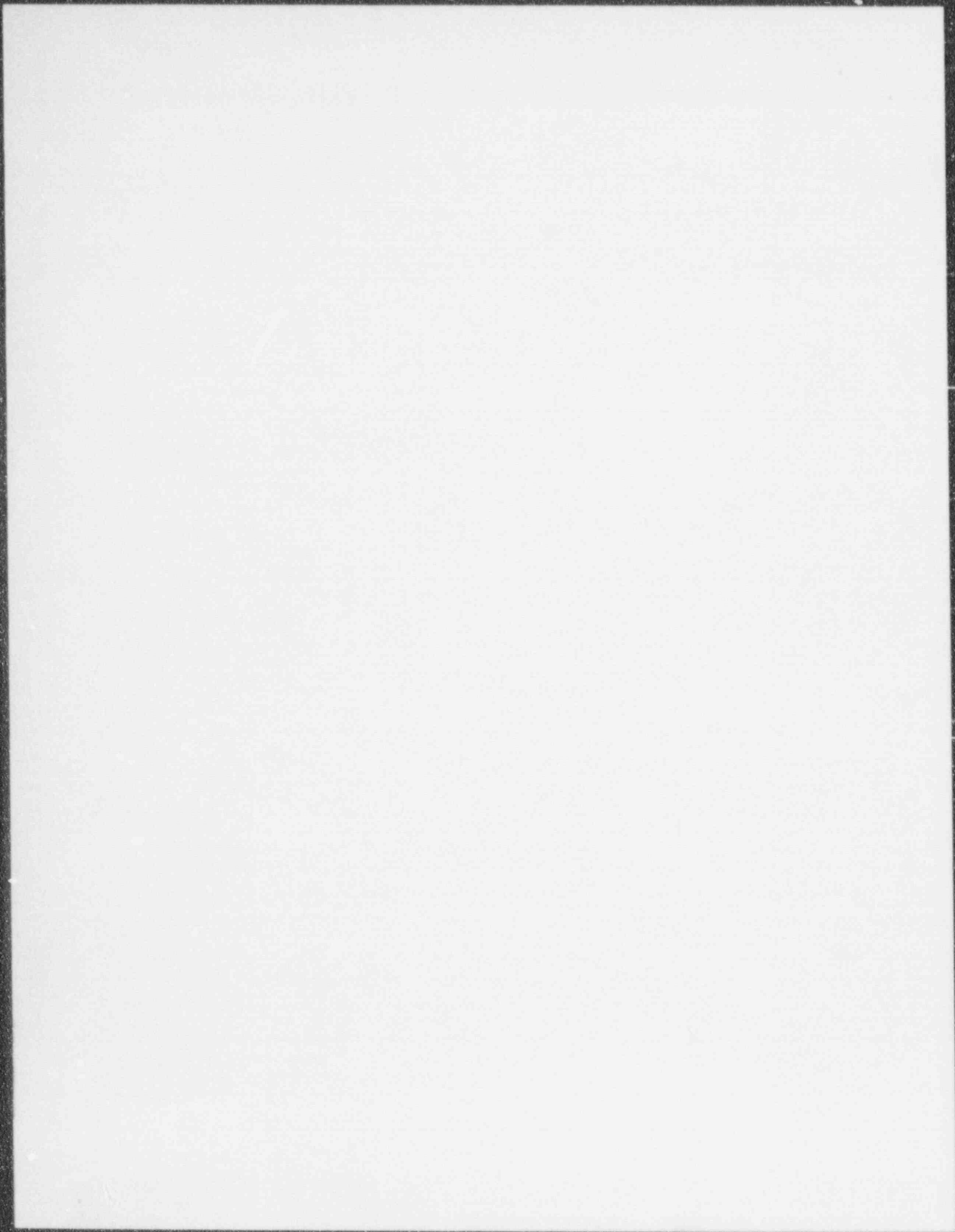
Seabrook's fine performance during 1991 displaced the burning of 11 million barrels of oil that would have produced, even with low-sulfur oil, some 38,000 tons of SO<sub>2</sub> and 6 million tons of CO<sub>2</sub>. In light of increasing concern about acid rain and global warming, UI's decision to invest and persevere in Seabrook appears increasingly to be vindicated.

UI meets nearly 10% of its customer needs by purchasing electricity from a trash-to-energy plant in Bridgeport. This results in a further-diversified fuel mix, the creation of jobs in the local area, and disposal of some of the region's trash in an economically and environmentally sound manner. This is especially important given the lack of landfill capacity in Connecticut.

The dedication and expertise of UI employees lead directly to high system reliability and value-added service.







Many electric companies are rightly worried about the impact of the 1990 Clean Air Act on their fossil fuel plant operations. But UI has always run its power plants in compliance with both the spirit and letter of the law. Combined with our excellent fuel mix and customer-oriented conservation and load management programs, this allows UI to achieve a very low proportion of pollutants to energy produced: for example, our fossil plants already emit less SO<sub>2</sub> than the statute's "permanent cap" limit for the year 2000. So while there will be some additional expenditures relating to other provisions of the Clean Air Act, we're not going to have to retrofit our plants with millions of dollars worth of scrubbers and other SO<sub>2</sub> clean-up technology. In fact, UI may realize substantial cash benefits as we are able to sell off excess "allowances" we are allocated under the acid rain provisions of the Clean Air Act.

#### **System Reliability:**

Maintaining reliable electric service to customers is a top UI priority. In 1991, the Company managed to perform a notch higher than the excellent year 1990 and, once again, beyond the national average and the Company's own demanding target. Even more significantly, the average duration of outages that did occur was limited to only 69 minutes.

#### **Wholesale Power Market:**

UI also has an abundance of high-quality, relatively low-cost electrical capacity available for the wholesale market. And, should additional major wholesale opportunities not materialize, we have the flexibility to cut back costs while maintaining flexibility by deactivating generating units. We did so in January of this year with English Station, an older, smaller plant in New Haven. Other New England utilities are implementing similar mothballing programs and, because of its superior capacity mix, UI's long-term wholesale prospects may actually increase. UI is committed to this market for the long term.

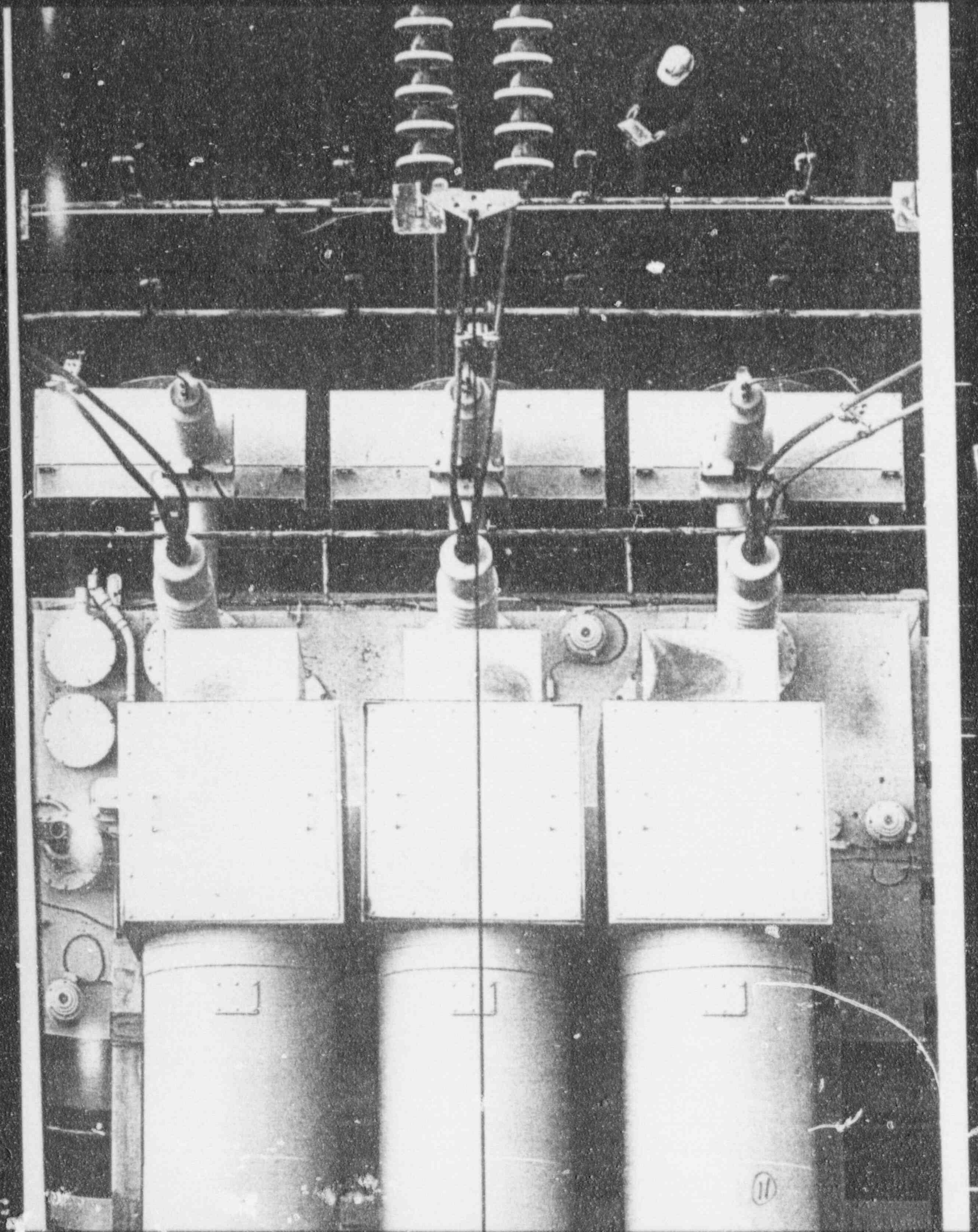
#### **Cost Reduction Controls:**

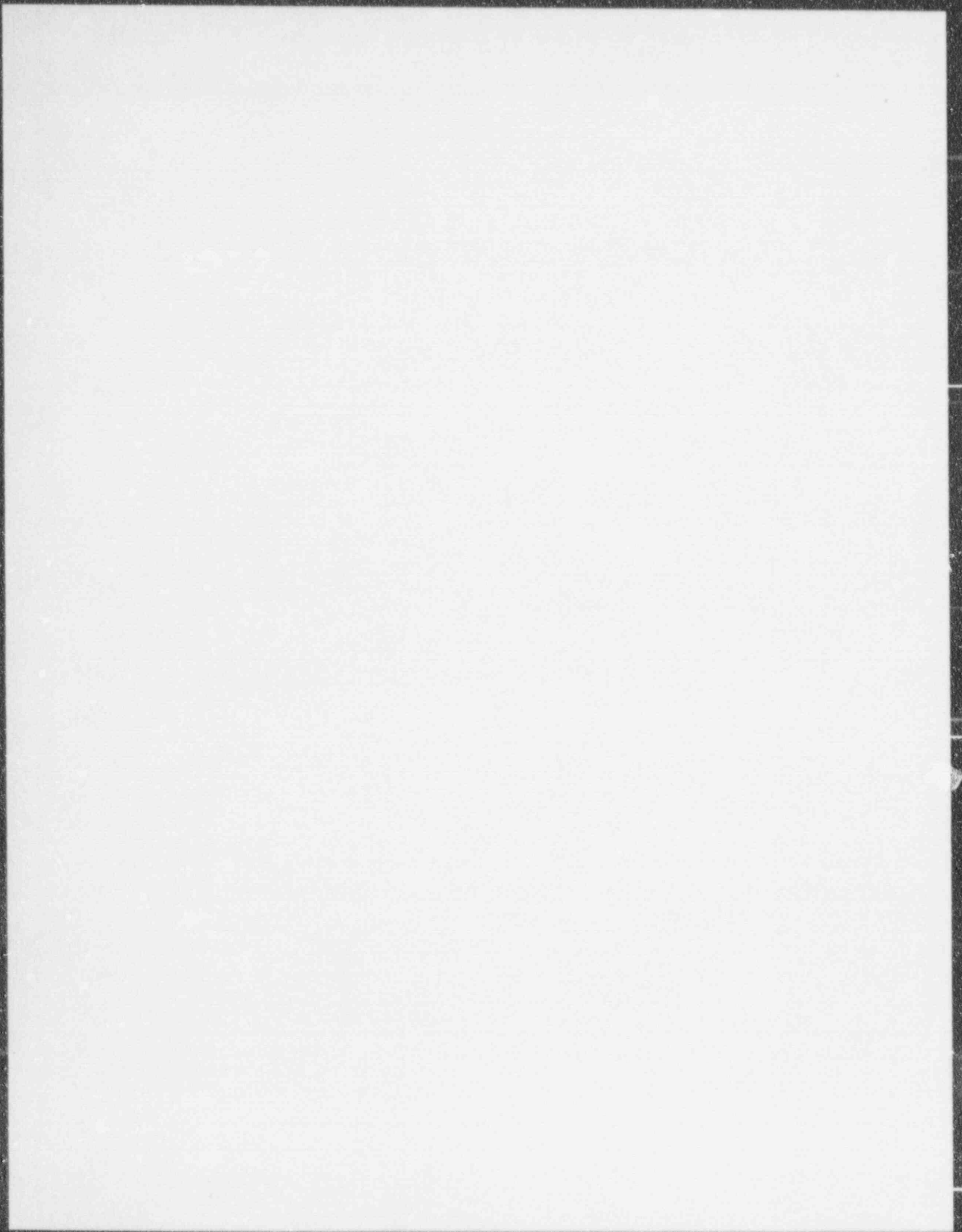
In 1991, UI successfully managed to control expense to levels in line with retail sales, without compromising good customer service and value.

Implementation of our Strategic Resource Option Plan resulted, for example, in the decision to put English Station on deactivated standby and cut maintenance expense, especially at Bridgeport Harbor Station Units 1 and 2. UI reduced the cost of overhauls at these units by eliminating overtime and by switching its philosophy from maintaining the units for maximum availability to maintaining them for maximum system reliability and operational safety.

During 1991, total operation and maintenance expense (exclusive of mandated expense related to the Canadian transmission line interconnection) was held to within a 1% increase over 1990. UI intends to contain expenses similarly during 1992.









When Hurricane Bob veered past the Connecticut coast in August, it turned out the lights on 49,413 UI customers. Company line and tree crews, working around the clock over a two-day period, restored power safely and quickly. At UI's Customer Service Centers, improvements in technology and procedures allowed Customer Service operators to respond to some 15,600 callers during the storm, faster and more efficiently than before.

**U**s number one operational goal is to serve the customer better than ever, every day. That goal has become more and more important as customer needs and expectations have changed. In a faster, more pressured world, the Company understands that its customers, business and residential alike, cannot afford the costs of extended power outages, voltage reductions or billing discrepancies.

**Assistance:**

During 1991, UI implemented several technical and procedural improvements in customer service to make it more convenient for them to access information about their accounts. We're also experimenting with expanded evening customer service hours.

**Information:**

In addition, UI began replacing its 1969 Customer Information computer system to speed processing of service orders, meter services, billings and receivables. The new on-line system, which begins operating in 1992, will also put more information more quickly into the hands of UI representatives, enhancing their ability to serve customers more effectively.

**Delivery:**

UI efforts to improve the quality of service to customers are often quite visible. For example, during 1991 we completed upgrading a five-mile-long distribution circuit in the Greenfield Hill area of Fairfield that had been installed in the mid 1950s. We replaced anti-

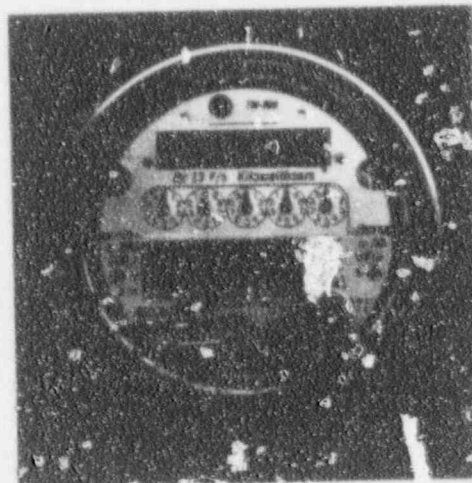
quated wire and split the load into more efficient circuits. Several reliability improvement projects were completed in Milford and improvements were also accomplished in downtown New Haven, where the \$28 million Grand-Goffe substation project will enhance service to both residents and businesses in the area.

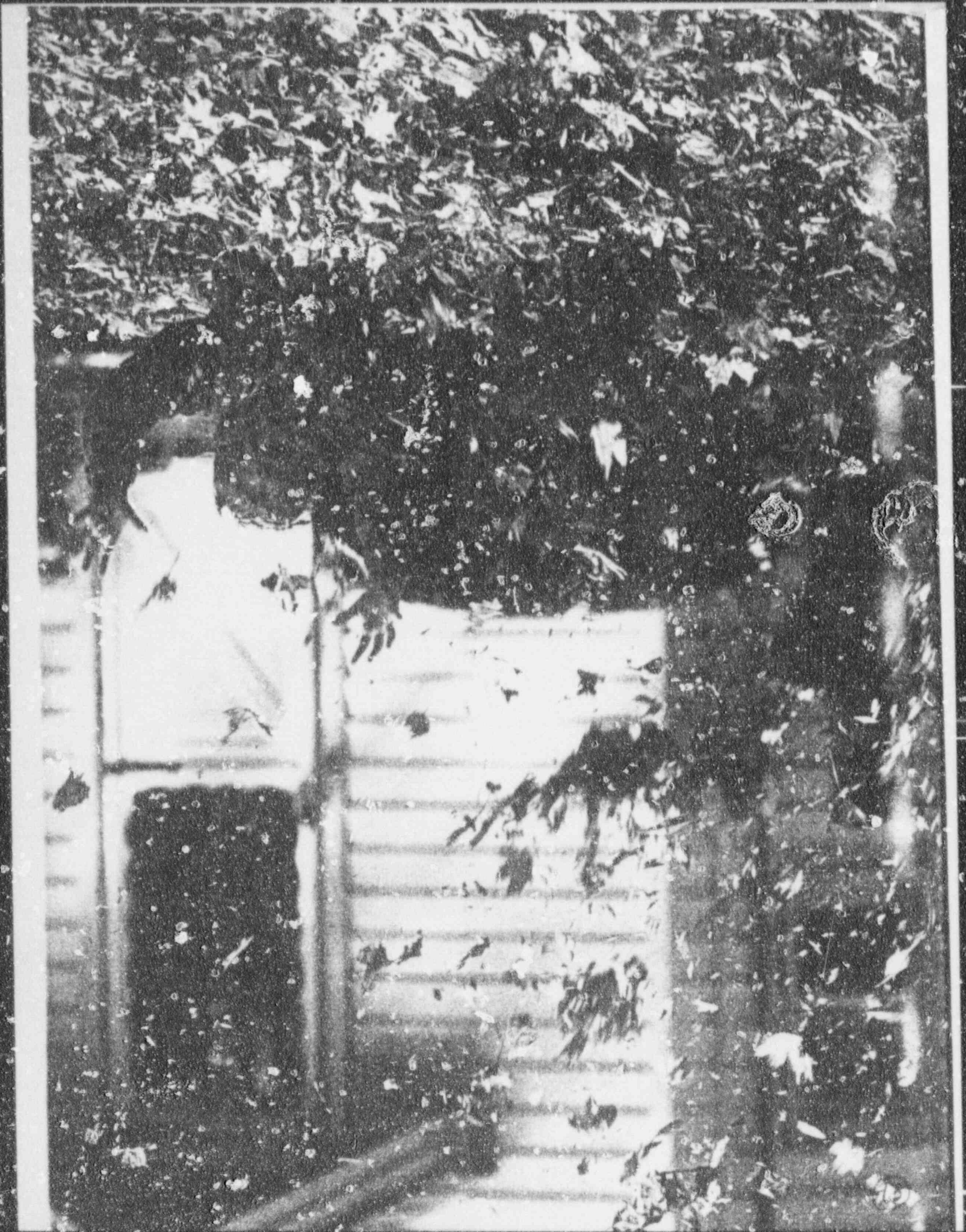
With Connecticut Siting Council approval obtained in 1991, UI expects construction to begin late in 1992 on another high-voltage project, a 15-mile, 115,000 volt transmission line from Norwalk into Bridgeport. The \$23 million joint project with the Connecticut Light and Power Company will ensure adequate supplies of bulk power for the area. This line will run along an existing right-of-way into UI's Pequonnock substation. UI's portion of the project will cost approximately \$11 million, and we also plan a \$6 million major overhaul of the Pequonnock substation.

**Measurement of Results:**

UI employees' unflagging dedication to maintain and improve customer satisfaction is reflected in the Customer Satisfaction Index (CSI), a survey measurement based on factors of primary concern to UI customers. UI's rating in the most recent survey of customers exceed both national and New England norms, with results showing better than nine out of 10 residential customers continue to view UI in a favorable light.

New technologies, like state-of-the-art meters, are key to helping UI respond effectively to customer needs and expectations.





For a supermarket, good lighting means good sales. And *more efficient lighting means lower costs.* That's why First National Supermarkets (Finast) decided in 1991 to brighten and upgrade the lighting in three of its stores located in UI territory. Through UI's *Energy Opportunities* program, Finast converted more than 1600 fixtures in the three stores to new high-efficiency electronic-ballast lighting, with an expected annual reduction in electric consumption of more than one million kilowatt-hours. The three stores also installed new equipment to improve the energy efficiency of their heating, ventilating, air conditioning and refrigeration systems, as recommended by UI. As a result, they received a \$54,000 incentive payment from the Company and they also expect to cut another \$94,000 from their annual electric bill.

**U**I has strongly embraced conservation and load management (CLM) as a way of assisting its customers, business and residential, to cut energy usage and lower their energy bills. UI estimates that, during 1991, its 18 CLM programs saved customers 44,000 megawatt-hours or about \$3.75 million.

**Incentives:**

Profit incentives recently added by governmental action are encouraging UI to pursue these programs even more aggressively recognizing their value in concrete terms. The Company is currently allowed to earn an additional 3% premium rate of return on up to \$35 million of approved conservation programs over the three years of 1990-1992. UI has met annual program goals and expects to earn the entire premium allowed over the 10 year investment amortization period.

In 1991, Connecticut enacted a law rewarding utility companies active in economic development and CLM. As a leader in both areas, UI expects many of its programs will qualify for rewards.

Among UI's many current CLM programs are

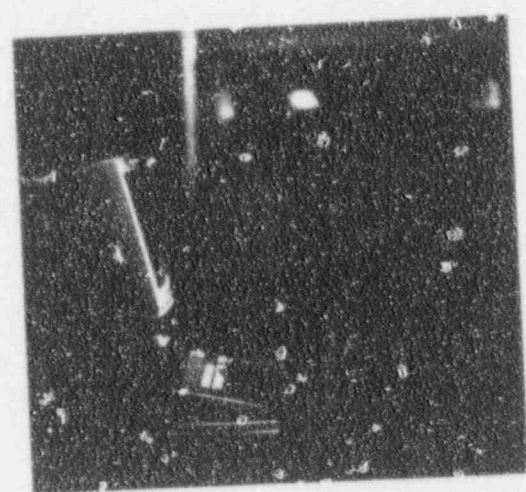
**Appliance Removal:**

Through the *Beast in the Basement* program, customers receive free removal of old inefficient refrigerators, freezers or room air conditioners that are still operating. The appliances' metal, which these days is banned from overburdened landfills, is recycled, and the refrigerator and other environmentally hazardous chemicals are safely disposed of. Older appliances can cost twice as much to operate as modern, energy-efficient models. This program was so successful that it met its annual goal within the first three months and received increased funding to continue.

**Appliance Labeling:**

UI began a new labeling program in 1991. *The Few, the Proud, The Cool*, to encourage customers to buy energy-efficient refrigerators and freezers. More than 30 local appliance dealers placed UI tags identifying energy-efficient appliances. In 1992, we have raised labeling standards and we are also offering cash on the purchase of super-efficient appliances.

UI helped the Stratford Public Library redesign and retrofit its lighting system, significantly improving the quality of light while reducing costs.



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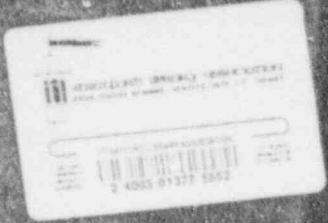
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#### High Efficiency Light Bulbs

To help create demand for these compact energy saving bulbs, UI stepped up their promotion in 1991 with new programs to subsidize the cost of bulbs sold by Lions Clubs, and to offer cash rebates to residential customers. Both programs continue in 1992.

This program is aimed at moving heavy air conditioning load to off peak hours by refrigerating water at night and then circulating that water during the day to cool buildings.

UI presented a \$26,000 incentive check to the City of Shelton for its participation in the *Cool Storage* program. In addition, by taking advantage of UI's conservation programs, the city will reduce annual energy consumption at its renovated Community Center by 22%. Moreover, the city stands to save a total of about 30% on its electric bill since the Community Center incorporates various energy-saving measures, including above-standard levels of wall and roof insulation, energy efficient windows, lights and motors. By meeting UI's energy-use criteria in rehabilitating the building, the city can expect to receive a total incentive of \$87,000.

#### Industrial Rates

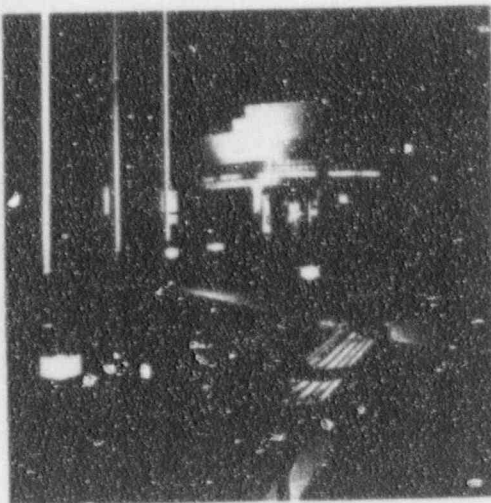
Through offering a variety of tailored-option pricing programs, UI helps businesses control how their energy dollars are spent.

**Textron Lycoming in Stratford expects to save \$127,000 on its annual electric bill in 1992 by substantially increasing participation in UI's interruptible rate program, which provides Textron Lycoming with a \$4.20 monthly credit for each kilowatt of electrical demand that can be curtailed at UI request. Working with UI, Textron Lycoming further reduced electric demand by designing and installing a unique automated demand management system that is connected to 143 air conditioning units located throughout the Stratford plant.**

#### Affordable, Energy-Efficient Housing:

UI's Good Cents energy management program, in partnership with local business and public groups, demonstrates through model construction projects how builders can improve the salability and affordability of their houses by using energy-efficient designs and materials that lower the homeowner's operating expenses.

UI has earned a national reputation for its diligent efforts. The National Center for Appropriate Technology honored the Company with its 1991 Distinguished Appropriate Technology Award for spearheading the Hamden Good Cents Housing Partnership, bringing to four the number of awards this Partnership has received.



Companies that recognize their responsibility to contribute to the human needs of their communities reap the benefits in higher customer satisfaction, more productive relationships with public officials and community leaders, public support and, ultimately, lower operating costs. Further, as responsible members of their communities, companies have an *obligation* to contribute in ways extending beyond their business purpose.

**W**orking closely with local officials and community organizations, UI fulfills this obligation not through the administration of large-scale monetary grants but by conducting a diverse array of hands-on programs including:

**Safety Education:**

UI offers free materials and consultation to teachers in its service area, such as the popular and award-winning *Electrical Safety, A to Zap* program for use in teaching about electricity and preventing electrical injuries to youngsters.

**Environmental:**

In 1991, UI celebrated Arbor and Earth Days for the second straight year with tree planting ceremonies and programs in each of the municipalities in our service area. The program earned the Company a "White Glove" award from Milford Pride Inc., a consortium of the Milford Chamber of Commerce, individuals and community service organizations.

In addition, UI continued its underwriting of local community-interest television programming during 1991. The Company sponsored on WTNH (Channel 8 — an ABC affiliate) a year-long series of prime-time specials on the environment. Topics included solid waste disposal, air pollution, water pollution and land preservation. In addition to sponsorship, UI served as an advisor to the series and provided Company facilities as shooting locations for scenes in some of the programs. UI also sponsored a similar series on WWIT (Channel 30 — an NBC affiliate) during 1991.

**Not for Profit:**

UI's Let's Talk bill insert brings customers monthly information about charitable events, non-profit institutions and community service programs in our area, such as the March of Dimes WalkAmerica and the Retired Senior Volunteer Program, a free service that matches older people with useful and rewarding volunteer work. Let's Talk also offers advice on such topics as the use of smoke detectors and how to dispose of hazardous and toxic wastes.

UI has provided design and publication in-kind services for over 50 non-profit groups, including the American Cancer Society, the Easter Seal Rehabilitation Center, and Junior Achievement.

**Youth Training:**

UI's Homeworks program in Bridgeport and New Haven offers job training for inner-city teenagers, employed to install a number of electrical energy-saving measures free, on a door-to-door basis, in lower income neighborhoods. Crews have visited and installed energy savings devices in over 10,000 households since the program began in mid 1990.



### **Campaign Against Drug Abuse:**

In 1988, UI assumed an intensive leadership role in addressing the drug abuse problem in Connecticut. As part of this ongoing effort, UI hosted a seminar in October 1991 for 80 local businesses, during which several typical corporate substance abuse policies were examined so these companies could learn new approaches to the problem. Resources were provided to encourage these businesses to, in turn, hold their own local seminars and thus stimulate creation of a drug-free network called *Drug Free Connections*. UI will assist eight of these companies to run seminars in 1992.

### **The Arts:**

UI's focus is on supporting fledgling and local arts groups that might not receive help from major institutions. In 1991, to help popularize Caribbean art and artists, UI served as corporate sponsor of a festival and exhibit of contemporary Caribbean art at the Creative Arts Workshop in New Haven. Featuring the work of more than 60 artists, the event brought people from throughout Connecticut together with painters and sculptors from the Islands.

### **Volunteer Efforts:**

UI employees are encouraged to participate vigorously in volunteer activities throughout their communities. Their work has been recognized by the State, which has presented UI with the Governor's Laurel Award for Responsible Social Involvement. Typical activities range from knitting caps and collecting toys as holiday presents for children, to helping out at CPTV auctions, from organizing, soliciting sponsors for and marching in Walk-a-thons, to serving as tutors in UI's "adopted" schools.

In addition, UI employees are represented not only in the general membership but also on the governing boards of virtually every service club in our territory. During 1991, nearly 25% of UI employees participated in volunteer work and were recognized for this service.

### **The Elderly:**

UI's Gatekeeper program trains employees like meter readers and meter service personnel, who have contact with the elderly during their work day, to watch out for those who might need help. Begun as a pilot project in 1990, the program was implemented company-wide during 1991. Referrals are made to appropriate social service agencies.

Highly ranked tennis professional, Matt/Vai Washington, was a participant in the Grassroots Tennis program for inner-city youths, which UI helped sponsor in conjunction with the Vahle International Tennis Tournament in New Haven.



BACK SIDE  
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 SEAT  
 FRONT SIDE  
 37 05 3  
 SEAT  
 COURTESY WEST DAILY  
**VOLVO**  
 INTERNATIONAL ST  
 PRESENTED BY THE MAGAZINE  
 AT YALE UNIVERSITY  
 NEW HAVEN CT  
 5  
 TUESDAY  
 AUGUST 12  
 RESERVED  
**JEWEL**  
 JEWEL Productions Ltd. Sports Department



Once the fourth largest banking center in New England, the City of Bridgeport has seen its population of bank headquarters dwindle. With Chase Manhattan Bank's acquisition in 1991 of both Citytrust and Mechanics & Farmers, it appeared likely that two of the few remaining bank headquarters might soon close, eliminating hundreds of jobs and further eroding local banking support for the struggling Connecticut economy. UI participated with the City of Bridgeport, the Connecticut Department of Economic Development, Chase and other parties to develop an overall plan to encourage Chase to remain in Bridgeport. UI offered an economic development electric rate that reduced power costs for a five-year period. The substantial savings helped give Chase a strong incentive to retain the two acquired headquarters operations in Connecticut's most populous city.

Through UI's Energy Opportunities program, H.B. Ives, a New Haven manufacturer of brass architectural hardware, was able to replace two outdated brass furnaces with a single, energy-efficient unit and remain price competitive.

**W**hen southwestern Connecticut sneezes, UI risks catching cold. That's why we've made major efforts to assist in improving the climate for economic development here and why these efforts will intensify.

**The Case for Connecticut:**

Key to our endeavor is persuading companies here and elsewhere that Connecticut, and especially southwestern Connecticut, is an outstanding place in which to do business. We want them to be aware, for example, that among the fifty states, Connecticut ranks first in such factors as:

- scientists and engineers per 100,000 population
- machine tools per capita
- small business investment financing per capita
- industrial research laboratories per capita
- the percentage of civilian jobs generated by export markets

Connecticut also is first in the nation in teacher/pupil ratios, and it stands in the top five in retail sales per capita, the percentage of college graduates, physicians per capita, and education expenditures per



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pupil. The state is, moreover, in the bottom third nationally in individual, state and local taxes. Its communities and government welcome business involvement and are accessible on these issues.

Almost lost in all the recent turmoil surrounding Connecticut's tax and budget struggle is the outcome, significant tax reform favoring business development and expansion: corporate income tax rates have been reduced by 20%, and the sales tax rate by 25%.

Our message to these companies also stresses the advantages offered by Connecticut compared with nearby New Jersey, New York City and New York's Westchester County. Connecticut's sales tax is the lowest of the four areas and, unlike New York City, Connecticut has no occupancy/rent tax. A general tax scenario, including deductions, prepared by a Big Six accounting firm shows the combined federal, state and local income taxes for Connecticut residents with incomes of \$85,000 to be second lowest among the four areas, and lowest for those with very high incomes.

If Connecticut offers many advantages, southwestern Connecticut offers them *par excellence*. The area is strategically positioned near LaGuardia, Kennedy and Bradley international airports, and closer still to excellent regional airports in Stratford, East Haven, Danbury and Westchester. It provides business access to analysts, investment banks, and national and international leaders of banking, government, commerce and industry.

The 17-town area served by UI has two of the largest deep-water ports in the northeast United States and unusually good rail and highway transportation. The many companies that have located headquarters and divisions here include General Electric, Hubbell, Sikorsky Aircraft, Textron-Lycoming and Pratt & Whitney. The wide range of major businesses has attracted high caliber financial, investment and support services to the area in Bridgeport, Hamden and New Haven, enterprise zones provide incentives to help entrepreneurs grow their businesses. Foreign trade zones in Bridgeport and New Haven and the Connecticut World Trade Association add stimulus to the area's exporting activity. Incubator centers, including the Bridgeport Innovation Center and New Haven's Science

Park, lend support to high-tech and light manufacturing ventures. Yale-New Haven Hospital, world-renowned as a medical and teaching center, is a magnet for health care professionals and facilities. The 375,000 individuals making up the area's labor force are hardworking, highly educated, take pride in their work, and are motivated to perform and grow.

But southwestern Connecticut also offers a superb quality and diversity of lifestyle, ranging from the cultural and intellectual stimulation of university towns, to picturesque New England villages, from the recreational and scenic pleasures of green hills and rock-ridge vistas, to the beauty of Long Island Sound. Fairfield and New Haven Counties have dozens of public and private golf courses, yacht clubs, tennis clubs and marinas, and outstanding parks. New Haven is home to the Yale Repertory and Long Wharf Theatres and the Volvo International Tennis Tournament. For weekend getaways, the area serves as gateway to the Litchfield hills, the Berkshires, the Green Mountains of Vermont and the Whites of New Hampshire, as well as Long Island Sound beaches, Newport and Cape Cod. The cosmopolitan visitor attractions of Boston (two hours) and New York City (hour and a half) are also close at hand.

#### **Keeping Business Competitive:**

While advantageous, Connecticut's business climate still needs strengthening. UI spearheads efforts to encourage heads of industrial companies to participate personally, not just through lobbyists, in the legislative process to bring about improvements. UI is also mobilizing companies to involve middle managers in legislative matters.

UI's management is actively involved in a volunteer advisory capacity with municipal leaders, particularly in Bridgeport and New Haven, to help them solve fiscal problems.

*Taking Care of Business:* In this program, instituted in 1987, we focus intensely on one city, connecting that city's businesses with the services and resources they need to survive and prosper. We make municipal governments aware of the specific needs of

their local business and industry, and the importance of a healthy business environment to the health of the community, to jobs. UI brought its *Taking Care of Business* program to Bridgeport in 1991 and plans to work with five cities in 1992. Besides pinpointing areas that will help local business to expand, this program also provides early warning of looming business problems, such as companies considering relocation out of the area, or those experiencing difficulties with taxes, labor shortages or public services.

**Beyond the Meter:** UI often works on a case-by-case basis, and behind the scenes, with municipalities, other utilities and state agencies to help troubled companies overcome their financial difficulties and to retain major businesses considering relocation outside our area. A general rule is that 80% of the growth in an area results from expansion of retained business, with new business supplying the remainder. UI assists in a number of ways, including special services and special rates.

**A small manufacturing company targeting international construction trade markets found its assembly costs getting out of hand. UI helped the company relocate from outside UI's service territory into Bridgeport's foreign trade zone, where it receives tax advantages. UI also helped the company obtain third-party financing to gear up at the new site.**

***Walking the Extra Mile:*** Because UI recognizes electricity as no longer just a product to be made and delivered, we seek to meet the whole spectrum of our customers' varying energy needs.

**A major manufacturer began actively considering a move out of Connecticut, partly because of power supply disruptions that sometimes shut down its assembly lines. UI not only upgraded its power supply cables but also identified an inadequate customer backup power system as part of the problem. UI engineers installed switching to automate the backup system. To ensure that the customer's operations remained up and running with the least possible down time during the six months it took to manufacture the custom switching equipment, UI also equipped its service personnel for quick off-hour response capability.**

A little known fact is that UI's overall electric rates have been improving by comparison with rates of other utilities. This improvement is expected to continue, as we maintain rate stability while rates else-

where grow at a faster pace.

**Tailored Rates:** UI also offers three types of rates for existing and new businesses. Our *Economic Development* rider, applied in the case of Chase Manhattan Bank in Bridgeport, is designed to attract new companies to locate here. As partner with a municipality and the State, UI applies its *Business Recovery* rate to hard-pressed businesses that can show they have implemented self-help measures, that operate in markets with good potential and have a viable recovery plan.

**During 1991, the first application of UI's *Business Recovery* rate helped keep a long-established manufacturer in business, and saved some 150 jobs. When this automotive after-market equipment supplier started experiencing financial losses, it sought and received tax concessions from its municipality and the state, as well as concessions from its unions. Despite these efforts, the manufacturer, a \$280,000 per year UI customer, was still unable to turn a profit.**

Recognizing that steps had been taken to improve efficiency and profit potential, and expecting that the market for the company's products would revive, UI negotiated a *Business Recovery* rate with the company, enabling it to realize savings on its electric bill for a five-year period.

UI also conducted a full-scale energy audit of the company's operations to identify potential ways of improving its energy efficiency. The audit showed energy could be saved with modifications to lighting, air conditioning, motors and electric furnaces. The manufacturer decided to implement the improvements. Today, workers continue to punch in and out, and the manufacturer continues as a contributing member of the Southwestern Connecticut business community.

Our *Competitive Energy* rate can be offered to companies lured by lower energy costs in other states. UI is prepared to negotiate a rate low enough to make the company consider staying, because a relocation is just as negative as a business failure.

A difficult economy requires innovation and flexibility. UI has those qualities and we're demonstrating them now. But competition is not a sometime thing, and the need for the programs and rates we have developed will not go away once recession ends. Business means jobs; jobs mean opportunity; and opportunity requires energy in order to be grasped. So UI will continue to work as a partner with business and government to maintain and enhance Connecticut's competitive edge, and ensure that the advantages achieved for the Company and for our communities never end.

**1991 US Officers****Richard J. Grossi**

Chairman of the Board  
and Chief Executive Officer

**Robert L. Ficus**

President and  
Chief Financial Officer

**Roland W. Comstock**

Senior Vice President  
Corporate Affairs

**James F. Crowe**

Senior Vice President  
Marketing

**Leon A. Morgan**

Senior Vice President

**David W. Hoskinson**

Senior Vice President  
Generation, Engineering and  
Operations

**Walter E. Barker**

Vice President  
Transmission and Distribution  
Engineering and Operations

**Richard H. Bornemann**

Vice President  
Governmental Affairs and  
Corporate Communications

**Stephen F. Goldschmidt**

Vice President  
Planning

**Albert Narary**

Vice President  
Management Services

**Albert N. Henricksen**

Vice President  
Human and Environmental  
Resources

**Robert H. Hyde**

Vice President  
Corporate Services

**E. Jon Majkowski**

Vice President  
Public Affairs

**James L. Benjamin**

Controller

**William A. Elder**

Treasurer

**Mary Ellen Manthey**

Corporate Secretary

**1991 Board of Directors****Richard J. Grossi (1988)**

Chairman of the Board  
and Chief Executive Officer, US

**John F. Croweak (1987)**

Chairman of the Board, President and  
Chief Executive Officer,  
Blue Cross of New Jersey  
of Southwestern US

**J. Hugh Devlin (1989)**

Managing Director and  
Chairman, Sun Bank Term Co., Inc.

**George W. Edwards, Jr. (1985)**

President and Chief Executive Officer,  
F. Jones Construction, Kullback Company  
Former Chairman of the Board, US

**John D. Fassett (1972)**

Former Chairman of the Board, US

**Norwick R. Goodspeed (1974)**

Chairman of the Board,  
People's Mutual Holdings

**J. Robert Gunther (1984)**

Chairman of the Board,  
George Schertz Co., Inc. and  
President, Patman Printing Company

**Betsy Henley-Cohn (1989)**

Chairman of the Board,  
Joseph Cohn Co. Son, Inc.  
and President,  
Atlantic Flour Company, Inc.

**F. Patrick McFadden, Jr. (1987)**

President and Chief Executive  
Officer, The Bank of New Haven and  
BNH Benefactors, Inc.

**Leland W. Miles (1978)**

President Emeritus,  
University of Bridgeport

**Frank R. O'Keefe, Jr. (1988)**

Independent  
Business Consultant

**William S. Warner (1986)**

Chairman of the Board,  
AquaNet Company



Five Year Summary of Selected Financial and Statistical Data

	1991	1990	1989	1988	1987
<b>Financial Results of Operation (\$000's)</b>					
Sales of electricity:					
Retail					
Residential	\$ 228,751	\$ 211,891	\$ 205,183	\$ 200,170	\$ 188,740
Commercial	255,782	234,704	219,852	208,801	195,972
Industrial	91,893	94,526	92,855	96,665	100,354
Other	20,686	10,536	9,943	9,734	9,480
Total Retail	596,112	551,657	527,833	515,368	494,546
Wholesale(1)	84,238	85,657	77,825	63,263	54,708
Other operating revenues	3,821	3,332	3,348	3,570	3,077
Total operating revenues	673,171	640,646	609,106	582,201	552,331
Fuel and interchange energy -- net					
Retail -- own load	148,170	144,415	153,919	140,973	131,471
Wholesale	61,858	69,117	62,681	53,837	51,411
Capacity purchased -- net	14,508	17,697	25,054	15,917	17,746
Depreciation	18,181	36,526	35,618	24,069	37,160
Other operating expenses, excluding tax expense	189,127	180,592	155,282	143,822	138,315
Gross earnings tax	27,223	25,595	24,506	23,948	22,997
Other non-income taxes	29,673	24,648	20,294	21,695	17,194
Total operating expenses, excluding income taxes	522,949	498,590	477,354	424,261	416,294
Deferred return Seabrook Unit 1	17,970	21,503	0	0	0
AFUDC	5,180	3,443	63,443	75,656	81,419
Other non-operating income (loss)	(754)	18,605	(8,368)	22,807	22,620
Before-tax effect of SFAS No. 90	3,153	4,049	(213,374)	(46,176)	(120,306)
Interest expense:					
Long-term debt	60,296	94,056	91,126	90,022	88,700
Other	9,847	13,468	22,849	12,069	9,228
Total	70,143	107,524	113,975	102,091	97,928
Income tax expense:					
Operating income tax	47,231	43,493	37,963	44,045	50,633
Effect of SFAS No. 90	1,488	1,745	(61,227)	(13,262)	(33,778)
Non-operating income tax	(20,787)	(19,154)	(39,908)	(1,286)	(3,682)
Total	27,932	26,084	(63,172)	29,497	13,173
Income (loss) before cumulative effect of accounting change	48,213	54,048	(73,350)	78,639	8,649
Cumulative effect of change in accounting for property taxes -- net of tax	7,317	0	0	0	0
Net income (loss)	55,530	54,048	(73,350)	78,639	8,649
Preferred and preference stock dividends	4,250	4,751	8,233	11,348	11,953
Income (loss) applicable to common stock	\$ 51,280	\$ 49,297	\$ (81,583)	\$ 67,291	\$ (3,304)
Operating income	\$ 103,200	\$ 98,563	\$ 93,789	\$ 113,895	\$ 85,404
<b>Financial Condition (\$000's)</b>					
Plant in service -- net	\$1,219,871	\$1,209,173	\$ 562,473	\$ 560,930	\$ 563,210
Construction work in progress	54,771	50,257	675,831	812,246	737,169
Plant-related regulatory asset	0	0	81,768	88,339	68,603
Other property and investments	79,000	90,006	91,648	83,860	76,032
Current assets	164,828	161,066	170,823	166,270	122,075
Deferred debits	737,606	741,924	605,696	653,418	610,913
Total Assets	\$ 2,396,076	\$2,252,426	\$2,188,239	\$2,365,063	\$2,178,002
Common stock equity	\$ 401,771	\$ 379,812	\$ 362,584	\$ 473,671	\$ 438,564
Preferred and preference stock					
Not subject to mandatory redemption	62,640	69,700	70,000	70,000	70,000
Subject to mandatory redemption	0	0	0	34,000	40,000
Long-term debt excluding current portion	909,28	899,993	868,884	862,287	767,559
Noncurrent liabilities	95,873	99,933	107,781	111,971	95,070
Current portion of long-term debt	37,500	41,667	18,667	3,667	28,067
Notes payable	13,000	15,000	45,000	0	0
Other current liabilities	127,524	149,090	142,878	122,237	117,009
Deferred credits	606,690	597,231	572,445	687,227	621,133
Total Capitalization and Liabilities	\$2,256,096	\$2,252,426	\$2,188,239	\$2,365,063	\$2,178,002

(1) Includes cumulative effect of accounting for municipal property taxes which I earnings by I share.

(2) Operating Revenues include exchange contract sales reclassified from Fuel and Capacity expenses in accordance with Federal Energy Regulatory Commission requirements.

	1991	1990	1989	1988	1987
<b>Common Stock Data</b>					
Number of shares outstanding	13,892,906	13,887,748	13,887,748	13,887,748	13,887,654
Number of shares outstanding at year-end	13,932,348	13,887,748	13,887,748	13,887,748	13,887,748
Earnings (loss) per share (average)	\$3.67(1)	\$3.55	(\$5.87)	\$4.85	(\$0.24)
Book value per share	\$28.84	\$27.35	\$26.11	\$34.11	\$31.58
Average return on equity					
Total	13.01%	13.39%	-18.88%	14.75%	-0.72%
Utility	13.39%	13.97%	20.21%	32.91%	15.34%
Dividends declared per share	\$2.44	\$2.32	\$2.32	\$2.32	\$2.32
Market Price:					
High	\$39.125	\$34.125	\$34.25	\$27.50	\$34.00
Low	\$30.000	\$26.875	\$24.75	\$19.125	\$21.25
Year-end	\$39.000	\$31.125	\$34.25	\$26.875	\$26.875
Net cash provided by operating activities, less dividends (\$000's)	\$73,865	\$39,189	\$31,437	\$40,607	\$37,986
Capital expenditures, excluding AFUDC	\$63,157	\$64,018	\$77,041	\$83,735	\$73,253
<b>Other Financial and Statistical Data</b>					
Sales by class (MWH's)					
Residential	1,851,447	1,826,700	1,883,363	1,870,318	1,780,333
Commercial	2,347,757	2,259,340	2,254,069	2,174,200	2,046,289
Industrial	980,071	1,060,751	1,109,119	1,186,336	1,236,151
Other	55,118	58,013	60,427	61,303	62,246
Total	5,734,393	5,204,804	5,307,008	5,292,157	5,125,01
Number of retail customers by class (average)					
Residential	274,064	275,637	276,385	274,884	271,302
Commercial	29,768	29,808	29,526	28,826	28,103
Industrial	268	319	347	367	369
Other	1,361	1,352	1,316	1,267	1,191
Total	305,461	307,116	307,574	305,344	300,965
System requirements (MWH)	5,541,477	5,501,495	5,603,502	5,581,897	5,403,519
Peak load — kilowatts	1,145,820	1,054,600	1,091,400	1,132,100	1,039,600
Generating capability — peak (kilowatts)	1,474,190	1,449,600	1,289,800	1,271,500	1,236,000
Fuel generation mix percentages					
Coal	34	43	39	37	42
Oil	21	24	37	41	37
Nuclear	29	20	11	11	10
Cogeneration	9	9	9	7	1
Gas	4	3	3	0	5
Hydro	3	1	1	4	5
Revenues — retail sales (\$000's)					
Base	\$607,997	\$589,344	\$577,611	\$574,422	\$558,060
FCA	(37,497)	(17,900)	(49,778)	(59,054)	(63,514)
SPA	14,814	8,211	0	0	0
Total	\$585,314	\$551,657	\$527,833	\$515,368	\$494,546
Revenues — retail sales per KWH (cents)					
Base	11.62	11.32	10.88	10.85	10.89
FCA	(0.72)	(0.88)	(0.93)	(1.11)	(1.24)
SPA	0.28	0.16	0	0	0
Total	11.18	10.60	9.95	9.74	9.65
Fuel and energy cost per KWH (cents)					
Fossil	2.67	2.63	2.78	2.53	2.54
Nuclear	3.11	2.89	2.98	2.74	2.58
Total	1.62	1.55	0.89	0.87	0.94
Number of employees	1,571	1,587	1,627	1,620	1,604
Total payroll (\$000's)	\$ 71,318	\$ 69,737	\$ 65,175	\$ 62,387	\$ 57,207

(1) Includes the cumulative effect of accounting change for municipal property taxes which increased earnings by \$0.53 per share.



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

### Major Influences on Financial Condition

The Company's financial condition has improved chiefly as a result of the achievement of commercial operation status by Seabrook Unit 1, which occurred on June 30, 1990. This event has permitted full realization of the benefits of the 1989 agreement among the Company and Connecticut officials representing the public regarding

the ratemaking treatment and the recoverable amount of the Company's investment in Seabrook Unit 1, as well as realization of the benefits of the rate relief granted by the DPUC in its January 1990 decision based on this agreement. The Company's financial condition also reflects the benefit of the commencement in August 1990 of wholesale power sales that were conditioned on the commercial operation of Seabrook Unit 1.

### Liquidity and Capital Resources

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

	1992	1993	1994	1995	1996
			(000's)		
Construction Program	\$ 78,592	\$ 93,784	\$ 96,799	\$ 74,323	\$ 76,728
Long-term Debt Maturities	—	—	53,000	119,600	—
Mandatory Redemptions/repayments	7,500	75,000	70,000	70,800	12,770
Optional Redemptions(1)	108,814	—	—	—	—
Total Capital Requirements	<u>\$ 194,906</u>	<u>\$168,784</u>	<u>\$219,799</u>	<u>\$264,723</u>	<u>\$ 89,498</u>

(1) Including redemption premiums.

The Company presently estimates that its total amount of cash on hand and temporary investments at the beginning of 1992, its net cash provided by operating activities, less dividend payments, during 1992 and the net proceeds from the sale of \$100 million principal amount of debt securities on January 15, 1992, will exceed its total projected capital requirements for 1992 by approximately \$10.2 million. The Company currently anticipates that its projected total capital requirements for the years 1993, 1994 and 1995 will exceed its net cash provided by operating activities, less dividend payments, during those years, in amounts which cannot now be predicted accurately, but which may be substantial in the aggregate depending on the levels of the Company's sales, wholesale and retail rates, operating and maintenance costs and taxes. All of the Company's capital requirements that exceed available net cash will have to be provided by external financing, and the Company has no commitment to provide such financing from any source of funds other than the revolving credit agreement described below. The Company expects to satisfy its external financing needs by issuing additional short-term debt, additional long-term debt and equity securities, although the continued availability of these methods of financing cannot be assured.

At December 31, 1991, the Company had \$25.3 million of cash and temporary cash investments, an increase of \$8.4 million from the balance at December 31, 1990. The components of this increase, which are detailed in the Consolidated Statement of Cash Flows, are summarized as follows:

	(Million,)
Balance, December 31, 1990	\$ 16.9
Net cash provided by operating activities	111.8
Net cash provided by (used in) financing activities:	
— Financing activities, excluding dividend payments	(2.4)
— Dividend payments	(37.9)
Cash invested in plant, including nuclear fuel	(63.1)
Net Increase	8.4
Balance, December 31, 1991	<u>\$ 25.3</u>

The Company has a revolving credit agreement with a group of banks, which currently extends to January 25, 1993. The borrowing limit of this facility is \$75 million. The facility permits the Company to borrow funds at a fluctuating interest rate determined by the prime lending market in New York, and also permits the Company to borrow money for fixed periods of time specified by the Company at fixed interest rates determined by the Euro-dollar interbank market in London, by the certificate of deposit market in New York, or by bidding, at the Company's option. If a material adverse change in the business, operations, affairs, assets or condition, financial or otherwise, or prospects of the Company and its subsidiaries, on a consolidated basis, should occur, the banks may decline to lend additional money to the Company under this revolving credit agreement, although borrowings outstanding at the time of such an occurrence would not then become due and payable. As of December 31, 1991, the Company had \$13 million of short-term borrowings outstanding under a revolving credit agreement, with a group of banks, that expired on January 31, 1992.

The Company has sale and leaseback arrangements with a financial institution providing for nuclear fuel financing up to \$70 million for Seabrook Unit 1 and up to \$10 million for Millstone Unit 3. Under these arrangements, the Company pays rent for the fuel, during the time when it is being used in the nuclear reactor of the generating unit, in amounts that are calculated to reimburse the lessor for the direct costs it has incurred in purchasing the fuel, plus its financing costs with a percentage return thereon based on its fluctuating cost of thirty-day commercial paper borrowings. The Company is obligated to insure the fuel and to indemnify the lessor against all liability, taxes and other expenses incurred as a result of its ownership of the fuel. Each lease is terminable on two years' notice by either party, but it is terminable by the lessor, and the Company must purchase the fuel from the lessor, upon the occurrence of any one of several events, including any adverse change in the federal Atomic Energy Act or the terms of the insurance policies on the fuel that is not satisfactory to the lessor, the lessor's becoming subject to the Public Utility Holding Company Act of 1935, or any other statute regulating public service companies, as a result of the lease, a failure to obtain or maintain any required governmental approval of the lease arrangement, and a nuclear accident at the generating facility giving rise to liability or damage in excess of \$10 million. At December 31, 1991, approximately \$65.5 million of nuclear fuel was being financed under these agreements.

The Company also has a Fossil Fuel Supply Agreement with a financial institution providing for financing up to \$30 million in fossil fuel purchases. Under this agreement, the financing entity acquires and stores natural gas, coal and fuel oil for sale to the Company, and the Company purchases these fossil fuels from the financing entity at a price for each type of fuel that reimburses the financing entity for the direct costs it has incurred in purchasing and storing the fuel, plus a charge for maintaining an inventory of the fuel determined by reference to the fluctuating interest rate on thirty-day, dealer-placed commercial paper in New York. The Company is obligated to insure the fuel inventories and to indemnify the financing entity against all liability, taxes and other expenses incurred as a result of its ownership, storage and sale of fossil fuel to the Company. This agreement currently extends to February 1993. At December 31, 1991, approximately \$28.8 million of fossil fuel purchases were being financed under this agreement.

UI has four wholly-owned subsidiaries. Bridgeport Electric Company, a single-purpose corporation, owns and leases to UI a generating unit at Bridgeport Harbor Station. Research Center, Inc. has been formed to participate in the development of one or more regulated power production ventures, including possible participation in arrangements for the future development of inde-

pendent power production and cogeneration facilities. United Energy International, Inc. has been formed to facilitate participation in a proposed joint venture relating to power production plants abroad. United Resources, Inc. (URI) serves as the parent corporation for UI's unregulated businesses, each of which is incorporated separately to participate in business ventures that will complement and enhance UI's electric utility business and serve the interests of the Company and its shareholders and customers.

Four wholly-owned subsidiaries of UII have been incorporated. Southwestcon Properties, Inc. is participating as a 25% partner in the ownership of a medical hotel building on property adjacent to UI's executive office building in New Haven. A second wholly-owned subsidiary of URI is Thermal Energies, Inc., which is participating in the development of district heating and cooling water facilities in the downtown New Haven area, including the energy center for a new office tower and participation as a 37% partner in the energy center for a new city hall and office tower complex. A third URI subsidiary, Precision Power, Inc., provides power-related equipment and services to the owners of commercial buildings and industrial facilities. A fourth URI subsidiary, American Payment Systems, Inc., manages equipment for electronic data processing of bill payments made by customers of utilities, including UI, at neighborhood businesses that serve as bill collection agents. The Board of Directors of the Company has authorized the investment of a maximum of \$10 million, in the aggregate, of the Company's assets in all of these subsidiaries of URI.

## Results of Operations

### 1991 vs 1990

Earnings for the year 1991 were \$51.0 million, or \$3.67 per share, up \$1.7 million or \$ 12 per share over 1990. Increased income from operating and non-operating sources added \$ .39 per share, primarily on the strength of improved sales margins from a 2.7% rate increase and higher wholesale sales. These gains were reduced by the first full year of charges for Seabrook depreciation and Hydro-Quebec transmission support, as well as a 15% increase in property taxes.

Operating Revenues in 1991, exclusive of retail and wholesale fuel recovery revenue, were up \$31.6 million over 1990 levels, adding \$1.23 per share after taxes. This was due, primarily, to \$15.2 million from a 2.7% rate increase in January 1991 and a \$6.6 million increased accrual, under a limited sales adjustment provision (SPA) that was designed to compensate for variations from projected retail sales levels, as provided in the DPOC's 1990 rate increase decision. Retail kilowatt-hour sales were up 8% for 1991, mostly attributable to weather variations.

adding \$3.9 million in revenue. Wholesale capacity revenues were up \$5.9 million, to \$22.4 million.

Income for 1991 also improved by \$11.2 million, or \$4.46 per share, over 1990 as a result of increased generation of low-cost nuclear energy, primarily from Seabrook, which began operating midway through 1990 and operated in 1991 at 67% of capacity (including a planned 10-week refueling outage). Connecticut Yankee significantly improved its capacity factor to 72% for the year, offset by extended outages at Millstone 3, which generated at only 29% of capacity. Overall, nuclear generation operated at 65% of capacity during 1991, for UI system purposes.

Offsetting improvements in sales margin for 1991 were increases in operating expenses, exclusive of non-recurring items, of \$28.9 million over 1990 levels, or \$1.18 per share. Operations, maintenance, and capacity expenses increased by \$6.6 million in 1991, reflecting \$4.1 million for the inclusion of Hydro-Quebec payments. Other operating expenses increased \$11.7 million for depreciation, reflecting a full year of Seabrook charges, \$3.6 million for "other" (mostly property) taxes, and \$7.0 million in unrecovered fuel expense, about one-half of which was due to the Middle East war price run-up.

Non-operating income after tax, exclusive of non-recurring items, declined a net \$1.6 million for 1991 from 1990, or \$1.11 per share. Expected declines (due to rate increases) in deferred revenue associated with accounting for Seabrook, allowance for funds used during construction and interest income were partially offset by \$4.5 million in after-tax interest savings achieved through large-scale refinancings.

The reduction in earnings for 1991 of \$2.27 per share below 1990 resulted from a decline in one-time gains from \$1.04 per share in 1990 to \$7.77 per share in 1991 (primarily, \$5.53 for a property tax accounting adjustment and \$2.23 for tax audit adjustments).

#### 1990 vs 1989

Earnings for the year 1990 were \$49.3 million, or \$3.55 per share, compared to a loss of \$81.6 million, or \$5.87 per share, for 1989. This difference was due principally to the non-cash write-off in August 1989, required by Statement of Financial Accounting Standards (SFAS) No. 90, to reduce the recoverable amount of the Company's investment in Seabrook Unit 1, pursuant to the Seabrook Settlement Agreement, and to other provisions of that agreement. Furthermore, earnings per share for 1990 include \$8.29 per share as a result of recording in the second quarter the Company's share of the Seabrook Unit 1 material and supplies inventory coincident with the unit's commercial operation. In addition, 1990 earnings were

increased by \$3.31 per share due to the refund of amounts previously advanced by the Company to fund the Seabrook project during the construction period.

Operating revenues for 1990 increased from their 1989 level, due primarily to the 1990 rate increase and an accrual of the entire benefit allowable for 1990 under the SPA. Retail kilowatt-hour sales for 1990 were 1.9% below 1989, due to milder weather and a weakening regional economy.

Fuel and energy expense in 1990 decreased as compared to 1989, primarily because of higher nuclear generation resulting from the availability of Seabrook Unit 1, which more than offset the effect of the reduced availability of other nuclear units in 1990. Reduced availability due to scheduled outages for overhaul of the Company's two most efficient fossil-fired generating units also contributed to higher energy costs in 1989. Capacity purchased expense decreased in 1990 from the 1989 level, due to the termination of a large capacity purchase agreement with another utility.

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

AFUDC decreased in 1990 compared to the preceding year, due primarily to the discontinuance of AFUDC on Seabrook Unit 1 coincident with the commencement of the phase-in of the unit into rate base, effective January 1, 1990. Concurrently, the Company began recording a non-cash deferred return on the portion of the recoverable Seabrook Unit 1 investment not included in rate base during 1990. Other income and deductions, excluding AFUDC and the deferred return on Seabrook Unit 1, increased in 1990 over the 1989 period, due to the following factors: the recording of the Company's share of Seabrook Unit 1 material and supplies inventory coincident with the unit's commercial operation on June 30, 1990, and the realization of gains on dispositions of property previously sold. In addition, 1990 benefited from the recording of a refund of amounts previously advanced by the Company to fund the Seabrook project during the construction period, and from the absence of the 1989 write-off of one interest in connection with the DPUC's Seabrook Unit 1 preference ruling. Other interest charges decreased in 1990 from the comparable 1989 period, due primarily to the absence of the accelerated amortization of

bond redemption premiums recorded in the first quarter of 1989 pursuant to the DPUC's order to reduce UI's projected 1989 earnings by means of non-cash charges. The absence of these charges was partially offset in 1990 by higher interest expense on short-term borrowings.

Dividends on preferred stock decreased in 1990 by \$3.5 million as a result of redemptions.

#### **Outlook**

Prior to 1990, the Company's earnings included a large amount of non-cash AFUDC. As a result of the January 24, 1990 DPUC rate decision, beginning January 1, 1990, AFUDC related to Seabrook Unit 1 was discontinued, except for minor amounts related to new construction. Concurrently, the Company's earnings began to reflect a cash return on its recoverable investment in Seabrook Unit 1 that is being phased into rate base, through the increased customer rates allowed by the DPUC, and a non-cash deferred return on the portion of the recoverable investment that is excluded from rate base during the period when the investment is being phased into rate base. Over the scheduled five-year phase-in period ending December 31, 1994, cash returns will improve as the non-cash deferred return diminishes.

Achievement of commercial operation status by Seabrook Unit 1 has provided and is expected to continue to provide important benefits to the Company. Among these benefits are earnings from (i) decreased interest costs resulting from the retirement of high-cost debt with funds provided by the sale/leaseback of a portion of the Company's investment in the unit, (ii) lower fuel costs associated with operation of the unit, particularly if it continues to operate at a high availability factor, and (iii) increased wholesale power sales contracts that became effective upon commercial operation of the unit. The Company has commitments, at this time, for wholesale power sales of approximately \$18.4 million in 1992. However, subsequent to 1992, the Company's wholesale power sales commitments amount to approximately \$3.3 million, \$4.1 million, \$4.8 million and \$4.9 million for the years 1993, 1994, 1995 and 1996, respectively, and the Company may not be able to market any significant additional amounts of wholesale power for the period 1992-1996.

Although the Company believes that its financing outlook and plans are unlikely to be adversely affected by further developments with respect to the licensing and operation of Seabrook Unit 1, the Company's financial status and financing capability will continue to be sensitive to any such developments and to many other factors, including conditions in the securities markets, economic conditions, the level of the Company's income and cash flow, and legislative and regulatory developments.

including the cost of compliance with increasingly stringent environmental legislation and regulations.

#### **Inflation**

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

## Consolidated Statement of Income

For the Years Ended December 31, 1991, 1990 and 1989

(Thousands except per share amounts)

	1991	1990	1989
<b>Operating Revenues*</b>	\$673,371	\$640,646	\$609,106
<b>Operating Expenses</b>			
Operation			
Fuel and energy -- net	210,028	213,532	216,800
Capacity purchased -- net	19,508	17,697	25,054
Other	137,118	135,963	105,441
Maintenance	41,794	40,456	39,428
Depreciation	48,181	36,526	35,618
Amortization of cancelled nuclear project	10,415	10,415	10,415
Amortization of deferred fossil fuel costs	—	(6,242)	—
Income taxes	47,231	43,493	37,963
Other taxes	55,896	50,243	44,800
Total	570,171	542,083	515,317
<b>Operating Income</b>	103,200	98,563	93,789
<b>Other Income and (Deductions)</b>			
Allowance for equity funds used during construction	1,259	1,085	38,968
Deferred return -- Seabrook Unit 1	17,970	21,503	—
Other -- net	(756)	18,605	(25,972)
Non-operating income taxes	20,787	19,154	39,908
Total	39,260	60,347	52,904
<b>Application of SFAS No. 90</b>			
Disallowed plant costs	—	—	(217,503)
Accretion of Seabrook Unit 2 disallowed return	3,453	4,049	4,129
Applicable income taxes	(1,488)	(1,745)	61,227
Net Effect of SFAS No. 90	1,965	2,304	(152,147)
<b>Income (Loss) Before Interest Charges</b>	144,425	161,214	(5,454)
<b>Interest Charges</b>			
Interest on long-term debt	90,296	94,056	91,126
Other interest	9,547	15,468	22,840
Allowance for borrowed funds used during construction	(3,931)	(2,358)	(26,475)
Income tax benefits attributable to the allowance for borrowed funds	—	—	(19,604)
Net Interest Charges	96,212	107,168	67,896
<b>Income (Loss) Before Cumulative Effect of Accounting Change</b>	48,213	54,046	(73,350)
Cumulative effect for years prior to 1991 of accounting change for property taxes (net of income taxes of \$5,559)	7,337	—	—
<b>Net Income (Loss)</b>	55,550	54,046	(73,350)
<b>Dividends on Preferred Stock</b>	4,530	6,751	8,233
<b>Income (Loss) Applicable to Common Stock</b>	\$ 51,020	\$ 47,295	\$ (81,583)
<b>Average Number of Common Shares Outstanding</b>	13,900	13,888	13,888
<b>Earnings (Loss) per share of Common Stock before cumulative effect of accounting change</b>	\$ 3.14	\$ 3.55	\$ (5.87)
Cumulative effect for years prior to 1991 of accounting change for property taxes	0.53	—	—
<b>Earnings (Loss) per share of common stock</b>	\$ 3.67	\$ 3.55	\$ (5.87)
<b>Cash Dividends Declared per share of Common Stock</b>	\$ 2.44	\$ 2.32	\$ 2.32

\*Operating Revenues include exchange contracts with nuclear fuel firms. Fuel and Capacity expenses in accordance with Federal Energy Regulatory Commission requirements.

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

The accompanying Financial Statements are integral parts of the financial statements.

The accompanying Financial Statements are integral parts of the financial statements.

## Consolidated Balance Sheet

December 31, 1991, 1990 and 1989

Assets (Thousands of Dollars)

	1991	1990	1989
<b>Utility Plant at Original Cost</b>			
In service	\$1,591,415	\$1,541,732	\$ 886,310
Less: accumulated provision for depreciation	371,544	332,559	323,837
	1,219,871	1,209,173	562,473
Construction work in progress	54,771	50,257	675,831
Nuclear fuel	65,450	77,850	82,027
Plant-related regulatory assets	—	—	81,768
Net Utility Plant	1,340,092	1,337,280	1,402,099
<b>Other Property and Investments</b>	13,539	12,156	9,621
<b>Current Assets</b>			
Cash and temporary cash investments	25,273	16,918	38,767
Accounts receivable			
Customers, less allowance for doubtful accounts of \$3,200, \$3,100 and \$2,130	58,256	57,345	54,309
Other	31,312	23,203	24,346
Accrued utility revenues	23,300	22,026	24,912
Fuel, materials and supplies, at average cost	22,021	39,768	24,709
Prepayments	4,633	1,685	3,780
Other current assets	142	121	—
Total	164,839	161,066	170,823
<b>Deferred Debts</b>			
Unfunded deferred income taxes	439,998	437,608	334,292
Deferred income taxes	161,431	177,480	176,821
Unamortized cancelled nuclear projects	40,708	47,110	53,461
Unamortized redemption costs	30,716	37,999	31,524
Deferred return - Seabrook Unit 1	39,473	21,503	—
Deferred fossil fuel costs	—	3,041	—
Sales adjustment revenues	14,814	8,211	—
Other	10,466	8,972	9,508
Total	737,606	741,924	605,096
	<b>\$2,256,096</b>	<b>\$2,252,426</b>	<b>\$2,188,239</b>

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## Consolidated Statement of Retained Earnings

For the Years Ended December 31, 1991, 1990 and 1989

(Thousands of Dollars)

	1991	1990	1989
<b>Balance, January 1</b>	\$105,046	\$ 87,820	\$201,371
Net Income (Loss)	55,550	54,048	(73,330)
Discount applicable to repurchase of preferred stock	3,304	148	—
Total	163,900	142,016	128,041
<b>Deduct Cash Dividends Declared</b>			
Preferred stock	4,330	4,751	7,952
Common stock	33,823	32,219	32,219
Total	38,452	36,970	40,201
<b>Balance, December 31</b>	<b>\$125,448</b>	<b>\$105,046</b>	<b>\$ 87,820</b>

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## Consolidated Balance Sheet

December 31, 1991, 1990 and 1989

**Capitalization and Liabilities** (Thousands of Dollars)

	1991	1990	1989
<b>Capitalization</b>			
Common stock equity			
Common stock	\$ 279,340	\$ 277,968	\$ 277,968
Paid-in capital	146	—	—
Capital stock expense	(3,163)	(3,202)	(3,204)
Retained earnings	125,448	105,046	87,820
	<u>401,771</u>	<u>379,812</u>	<u>362,584</u>
Preferred stock	62,640	69,700	70,000
Long-term debt	909,998	899,993	868,884
Total	<u>1,374,409</u>	<u>1,349,505</u>	<u>1,301,468</u>
<b>Noncurrent Liabilities</b>			
Obligations under capital leases	95,375	98,383	106,831
Other	1,398	1,550	950
Total	<u>96,973</u>	<u>99,933</u>	<u>107,781</u>
<b>Current Liabilities</b>			
Current portion of long-term debt	37,500	41,667	18,667
Accounts payable	51,850	66,213	60,077
Notes payable	13,000	15,000	45,000
Dividends payable	9,602	9,107	9,243
Taxes accrued	7,663	18,221	22,592
Pensions accrued	12,971	10,917	9,419
Interest accrued	31,321	29,302	27,715
Obligations under capital leases	2,174	2,472	3,015
Other accrued liabilities	11,943	12,858	10,817
Total	<u>178,024</u>	<u>205,757</u>	<u>206,545</u>
<b>Deferred Credits</b>			
Customers' advances for construction	3,064	3,247	3,114
Accumulated deferred investment tax credits	20,957	21,012	21,773
Deferred fossil fuel costs	45	—	8,626
Unfunded deferred income taxes	46,012	51,379	53,902
Deferred income taxes	532,036	515,960	474,593
Deferred gain on sale of utility plant	4,574	5,633	10,437
Total	<u>606,690</u>	<u>597,231</u>	<u>572,445</u>
<b>Commitments and Contingencies</b>			
	—	—	—
	<u>\$2,256,096</u>	<u>\$2,252,426</u>	<u>\$2,188,239</u>

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

For purposes of this financial statement, the Company is a public utility.

## Consolidated Statement of Cash Flows

For the Years Ended December 31, 1991, 1990 and 1989

(Thousands of Dollars)

	1991	1990	1989
<b>Cash Flows From Operating Activities</b>			
<b>Net Income (Loss)</b>	\$ 35,550	\$ 54,048	\$ (73,350)
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	76,408	48,315	68,977
Deferred income taxes	18,489	12,923	(6,154)
Deferred investment tax credits — net	(3,322)	(761)	(22,758)
SFAS No. 90 write-offs — net	(1,965)	(2,349)	152,147
Seabrook prudence costs	—	—	21,237
Cumulative effect for years prior to 1991 of accounting change for property taxes — net	(7,337)	—	—
Allowance for funds used during construction	(3,140)	(3,443)	(65,444)
Deferred returns — Seabrook Unit 1	(17,970)	(21,503)	—
Sales adjustment revenue	(6,571)	(8,211)	—
Changes in:			
Accounts receivable	(9,022)	(1,893)	(16,865)
Fuel, materials and supplies	17,747	(15,059)	(4,463)
Accounts payable	(14,363)	6,136	17,124
Other assets and liabilities	19,368	8,047	2,802
Total Adjustments	56,272	22,247	146,603
Net Cash Provided by Operating Activities	111,822	76,295	73,253
<b>Cash Flows from Financing Activities</b>			
Seabrook sale/leasetack proceeds	—	250,000	—
Common stock	1,518	—	—
Long-term debt	53,000	30,000	25,000
Notes payable	(2,000)	(30,000)	45,000
Securities retired and redeemed, including premiums:			
Preferred stock	(7,060)	(300)	(37,400)
Long-term debt	(47,870)	(233,977)	(3,667)
Expenses of issues	3,165	(3,732)	(1,440)
Lease obligations	(3,106)	(8,991)	(3,040)
Dividends			
Preferred stock	(4,612)	(4,887)	(9,597)
Common stock	(33,345)	(32,219)	(32,219)
<b>Net Cash Provided by (used in) Financing Activities</b>	(40,310)	(34,126)	(17,363)
Net Cash Flows from Operating and Financing Activities	71,512	42,169	55,890
Cash Invested in Plant, including nuclear fuel	(63,157)	(64,018)	(77,041)
<b>Cash and Temporary Cash Investments:</b>			
Net change for the period	8,355	(21,849)	(21,151)
Balance at beginning of period	16,918	38,767	59,918
Balance at end of period	\$ 25,273	\$ 16,918	\$ 38,767
<b>Cash paid during the period for:</b>			
Interest (net of amount capitalized)	\$ 71,641	\$ 79,519	\$ 50,471
Income taxes	\$ 7,912	\$ 16,231	\$ 21,715



## Statement of Accounting Policies

### Accounting Records

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

### Principles of Consolidation

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

### Utility Plant

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

### Abandonments and Disallowances of Plant Costs

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

In 1989, the Company recorded approximately \$212.9 million of write-offs to recognize successive extensions, to at least January 1, 1990, of the estimated commercial operation date of Seabrook Unit 1 and to reflect the write-down of the Seabrook Unit 1 investment from the statutory "cap" to the allowed recoverable amount of \$640 million, as provided in the Seabrook Settlement

Agreement. In 1989 the Company also recorded an additional non-cash write-off of approximately \$4.6 million (\$2.6 million, net of related income taxes) to recognize the probable disallowance of a return on additional costs associated with Seabrook Unit 2 for which recovery has not yet been approved. See Note (I), "Unamortized Cancelled Nuclear Project".

### Phase-in Plan

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

In accordance with the January 24, 1990 rate decision of the DPUC, AFUDC related to the Company's investment in Seabrook Unit 1 at that date was discontinued and the Company began to record a deferred return on the portion of the recoverable investment in the unit that is presently excluded from rate base due to the phasing into rate base of the Company's investment in the unit over a five-year period, effective January 1, 1990.

For 1991 and 1990, the Company recorded deferred returns related to Seabrook Unit 1 of \$17,970,000 and \$21,503,000, respectively.

### Allowance for Funds Used During Construction

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

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

AFUDC rates in effect during 1989-1991 are shown below:

	Before-Tax Basis	Net-of-Tax Basis
1989	12.30%	9.5%
1990	11.75%	8.0%
1991	10.88%	

#### Depreciation

Provisions for depreciation on utility plant for book purposes, excluding costs associated with the 1984 reconversion of BEC's plant to a dual-fired capability, are computed on a straight-line basis, using estimated service lives determined by independent engineers. One-half year's depreciation is taken in the year of addition and disposition of utility plant, except in the case of major operating units on which depreciation commences in the month they are placed in service and ceases in the month they are removed from service. During the years 1985-1989, depreciation associated with BEC's reconversion costs was computed on an annuity basis over the original ten-year period that this plant was being leased to the Company by BEC. Commencing January 1, 1990, the reconversion costs are being depreciated on a straight-line basis over a period ending July 2000. The aggregate annual provisions for depreciation for the years 1989, 1990 and 1991 were equivalent to approximately 4.31%, 3.06% and 3.10%, respectively, of the original cost of depreciable property, as restated for the effect of SFAS No. 90. The aggregate provision for 1989 includes a one-time increase of \$10.2 million in Millstone Unit No. 3 depreciation charges as prescribed in a 1989 DPUC order. This earnings reduction measure was initiated in order to lower the Company's return on Common Stock equity for rate-making purposes without impacting revenues or cash flows. See Note (B), "Rate-related Regulatory Proceedings".

#### Income Taxes

In accordance with SFAS No. 96, "Accounting for Income Taxes", which was adopted in the first quarter of 1988, the Company has provided deferred taxes for all temporary book-tax differences using the liability method. The liability method requires that deferred tax balances be adjusted to reflect enacted future tax rates that are anticipated to be in effect when the temporary differences reverse. In accordance with generally accepted accounting principles for regulated industries, the Company has established assets and liabilities that reflect anticipated future ratemaking effects of deferred tax provisions arising from the implementation of SFAS No. 96.

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

#### Accrued Utility Revenues

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

#### Sales Adjustment Revenues

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

#### Investments

The Company's investment in the Connecticut Yankee Atomic Power Company joint venture, a nuclear generating company in which the Company has a 94% stock interest, is accounted for on an equity basis.

#### Fossil Fuel Costs

The amount of fossil fuel costs that cannot be reflected currently in customers' bills pursuant to the fuel adjustment clause (FAC) in the Company's rates is deferred at the end of each accounting period. Since adoption of the deferred accounting procedure in 1979, rate decisions by the DPUC and its predecessors have consistently made specific provision for amortization and rate-making treatment of the Company's existing deferred fossil fuel cost balances.

### Research and Development Costs

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

### Property Taxes

Effective January 1, 1991 the Company changed its methods of accounting for property taxes so that such taxes are accrued monthly during the fiscal period of the applicable taxing authority. Prior to January 1, 1991, the Company accrued property taxes during a twelve-month period commencing with the assessment date based upon the estimated values of properties as of the assessment date. See Note (M), "Change in Method of Accounting for Property Taxes".

## Notes to Consolidated Financial Statements

(A) Capitalization	Shares	Amount	Shares	Amount	Shares	Amount
	Outstanding	(000's)	Outstanding	(000's)	Outstanding	(000's)
	1991		1990		1989	
<b>Common Stock Equity</b>						
Common stock, no par value, at December 31(a)	13,932,348	\$279,340	13,887,748	\$277,968	13,887,748	\$277,968
Shares authorized at December 31,						
1989 17,500,000						
1990 30,000,000						
1991 30,000,000						
Paid-in capital		146		--		--
Capital stock expense		(3,163)		(3,202)		(3,204)
Retained earnings (b)		125,448		105,046		87,820
Total common stock equity		<u>401,771</u>		<u>379,812</u>		<u>362,584</u>
<b>Preferred and Preference Stock (c)</b>						
Cumulative preferred stock, \$100 par value, shares authorized at December 31,						
1989 1,350,000						
1990 1,347,000						
1991 1,310,325						
Preferred stock issues:						
4.35% Series A	40,425		50,000		50,000	
4.72% Series B	67,650		75,000		75,000	
4.64% Series C	32,100		75,000		75,000	
5% Series D	61,200		75,000		75,000	
7.60% Series E	125,000		125,000		125,000	
7.60% Series F	150,000		150,000		150,000	
	<u>476,405</u>	<u>47,640</u>	<u>547,000</u>	<u>54,700</u>	<u>550,000</u>	<u>55,000</u>
Cumulative preferred stock, \$25 par value, shares authorized at December 31,						
1989 2,400,000						
1990 2,400,000						
1991 2,400,000						
Preferred stock issues:						
8.80% 1976 Series	600,000	15,000	600,000	15,000	600,000	15,000
Cumulative preference stock, \$25 par value, shares authorized at December 31,						
1989 5,000,000						
1990 5,000,000						
1991 5,000,000						
Preference stock issues:						
Total preferred stock not subject to mandatory redemption		<u>62,640</u>		<u>69,700</u>		<u>70,000</u>

	Amount (000%)	Amount (000%)	Amount (000%)
	1991	1990	1989
<b>Long-term Debt (d)</b>			
Long-term debentures			
4.65%, 1990 Series, due July 15, 1990	\$ —	\$ —	\$ 15,000
4 1/4%, 1991 Series, due July 15, 1991	—	10,000	10,000
10 1/2%, 1995 Series, due October 1, 1995	69,600	69,600	150,000
5 1/4%, 1996 Series, due August 15, 1996	15,000	15,000	15,000
6%, 1997 Series, due June 15, 1997	22,500	22,500	22,500
7%, 1999 Series, due January 15, 1999	15,000	15,000	15,000
10 1/4%, 2000 Series, due June 15, 2000	—	18,181	30,000
7 3/4%, 2002 Series, due October 1, 2002	25,000	25,000	25,000
8 1/4%, 2003 Series, due December 15, 2003	30,000	30,000	30,000
12%, 2017 Series, due August 1, 2017	2,078	2,078	100,000
Serial debentures:			
8 1/2%, matured serially as to \$1,667 principal amount on November 15, 1991, with the remaining \$10,000 redeemed on November 15, 1991.	—	11,666	13,333
11%, matured serially as to \$2,000 principal amount on November 15, 1990, with the remaining \$18,000 redeemed on November 15, 1990.	—	—	20,000
	<u>179,178</u>	<u>219,025</u>	<u>445,833</u>
<b>First Mortgage Bonds — Bridgeport Electric Company:</b>			
9.44%, Series B, maturing serially as to \$10,800 principal amount on February 15 in each of the years 1995 to 1999	54,000	54,000	54,000
10.32%, Series C, maturing serially as to \$60,000 principal amount on January 15 in each of the years 1993 to 1995.	180,000	180,000	180,000

	Amount (000%)	Amount (000%)	Amount (000%)
	1991	1990	1989
<b>Other Long-term Debt</b>			
Pollution Control Revenue bonds:			
14 1/2%, 1984 Series, due October 1, 2009	40,000	\$ 40,000	\$ 40,000
14 1/2%, 1984 Series B, due December 1, 2009	28,400	28,400	28,400
9 1/2%, 1986 Series, due June 1, 2016	7,500	7,500	7,500
9 3/4%, 1987 Series, due July 1, 2012	25,000	25,000	25,000
10 1/4%, 1987 Series, due November 1, 2012	43,500	43,500	43,500
8%, 1989 Series A, due December 1, 2014	25,000	25,000	25,000
Solid Waste Disposal Revenue Bonds:			
Adjustable rate (currently 4.85%) 1990 Series A, due September 1, 2015	30,000	30,000	—
Medium-Term Notes:			
7.62%, 1991 Series A, due September 12, 1994	30,000	—	—
7.20%, 1991 Series B, due November 1, 1994	13,000	—	—
6.82%, 1991 Series C, due December 2, 1994	10,000	—	—
Long-term bank loans:			
12.9% (\$12,500), and 13.1% (\$20,000), maturing as to \$7,500 in 1992, \$15,000 in 1993 and \$10,000 in 1994	32,500	40,000	40,000
Obligation under the Seabrook Unit 1 sale/leaseback agreement			
	<u>250,000</u>	<u>250,000</u>	<u>—</u>
	<u>948,078</u>	<u>942,425</u>	<u>639,233</u>
Unamortized debt discount plus premium at December 31, 1991, 1990 & 1989			
	<u>(580)</u>	<u>(76)</u>	<u>(1,682)</u>
Total long-term debt	<u>947,498</u>	<u>941,660</u>	<u>887,551</u>
Less current portion included in Current Liabilities (a)			
	<u>37,500</u>	<u>41,667</u>	<u>18,617</u>
Total long-term debt, included in Capitalization	<u>909,998</u>	<u>899,993</u>	<u>868,934</u>
Total Capitalization	<u>\$1,379,409</u>	<u>\$1,349,305</u>	<u>\$1,301,468</u>

### (a) Common Stock

At the 1990 Annual Meeting, shareholders approved an increase in the Company's authorized common stock, no par value, from 17,500,000 shares to 30,000,000 shares. There were no shares of common stock issued in 1989 or 1990. As detailed below there were 44,600 shares of common stock issued in 1991 pursuant to a stock option plan.

Common stock, no par value, authorized at December 31, 1991, included 400,000 shares reserved for the Company's Employee Stock Ownership Plan (ESOP). There were no additions to ESOP in 1989, 1990 or 1991, since income tax credits allowable for ESOP ended at December 31, 1987.

The Company purchased on the open market, on behalf of shareholders participating in the Dividend Reinvestment Plan, 156,683 shares in 1989, 141,486 shares in 1990 and 148,362 shares in 1991.

In 1990, the Company's Board of Directors and the shareholders approved a stock option plan for officers and key employees of the Company. The plan provides for the awarding of options to purchase up to 750,000 shares of the Company's common stock over periods of from one to ten years following the dates when the options are granted. On June 5, 1991, the DPUC approved the issuance of 500,000 shares of stock pursuant to this plan. The exercise price of each option cannot be less than the market value of the common stock on the date of the grant. Options to purchase 393,400 shares of common stock at an exercise price of \$30.75 per share, 7,000 shares of common stock at an exercise price of \$28.31 per share and 3,000 shares of common stock at an exercise price of \$21.1875 per share have been granted by the Board of Directors and remain outstanding at December 31, 1991. Options to purchase 44,600 shares of common stock at an exercise price of \$30.75 were exercised during 1991.

In addition, certain executive officers can earn shares of the Company's common stock, based upon the dividend and market performance of the common stock compared to a peer group of electric utilities over a four-year period ending December 31, 1992, under the Company's long-term incentive program. The issuance of shares of stock pursuant to this program received DPUC approval on June 5, 1991. The total number of shares of common stock that may be earned under the long-term incentive program is limited to 8,883. No shares have been awarded under this program to date. This program will end as of December 31, 1992.

### (b) Retained Earnings Restrictions

The indenture under which all of the Company's debentures are issued places limitations on the payment of cash dividends on the common stock of the

Company and on the amounts that can be expended to purchase or redeem shares of common stock. The indenture under which the Company's Medium-Term Notes (MTNs) and Notes are issued also places limitations on the payment of cash dividends on common stock and on the purchase or redemption of common stock. Under the most restrictive provision of these indentures, retained earnings in the amount of \$67.1 million were free from such limitations at December 31, 1991.

### (c) Preferred and Preference Stock

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

In 1990, the Company purchased and cancelled 3,000 shares of its \$100 par value 4.64% Preferred Stock, Series C, at a discount, resulting in a non-taxable addition to common equity of approximately \$148,000. In 1991, the Company purchased and cancelled shares of its \$100 par value Preferred Stock, at a discount, resulting in a non-taxable addition to common equity of approximately \$3,304,000. Such purchases consisted of:

9,575	shares of 4.35% Preferred Stock, Series A
7,320	shares of 4.72% Preferred Stock, Series B
39,900	shares of 4.64% Preferred Stock, Series C
13,800	shares of 5% Preferred Stock, Series D

There are no redemption requirements for preferred stock outstanding at December 31, 1991.

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

Preference stock is a form of stock that is junior to preferred stock but senior to common stock. It is not subject to the earnings coverage requirements or minimum equity and surplus requirements governing the issuance of preferred stock. There were no shares of preference stock outstanding at December 31, 1991.

### (d) Long-Term Debt

On September 12, 1991, the Company issued and sold \$30 million principal amount of three-year MTNs at an interest rate of 7.62%. The net proceeds were used to repay a \$7.5 million 12.9% term loan on September 30, 1991, to redeem all of the outstanding \$18,121,000 principal amount of 5.4% Debentures, due June 15, 2000, including a call premium of \$372,711 on October 1, 1991, and to repay short-term borrowings. On November 1, 1991,

The Company issued and sold \$13 million principal amount of a five-year MTNs at an interest rate of 7.20%. The net proceeds were used to repay \$1,666,000 principal amount of 8 1/2% Serial Debentures, which matured on November 15, 1991, and to redeem, on November 15, 1991, all of the outstanding \$10 million principal amount of the 8 1/2% Serial Debentures, due to mature serially on November 15, 1992 through 1997, including a call premium of \$150,000. On December 2, 1991, the Company issued and sold \$10 million principal amount of three-year MTNs at an interest rate of 6.87%. The net proceeds were used to repay short-term borrowings.

On February 15, 1992, the Company issued and sold \$50 million principal amount of three-year 6.0% Notes at a discount for an effective interest rate of 5.07%, and \$50 million principal amount of five-year 7.0% Notes at a discount for an effective interest rate of 7.06%.

The net proceeds were used to redeem, on February 8, 1992, all of the Company's outstanding 5 1/2% Debentures, due August 15, 1996, 6% Debentures, due June 15, 1997, 7% Debentures, due January 15, 1999 and 7 1/2% Debentures, due October 1, 2002, in an aggregate principal amount of \$77.5 million, together with an aggregate call premium of \$618,000, and to redeem approximately two-thirds of the outstanding \$30 million principal amount of the Company's 8 1/2% Debentures, due December 15, 2003, including a call premium of approximately \$475,000. The remaining outstanding principal amount of the 8 1/2% Debentures was also redeemed on February 8, 1992, together with a call premium of approximately \$213,000, with funds from short-term bank borrowings.

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

	1992	1993	1994	1995	1996
			(000s)		
Long-term debt (beginning of period)(2)	\$718,078	\$903,078	\$828,078	\$705,078	\$514,678
Plus:					
Sale of Notes	100,000	--	--	--	--
Less:					
Maturities	--	--	53,000	119,600	--
Mandatory redemptions/repayments	7,500	75,000	70,000	70,800	12,770
Optional Redemptions(1)	107,500	--	--	--	--
Long-term debt (end of period)(2)	\$903,078	\$828,078	\$705,078	\$514,678	\$501,908
Annual interest associated with existing outstanding debt(2)(3)	\$ 87,027	\$ 77,892	\$ 69,532	\$ 54,726	\$ 47,790
Annual amortization of premium expense and repurchase premiums associated with existing debt	\$9,535	\$7,418	\$5,721	\$3,657	\$2,354

(1) Excludes redemption premiums

(2) Does not include \$30 million of tax-exempt adjustable rate Solid Waste Disposal Revenue Bonds, 1990 Series A, due September 1, 2015, classified on the Company's books as a current liability (interest rate for September 1991 to March 1992 is 4.85%).

(3) Does not include interest on any new financings that may be required to fund maturities, redemptions or plant additions in any given year. The Company expects some new financing to occur.

### (B) Rate-Related Regulatory Proceedings

On February 22, 1989, the DPUC issued a decision in a proceeding that it commenced on October 11, 1988 to investigate the operational and financial status of the Company. The decision ordered the Company to reduce its 1989 return on equity for rate-making purposes to 16.4%, the level authorized in its then most recent rate case in 1984. Accordingly, in 1989, the Company wrote off a total of \$14.8 million, consisting of bond repurchase premiums amounting to \$4.5 million, net of related income taxes, and \$10.2 million of additional depreciation charges related to Millstone Unit 3. In its decision, the DPUC stated

that it continues to be sensitive to the need to maintain the Company's financial integrity and therefore had approved earnings reduction measures that did not affect revenues or current cash flows.

In a decision dated January 24, 1990, the DPUC granted UI base rate increases of 3.77%, 2.69% and 2.53% for the years 1990, 1991 and 1992, respectively. These rate increases were designed to raise revenues by \$22.1 million in 1990, \$16.9 million in 1991 and \$16.7 million in 1992. The rate decision was based on a July 6, 1989 agreement (the Southbrook Settlement Agreement) among the Company and the "Connecticut Public Parties" (consisting of the Connecticut Office of Consumer Coun-

sel, the Connecticut Attorney General and the Prosecutorial Division of the DPUC), which the DPUC approved on August 23, 1989.

The Seabrook Settlement Agreement, in addition to determining the rate treatment of the Company's 17.5% ownership in the Seabrook project, also settled many pending Seabrook-related issues, including termination of the DPUC's prudence audit of the planning and construction of Seabrook Units 1 and 2, the Company's then-pending application to increase its rates by approximately 9.3% in 1990 by phasing \$832 million of its investment in Seabrook Unit 1 into rate base over four years, the Connecticut statutory issues relative to an appropriate phase-in period for Seabrook Unit 1, the Company's having excess generating capacity, and the exclusion from rates of revenues equal to Seabrook Unit 1 CWIP revenues collected by the Company after 1983. This agreement also resolved DPUC accounting and tax issues with respect to Seabrook Unit 1 and terminated several DPUC directives in other proceedings and all of the lawsuits pending in the Connecticut Superior Court among the parties and the DPUC. It stipulated that the Company would receive base rate increases to customers totalling between 6% and 11% over the three-year period 1990 through 1992, with the DPUC subsequently determining the actual rate increase for each year, taking into account the appropriate level of financial health for the Company and the effect of the increases on the Company's customers and shareholders. Under the agreement, the amount of the Company's Seabrook Unit 1 investment that can be recovered through customer rates will be limited to \$640 million, phased-in to rate base over a five-year period beginning in 1990. The agreement further provides that the Company's rate-making rate of return on Common Stock equity (ROE) during the three years 1990-1992 will be limited to a ceiling of 13.9%, with a floor of 9%, calculated as if the Company's ratio of Common Stock equity capitalization to total capitalization was 40%. If the actual ROE exceeds 13.9%, the amount of earnings in excess of the ceiling will be applied against deferred revenues related to the Seabrook Unit 1 phase-in. The Company may request additional rate relief if the ROE falls below 9% on a projected basis.

The rate increases granted by the DPUC's January 24, 1990 decision were computed on a 12.9% ROE based on the Company's projected Common Stock equity capitalization ratio of 29.0% for 1990, 30.5% for 1991 and 32.0% for 1992 applied to the Company's rate base. However, as stated above, the Company is authorized to earn up to a 13.9% ROE, based upon a Common Stock equity capitalization ratio of 40%, in accordance with the Seabrook Settlement Agreement. The decision also provides, among other things, for phasing the Company's recoverable Seabrook investment into rate base over a 5-year period commencing January 1, 1990, for recovery of deferred phase-in costs during the subsequent 5-year

period consistent with SFAS No. 92 criteria, for rate design changes to encourage energy conservation, and for a sales adjustment provision (SPA) designed to compensate for deviations from forecast sales levels, within prescribed limits, and subject to DPUC approval. The decision permits the Company to retain the benefits of wholesale power sales, expense reductions, property sales and improved nuclear unit performance, above prescribed levels, and allows the Company to capitalize conservation projects. These capitalized conservation investments (aggregating approximately \$30 million over the 1990-1992 period net of amortization) have been allowed to earn a premium return of up to 3% over the Company's weighted cost of capital.

The SPA of the rate decision allows the Company to increase base revenues up to an additional 1.5% in 1990, 94% in 1991 and 94% in 1992 if certain sales levels are not achieved. The sales levels were not achieved in 1990 and 1991 and are unlikely to be achieved in 1992. Therefore, in accordance with the SPA, the Company has received DPUC approval to bill to customers in 1992 approximately \$14.8 million (equivalent to a 2.44% base rate increase) in revenues that were accrued during 1991. For billing purposes, the SPA has been incorporated into the Company's Fossil Fuel Adjustment Clause (FCA).

Since January 1971, UI has had a FCA in all of its retail rates. The DPUC is required by law to convene an administrative proceeding prior to approving fuel adjustment changes of electric utilities for each month. The law permits automatic implementation of the charges if the DPUC fails to act within five days of the administrative proceeding, although all such charges are also subject to further review and appropriate adjustment by the DPUC at public hearings required to be held at least every three months. The DPUC has made no material changes in UI's fuel adjustment charges and credits as the result of any of these proceedings or hearings.

#### IC) Accounting for Phase-In Plan

The Company is phasing into rate base its allowable investment in Seabrook Unit 1, amounting to \$640 million. The phase-in plan allows the Company to record a deferred return on the portion of allowable investment excluded from rate base during the phase-in period. At December 31, 1989, the Company's rate base included \$48 million of its allowable investment in Seabrook Unit 1. In accordance with the phase-in plan, commencing January 1, 1990, the Company began phasing in the balance of its allowable investment over a five-year period. Commencing January 1, 1991, the deferred return has been and will continue to be added to rate base at the beginning of each year over a four-year period in the same proportion as the phase-in investment for that year bears to the remainder of the \$640 million yet to be phased-in. This phase-in plan, which was approved by the DPUC in a January 24, 1990 rate decision that granted the Company base rate increases

for 1990, 1991 and 1992, is in compliance with SFAS No. 92, "Regulated Enterprises — Accounting for Phase-in Plans". The rate decision allows the Company to phase-in \$480 million, or 75% of its allowable investment, plus a portion of the deferred return that will be accumulated during 1990 and 1991 into rate base by January 1, 1992. The remaining \$160 million of allowable investment plus the remaining accumulated deferred return will be phased into rate base in approximately equal amounts on January 1, 1993 and January 1, 1994. The Company will be allowed to recover the deferred return over a five-year period commencing January 1, 1995. During 1991 and 1990, the Company recorded deferred returns related to Seabrook Unit 1 of \$18.0 million and \$21.5 million, respectively.

#### (D) Income Taxes

Income tax expense consists of

	1991	1990	1989
	(000's)		
Income tax provisions charged to continuing operations			
Current			
Federal	\$10,869	\$ 7,741	\$ 3,677
State	407	3,597	4,582
Total current	11,276	11,338	8,259
Deferred, net			
Federal	13,297	11,199	(24,213)
State	12,240	5,437	(16,866)
Total deferred	25,537	16,636	(41,079)
Investment tax credits	(3,372)	(1,890)	(30,352)
Total income tax expense	\$33,491	\$26,084	(\$63,172)
Income tax components charged as follows:			
Operating expenses	\$47,231	\$43,493	\$37,963
Other income and deductions — net	(20,787)	(19,154)	(39,908)
Application of SFAS No. 90	1,488	1,745	(61,227)
Cumulative effect of change in accounting for property taxes	5,559	—	—
Total income tax expense	\$33,491	\$26,084	(\$63,172)

The following table details the components of the deferred income taxes:

	1991	1990	1989
	(000's)		
Accelerated depreciation	\$17,176	\$13,525	\$ 5,025
Tax depreciation on unrecoverable plant investment	10,923	6,524	477
Conservation & load management	8,374	—	—
Property tax adjustment	5,974	—	—
Plant disallowances	—	—	(54,086)
Income tax attributable to:			
the allowance for borrowed funds	—	—	19,804
Deferred fossil fuel costs	(1,330)	5,831	(208)
Seabrook sale assetback transaction	(1,963)	(11,952)	—
Premiums on BEC bond redemption	(3,209)	(3,209)	(7,402)
Cancelled nuclear projects	(3,786)	(3,785)	(3,785)
Alternative minimum tax	(2,823)	—	4,335
Other — net	3,309	8,713	(5,229)
Deferred income taxes — net	\$25,537	\$16,636	(\$41,079)



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

	Pre-Tax	Tax	Pre-Tax	Tax	Pre-Tax	Tax
	1991		1990		1989	
	(000's)					
Computed tax at 34% federal statutory rate		\$30,274		\$27,244		(\$46,417)
Increases (reductions) resulting from:						
Deferred return-Seabrook Unit 1	(\$17,970)	(8,110)	(\$21,507)	(7,311)	—	—
ITC taken into income	(3,322)	(3,322)	(1,890)	(1,890)	(\$30,352)	(30,352)
Allowance for equity funds used during construction	(1,259)	(428)	(1,085)	(369)	(38,968)	(13,249)
Application of SFAS No. 90 — book/tax basis differentials	—	—	—	—	95,012	32,304
Book depreciation in excess of non-normalized tax depreciation	19,894	6,764	12,935	4,398	11,656	3,963
State income taxes, net of federal income tax benefits	12,647	8,347	9,034	5,965	(12,284)	(8,107)
Other items — net	(5,979)	(2,034)	(5,744)	(1,953)	(3,865)	(1,314)
Total income tax expense		\$53,491		\$26,084		(\$63,172)
Effective income tax rates		37.6%		32.6%		46.3%

The Tax Reform Act of 1986 provides for a more comprehensive corporate alternative minimum tax (AMT) for years beginning after 1986. To the extent that the AMT exceeds the federal income tax computed at statutory rates, the excess must be paid in addition to the regular tax liability. For tax purposes, the excess paid in any year can be carried forward indefinitely and offset against any future year's regular tax liability in excess of that year's tentative AMT. The AMT carryforward was \$3.8 million at December 31, 1988. During 1989, the Company's regular tax liability exceeded its tentative AMT liability by an amount greater than \$3.8 million. During 1990, the Company's regular tax liability exceeded its tentative AMT liability. As a result, there was no AMT being carried forward at December 31, 1989 and 1990. The AMT carryforward was \$9.9 million at December 31, 1991.

#### (E) Short-Term Credit Arrangements

The Company has a revolving credit agreement with a group of banks, which currently extends to January 25, 1993. The borrowing limit of this facility is \$75 million. The facility permits the Company to borrow funds at a fluctuating interest rate determined by the prime lending market in New York, and also permits the Company to borrow money for fixed periods of time specified by the Company at fixed interest rates determined by the Eurodollar interbank market in London, by the certificate of deposit market in New York, or by bidding, at the Company's option. If a material adverse change in the business, operations, affairs, assets or condition, financial or otherwise, or prospects of the Company and its subsidiaries, on a consolidated basis, should occur, the banks may decline

to lend additional money to the Company under this revolving credit agreement, although borrowings outstanding at the time of such an occurrence would not then become due and payable. As of December 31, 1991, the Company had \$13 million of short-term borrowings outstanding under a revolving credit arrangement, with a group of banks, that expired on January 31, 1992.

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

	1991	1990	1989
	(000's)		
Maximum aggregate principal amount of short-term borrowings outstanding at any month-end	\$59,000	\$142,740	\$70,000
Average aggregate short-term borrowings outstanding during the year*	\$33,364	\$ 63,665	\$26,068
Weighted average interest rate*	6.9%	10.1%	16.5%
Principal amount outstanding at year-end	\$13,000	\$ 15,000	\$45,000
Annualized interest rate on principal amounts outstanding at year-end	5.7%	9.9%	10.4%

\*Average short-term borrowings represent the sum of daily borrowings outstanding, weighted for the number of days outstanding and divided by the number of days in the period. The weighted average interest rate is determined by dividing interest expense by the amount of average borrowings. Commitment fees of approximately \$289,000, \$716,000 and \$703,000 paid during 1991, 1990 and 1989, respectively, are excluded from the calculation of the weighted average interest rate.

### (F) Supplementary Information

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

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

	1991	1990	1989
		(000's)	
State gross earnings	\$27,223	\$25,595	\$24,508
Local real estate and personal property	22,430	19,754	15,706
Other, principally payroll	6,509	5,572	4,830
	<u>\$56,662</u>	<u>\$50,921</u>	<u>\$45,044</u>
Charged to:			
Operating tax expense	\$55,896	\$50,243	\$44,800
Other accounts	766	678	244
	<u>\$56,662</u>	<u>\$50,921</u>	<u>\$45,044</u>

### (G) Pension and Other Retirement Benefits

The Company's qualified pension plan, which is based on the highest consecutive three years of pay, covers substantially all of its employees, and its entire cost is borne by the Company. The Company also has a non-qualified supplemental plan for certain executives. The net pension costs for these plans for 1989, 1990 and 1991 were \$2,030,000, \$1,498,000 and \$2,054,000, respectively.

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

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

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

	1991	1990
		(000's)
The components of net pension costs were as follows:		
Service cost of benefits earned during the period	\$ 3,155	\$ 4,051
Interest cost on projected benefit obligation	10,568	10,119
Actual return on plan assets	(25,370)	4,556
Net amortization and deferral	17,663	7,228
Net pension cost	<u>\$ 2,036*</u>	<u>\$ 1,498</u>

\*In addition, a loss of \$18,000 was recognized under FASB No. 88 as a result of a curtailment with regard to the Supplemental Plan.

Assumptions used to determine pension costs were:		
Discount rate	8.50%	7.25%
Average wage increase	5.50%	5.50%
Expected long-term rate of plan assets	8.50%	8.50%

	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
	December 31, 1991		December 31, 1990	

(000's)

The funded status and amounts recognized in balance sheets are as follows:

Actuarial present value of benefit obligations:				
Vested benefit obligation	\$ 95,098	\$542	\$ 83,541	\$405
Accumulated benefit obligation	\$ 97,440	\$542	\$ 85,628	\$405
Reconciliation of accrued pension liability:				
Projected benefit obligation	\$140,368	\$875	\$124,204	\$900
Less fair value of plan assets	151,620	0	132,186	0
Projected benefit greater (less) than plan assets	(11,252)	875	(7,982)	900
Unrecognized prior service cost	(7,135)	0	(4,821)	0
Unrecognized net gain (loss) from past experience	15,598	(35)	7,004	(79)
Unrecognized net asset (obligation) at date of initial application	15,094	(194)	16,201	(306)
Accrued pension liability	\$ 12,325	\$646	\$ 10,402	\$515
Assumptions used in estimating benefit obligations:				
Discount rate	8.25%	8.25%	8.50%	8.50%
Average wage increase	5.50%	5.50%	5.50%	5.50%

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

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees and their dependents. Substantially all of the Company's employees become eligible for these benefits when they reach retirement age. The Company recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance premiums, which were \$ .8 million, \$1.1 million and \$1.2 million for the years 1989, 1990 and 1991, respectively. At December 31, 1991, the Company was providing these benefits for approximately 604 retirees or their beneficiaries.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions". This Statement, which must be adopted by 1993, requires, among other things, that the liability for such benefits must be accrued over the period commencing with an employee's date of hire until the date that the employee is eligible to collect benefits. The Company has determined that the effect of this accounting change will increase its estimated annual liability commencing in 1993, from \$1.8 million to \$6 million. While the rate treatment at this date has not been determined, the Company plans to seek recovery of these increased costs through rates.

#### (H) Jointly Owned Plant

At December 31, 1991, the Company had the following interests in jointly owned plants:

	Ownership/ Leasehold Share	Plant in Service (Millions)	Accumulated Depreciation
Seabrook Unit 1	17.5 %	\$642	\$2.7
Millstone Unit 3	3.685	134	42
New Haven Harbor Station	93.7	131	52

The accumulated provision for depreciation for Millstone Unit 3 includes one-time increases of \$12.5 million and \$10.2 million recorded in 1987 and 1989, respectively, as provided in DPUC-approved stipulated earnings agreements in 1987 and a 1989 DPUC order. The Company's share of the opening costs of jointly owned plants is included in the appropriate expense captions in the Consolidated Statement of Income.

#### (H) Unamortized Cost of Nuclear Project

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

In August 1989 the Company recorded additional non-cash write-offs of approximately \$4.6 million (\$2.6 million, net of related income tax effects) to recognize the probable disallowance of a return on additional

costs associated with Seabrook Unit 2 for which recovery has not yet been approved. See Statement of Accounting Policies — "Accounting for Abandonments and Disallowances of Plant Costs".

#### (J) Fuel Financing Obligations and Other Lease Obligations

The Company's sale and leaseback arrangements with a financial institution providing for nuclear fuel financing up to \$70 million for Seabrook Unit 1 and up to \$10 million for Millstone Unit 3. Under these arrangements, the Company pays rent for the fuel, during the time when it is being used in the nuclear reactor of the generating unit, in amounts that are calculated to reimburse the lessor for the direct costs it has incurred in purchasing the fuel, plus its financing costs with a percentage return thereon based on its fluctuating cost of thirty-day commercial paper borrowings. The Company is obligated to insure the fuel and to indemnify the lessor against all liability, taxes and other expenses incurred as a result of its ownership of the fuel. Each lease is terminable on two years' notice by either party, but it is terminable by the lessor, and the Company must purchase the fuel from the lessor, upon the occurrence of any one of several events, including any adverse change in the federal Atomic Energy Act or the terms of the insurance policies on the fuel that is not satisfactory to the lessor, the lessor's becoming subject to the Public Utility Holding Company Act of 1935, or any other statute regulating public service companies, as a result of the lease, a failure to obtain or maintain any required governmental approval of the lease arrangement, and a nuclear accident at the generating facility giving rise to liability or damage in excess of \$10 million. At December 31, 1991, approximately \$65.5 million of nuclear fuel was being financed under these agreements.

The Company also has a Fossil Fuel Supply Agreement with a financial institution providing for financing up to \$30 million in fossil fuel purchases. Under this agreement, the financing entity acquires and stores natural gas, coal and fuel oil for sale to the Company, and the Company purchases these fossil fuels from the financing entity at a price for each type of fuel that reimburses the financing entity for the direct costs it has incurred in purchasing and storing the fuel, plus a charge for maintaining an inventory of the fuel determined by reference to the fluctuating interest rate on thirty-day, dealer-placed commercial paper in New York. The Company is obligated to insure the fuel inventories and to indemnify the financing entity against all liability, taxes and other expenses incurred as a result of its ownership, storage and sale of fossil fuel to the Company. This agreement currently extends to February 1993. At December 31, 1991, approximately \$28.8 million of fossil fuel purchases were being financed under this agreement.

In addition to the nuclear fuel leases described above, the Company has entered into other leases

(some of which are capital leases), including arrangements for data processing and office equipment, vehicles, office space and oil tanks. The gross amount of assets recorded under capital leases and the related obligations of those leases as of December 31, 1991 are recorded on the balance sheet.

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

Next five years:	(000's)
1992	\$ 5,505
1993	5,323
1994	5,592
1995	5,424
1996	4,368
After 1996	59,907
Total minimum capital lease payments	86,119
Less: Amount representing interest	57,809
Present value of minimum capital lease payments	28,310
Present value of future nuclear fuel lease payments	69,439
Total lease obligations	\$97,749

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

Rental payments charged for operating expenses in 1989, 1990 and 1991 amounted to \$13.8 million, \$14.8 million and \$14.9 million, respectively.

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

#### (K) Commitments and Contingencies Construction Program

The Company has entered into commitments in connection with its continuing construction program, which is presently estimated at approximately \$420.2 million, excluding AFUDC and leased nuclear fuel costs, for 1992 through 1996.

#### Seabrook Unit 1

##### Financial Qualifications of Other Owners

After experiencing increasing financial stress beginning in May 1987, Public Service Company of New Hampshire (PSNH), which holds the largest ownership share (35.6%) in the Seabrook project, commenced a proceeding under Chapter 11 of the Bankruptcy Code in January of 1988. Under this statute, PSNH continued its operations while seeking a financial reorganization. A reorganization plan proposed by Northeast Utilities (NU) was

\* confirmed by the bankruptcy court in April of 1990 and, on May 16, 1991, PSNH completed the financing required for payment of its pre-bankruptcy secured and unsecured debt under the first stage of the reorganization plan and emerged from bankruptcy. The second stage of the NU plan, under which PSNH will be acquired by NU, has received requisite approvals from the Federal Energy Regulatory Commission (FERC) and the Securities and Exchange Commission (SEC), and approval proceedings are pending before the NRC. However, the FERC and SEC approvals are being challenged in court proceedings, and there is no assurance that the NU plan will be implemented. The Company is unable to predict the impact, if any, on the operating license for Seabrook Unit 1 if NU's reorganization plan for PSNH is not successfully implemented.

A Vermont participant in the Seabrook project, Vermont Electric Generation and Transmission Cooperative, Inc. (Vt Coop), which holds a 0.4% ownership share, has failed to make construction and operating fund payments due since January 1986. Although Vt Coop resumed partial payment of its share of operating fund payments as of July 1, 1990, it continues to be in default under the joint ownership agreement for the Seabrook project. The deficiency in project funding on account of Vt Coop's default has been and is being made up by advances by the Company and some of the other participants or their affiliates against their respective future monthly project payment obligations. The Company's share of advances on account of these delinquencies amounted to approximately \$1.2 million at January 31, 1992. PSNH has agreed to purchase Vt Coop's ownership share as soon as possible after the effective date of the NU reorganization plan in PSNH's bankruptcy proceedings, and Vt Coop has stated that it intends to use a portion of the sale proceeds to remedy its Seabrook project delinquencies.

On February 28, 1991, EJA Power Corporation (EJA Power), which holds a 12.1% ownership share in the Seabrook project, commenced a proceeding under Chapter 11 of the Bankruptcy Code. EJA Power, a wholly-owned subsidiary of Eastern Utilities Associates (EUA), was organized solely for the purpose of acquiring an ownership share in the Seabrook project and selling in the wholesale market its share of the electric power produced by the project. EJA Power stated that it commenced this bankruptcy proceeding because the cash generated by its short-term sales of power at current market prices would be insufficient to pay interest due May 15, 1991 on its outstanding debt, because the prospects for signing long-term power sales contracts prior to that date were minimal, and because the management of EUA had determined not to provide additional funds to EJA Power to enable it to make the interest payment. EJA Power failed to make its monthly construction and operating fund payment to the Seabrook project for August 1991, which was due on August 1, until late in the month. On August 29, 1991, the bankruptcy

court for the EJA Power bankruptcy proceeding issued an order approving a stipulation among EJA Power, the official committee of its bondholders, UI and The Connecticut Light and Power Company (CL&P), a wholly-owned subsidiary of NU, under which UI and CL&P agreed to make advance payments against their respective future monthly project payment obligations, as needed, up to \$9 million and \$6 million, respectively, to be used to offset any shortfall in payments by EJA Power to the Seabrook project for operation, maintenance and similar expenses. The amount of UI's and CL&P's obligations under the stipulation and order may be reduced to the extent other Seabrook joint owners become participants in the stipulation. UI's share of advances made pursuant to the stipulation amounted to approximately \$4.9 million at January 31, 1992. The stipulation and order provides that UI and CL&P will have rights and remedies substantially in accordance with those available under the Joint Ownership Agreement for the Seabrook project (the "JOA") with respect to their advance payments, including a claim against EJA Power for the amount of the advances plus interest and the right (available only to PSNH under the JOA), if the default continues for more than five months after written notice, to terminate EJA Power's rights and interest under the JOA and to assume such rights and interest, in return for payment of an amount equal to 75% of the lesser of EJA Power's net investment and the then fair market value of EJA Power's interest in the Seabrook project, less legal and other expenses incurred. UI and CL&P agreed in the stipulation and order to forebear exercising such right to terminate and assume EJA Power's rights and interest in the Seabrook project until the termination date described below. The stipulation and order also provides that the advances constitute a priority secured claim in EJA Power's bankruptcy proceeding, superior to the rights of EJA Power's secured and unsecured creditors. The obligation of UI and CL&P to make advances will terminate, and repayment by EJA Power of the advances with interest will be required, upon the earlier of August 24, 1992 and the occurrence of any one of several significant events affecting EJA Power or its bankruptcy proceeding. The Company is unable to assess what impact, if any, the EJA Power bankruptcy proceeding will have on the operating license for Seabrook Unit 1, and the Company cannot predict what other actions it and the other joint owners of the unit may be required to take in response to developments in this bankruptcy proceeding as it may affect the Seabrook project.

On May 6, 1991, New Hampshire Electric Cooperative, Inc. (NH Coop), which holds a 2.2% ownership share in the Seabrook project, commenced a proceeding under Chapter 11 of the Bankruptcy Code. NH Coop is the second largest electric utility in New Hampshire and is a large wholesale power customer of PSNH. NH Coop has been in default for more than three years on approximately \$255 million of debt owed to the federal Rural Electrification Administration and, prior to May 6,

1991, had been attempting to preserve its solvency by restructuring this debt, contracting to purchase wholesale power at lower cost from a supplier other than PSNH, and obtaining regulatory permission to increase its customer rates. Although NH Coop has continued paying its share of Seabrook project construction and operating costs, the bankruptcy court has broad discretion as to which of NH Coop's obligations it should continue to honor. Consequently, the Company is unable, at this time, to assess what impact, if any, the proceeding will have on the ability of NH Coop to satisfy its payment obligations to the Seabrook project, or on the operating license for Seabrook Unit 1, and the Company cannot predict what actions it and the other joint owners of the unit will take in response to developments in these regards as they may affect the Seabrook project.

#### Licensing Proceedings

Nuclear generating units are subject to the licensing requirements of the Nuclear Regulatory Commission (NRC) under the Atomic Energy Act of 1954, as amended, and a variety of other state and federal requirements. The licensing of Seabrook Unit 1 was plagued by lengthy delays and was opposed by a number of intervening groups who participated actively in administrative proceedings, filed numerous lawsuits and demonstrated at the construction site. In October of 1986, the Nuclear Regulatory Commission (NRC) issued a full 40-year operating license for the Unit, subject to several conditions that had to be satisfied to permit full-power operation. In March of 1990, the NRC determined that these conditions had been met and authorized full-power operation of the unit. Seabrook Unit 1 achieved commercial operation status on June 30, 1990 and full-power operation on July 25, 1990. At the present time, the only licensing issue remaining is the NRC's review of an intervening group's appeal from an NRC licensing board decision finding that the State of New Hampshire's plans for protecting beachgoers in the vicinity of Seabrook Station in the event of a radiological emergency are adequate. It is not anticipated that the outcome of this appeal will result in a suspension, or revocation, of the full-power operating license for Unit 1; but NRC proceedings and investigations prompted by inquiries from Congressmen and by NRC licensing board consideration of technical contentions may continue for some period of time into the future.

Regulatory proceedings are pending before the NRC with respect to the transfer of responsibility for management of further construction work and for operation of Seabrook Unit 1 to a subsidiary of NU, as a part of the bankruptcy reorganization plan for PSNH described as "Financing Qualifications of Other Owners" above. The Company and several other joint owners of the unit have agreed to support this plan.

#### Nuclear Insurance Contingencies Insurance Requirements

The Price-Anderson Act, currently extended through August 1, 2002, limits public liability from a single incident at a nuclear power plant. The first \$200 million of liability coverage is provided by purchasing the maximum amount of commercially available insurance. Additional liability coverage will be provided by an assessment of up to \$63 million per incident, levied on each of the nuclear units licensed to operate in the United States, subject to a maximum assessment of \$10 million per incident per nuclear unit in any year. In addition, if the sum of all public liability claims and legal costs resulting from any nuclear incident exceeds the maximum amount of financial protection, each reactor operator can be assessed an additional 5% of \$63 million, or \$3.2 million. The maximum assessment is adjusted at least every five years to reflect the impact of inflation. Based on its interests in nuclear generating units, the Company estimates its maximum liability would be \$20.3 million per incident. However, assessment would be limited to \$3.1 million per incident, per year. With respect to each of the operating nuclear generating units in which the Company has an interest, the Company will be obligated to pay its ownership and/or leasehold share of any statutory assessment resulting from a nuclear incident at any nuclear generating unit.

The NRC requires nuclear generating units to obtain property insurance coverage in a minimum amount of \$1.06 billion and to establish a system of prioritized use of the insurance proceeds in the event of a nuclear incident. The system requires that the first \$1.06 billion of insurance proceeds be used to stabilize the nuclear reactor to prevent any significant risk to public health and safety and then for decontamination and cleanup operations. Only following completion of these tasks would the balance, if any, of the segregated insurance proceeds become available to the unit's owners. For each of the nuclear generating units in which the Company has an interest, the Company is required to pay its ownership and/or leasehold share of the cost of purchasing such insurance.

#### Other Contingencies and Contingencies

##### Seabrook Unit 2

The Company claimed abandonment losses for tax purposes with respect to its 17.5% ownership share in Seabrook Unit 2 of approximately \$72.7 million in 1984 and \$10.2 million in 1985, realizing a total tax benefit of approximately \$43.3 million. In 1985, the Internal Revenue Service (the "IRS") notified the Company of proposed tax assessments for the years 1981, 1984 and 1985, based on the IRS' position that Seabrook Unit 2 was not abandoned in the years under audit and that even if Seabrook Unit 2 was abandoned in those years, the abandonment loss claimed by the Company should be reduced by

the salvage value of the Seabrook Unit 2 assets. The Company filed a petition with the United States Tax Court for a redetermination of these assessments. On December 24, 1991, the Company and the IRS filed with the Tax Court a joint status report stating that the parties had developed a comprehensive settlement of the issues raised in the case, specifying that the year of abandonment for Seabrook Unit 2 was 1984 and that the total net salvage value of all salvageable plant and equipment that must be recognized for tax purposes was \$50 million as of 1984 (of which the Company's share would be \$8.75 million, based on its 17.5% ownership interest in Seabrook Unit 2). The comprehensive settlement also provides that any net salvage value that is unrealized by 1999 will be deductible for tax purposes at that time. The parties subsequently completed necessary computational work, the preparation of Tax Court decision documents and a closing agreement reflecting the comprehensive settlement, and the Tax Court entered its decision, in accordance with these documents, on January 29, 1992. The Company expects that the \$3.4 million net increase in the Company's tax obligation as a result of the agreement on net salvage value as of 1984 will be paid from internally generated funds, subject to recovery as described above. Although the Company abandoned Seabrook Unit 2 in compliance with a 1983 directive from the DPUC and the Company believes that the DPUC will, based on its previous decision permitting recovery by the Company of Seabrook Unit 2 costs, allow any net increase in the Company's tax obligation arising from this settlement due to tax rate differentials and interest to be recovered through retail rates, there is no assurance as to whether or to what extent the DPUC would allow such recovery.

#### Hydro-Quebec

The Company is a participant in the Hydro-Quebec project, a transmission intertie linking New England and Quebec, Canada. Phase II of this project has increased the capacity of the intertie from 600 megawatts to a maximum of 2000 megawatts. A ten-year Firm Energy Contract, which provides for the sale by Hydro-Quebec to the New England participants in the Phase II project of 7 million megawatt-hours per year, became effective on July 1, 1991. Although energy pricing formulas in the Firm Energy Contract should produce energy cost savings for the New England project participants, the monthly project facilities financial support payments are expected to exceed the savings amounts until some time in the future. The Company has a 5.45% participating share in the Phase II project, and its corresponding share of the support charges is approximately \$400,000 per month, in addition to payments of approximately \$60,000 per month that are being made in support of related transmission system reinforcements. In addition, the Company is obligated to furnish a guarantee for its participating share of the debt financing for the Phase II project. Currently, the Company's guarantee liability for this debt amounts to approximately \$22.2 million.

#### (L) Nuclear Fuel Disposal and Nuclear Plant Decommissioning

Costs associated with nuclear plant operations include amounts for disposal of nuclear wastes, including spent fuel, and for the ultimate decommissioning of the plants. Under the Nuclear Waste Policy Act of 1982, the federal Department of Energy is required to design, license, construct and operate a permanent repository for high level radioactive wastes and spent nuclear fuel. The Act requires the DOE to provide, beginning in 1998, for the disposal of spent nuclear fuel and high level radioactive waste from commercial nuclear plants through contracts with the owners and generators of such waste, and the DOE has established disposal fees that are being paid to the federal government by electric utilities owning or operating nuclear generating units. In return for payment of the prescribed fees, the federal government is to take title to and dispose of the utilities' high level wastes and spent nuclear fuel beginning no later than 1996. However, the DOE has announced that its first high level waste repository will not be in operation earlier than 2010, notwithstanding the DOE's statutory and contractual responsibility to begin disposal of high-level radioactive waste and spent fuel beginning not later than January 31, 1998.

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

Disposal costs for low-level radioactive wastes that result from normal operation of nuclear generating units have increased significantly in recent years and are expected to continue to rise. The cost increases are a function of increased packaging and transportation costs and higher fees and surcharges charged by the disposal facilities. Pursuant to the Low-Level Radioactive Waste Policy Act of 1980, each state is responsible for providing disposal facilities for low-level radioactive waste generated within the state and is authorized to join with other states into regional compacts to jointly satisfy their responsibilities. Pursuant to the Low-Level Radioactive Waste Policy Amendments Act of 1985, each state in which a currently operating disposal facility is located (South Carolina, Florida and Washington) is allowed to impose a charge on and a surcharge on shipments of low-level radioactive waste from states that are not members of the compact in

the region in which the facility is located. The Northeast Interstate Low-Level Radioactive Waste Commission identified both Connecticut and New Jersey as dual host states for waste facilities and, in order to avoid potential denial of access to the currently operating disposal sites, the Governor of Connecticut has certified to the NRC that Connecticut will provide a storage, disposal or management facility for waste generated within the state by January 1, 1993. The Governor of New Hampshire has filed a similar certification with the NRC with respect to waste generated within that state. However, because state governments are responsible for the development of these facilities, the Company cannot predict that future deadlines will be met, penalties will be avoided and access to available disposal sites will remain open. If disposal facilities are not available for wastes from the nuclear generating units in which the Company has interests, substantial costs will be incurred to develop alternative arrangements, although low-level radioactive waste storage buildings at the generating stations will be capable of storing approximately two years of waste.

NRC licensing requirements and restrictions are also applicable to the decommissioning of nuclear generating units at the end of their service lives, and the NRC has adopted comprehensive regulations concerning decommissioning planning, timing, funding and environmental reviews. UI and the other owners of the nuclear generating units in which UI has interests estimate decommissioning costs for the units and attempt to recover sufficient amounts through their allowed electric rates to cover their expected decommissioning costs. Changes in NRC requirements or technology can increase estimated decommissioning costs, and UI's customers in future years may experience higher electric rates to offset the effects of any insufficient rate recovery in prior years.

New Hampshire has enacted a law requiring the creation of a government-managed fund to finance the decommissioning of nuclear generating units in that state. On November 26, 1991, the New Hampshire Nuclear Decommissioning Financing Committee established \$323 million (in 1991 dollars) as the decommissioning cost estimate for Seabrook Unit 1 upon its retirement. Monthly decommissioning payments are made to a state-managed decommissioning trust fund.

Connecticut has enacted a law requiring the operators of nuclear generating units to file periodically with the DPUC the plans for financing the decommissioning of units in the state. CL&P has filed plans with the DPUC for Millstone Unit 3 and the Connecticut Yankee unit, and the DPUC has approved the establishment of an external trust for the currently tax-deductible portions of decommissioning expense accounts for Millstone Unit 3. The DPUC has taken no action with respect to the plans for the Connecticut Yankee unit, on the grounds that Connecticut Yankee's rates are regulated by the FERC.

#### **Environmental Concerns**

In complying with existing environmental statutes and regulations and further developments in these and other areas of environmental concern, including legislation and studies in the fields of water and air quality (particularly "acid rain", "air toxics", "ozone non-attainment", and "global warming"), hazardous waste handling and disposal, toxic substances, and electric and magnetic fields, the Company may incur substantial capital expenditures for equipment modifications and additions, monitoring equipment and recording devices, and it may incur additional operating expenses. However, the Company believes that any additional costs incurred for these purposes will be recoverable through the ratemaking process. The total amount of these expenditures is not now determinable.

#### **(M) Change in Method of Accounting for Property Taxes**

As discussed in The Statement of Accounting Policies, effective January 1, 1991 the Company changed its method of accounting for property taxes from accrual over the twelve-month period following assessment date to accrual over the fiscal period of the applicable taxing authority. The effect of the change in accounting was to increase earnings for common stock by \$7.9 million of which an increase of \$7.5 million represents the cumulative effect of the change at January 1, 1991, and an increase of \$0.6 million represents an increase in earnings for the year 1991. The proforma effect on prior years' consolidated net income of retroactively recording municipal property taxes as if the new method of accounting had been in effect for all periods presented is not material.



**(N) Quarterly Financial Data  
(Unaudited)**

Selected quarterly financial data for 1991 and 1990 are set forth below:

Quarter	Operating Revenues(1)	Operating Income	Net Income(4)	Earnings Per Share of Common Stock(2)(3)(4)
(000's)				
1991				
First	\$192,075	\$11,982	\$19,768	\$1.34
Second	159,402	23,982	9,655	.61
Third	174,980	28,617	13,817	.91
Fourth	157,314	18,609	42,310	.80
1990				
First	\$157,763	\$22,753	\$ 9,454	\$ .60
Second	142,910	19,289	9,483	.60
Third	174,231	33,312	12,969	1.37
Fourth	165,742	23,209	12,142	.78

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

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

(3) Earnings per share for 1991 and 1990 include the net effects of SFAS No. 90 write-offs and accretion transactions in the following amounts for the first through fourth quarters, respectively:

1991:	\$ .04	\$ .04	\$ .03	\$ .03
1990:	\$ .04	\$ .04	\$ .04	\$ .04

(4) The cumulative effect of the change in the method of accounting for municipal property taxes was to increase net income by \$7,337 and increase earnings per share by \$ .53. Operating revenues, operating income, net income and earnings per share previously reported in quarterly reports on Form 10-Q have not been restated to reflect the Company's change in accounting for municipal property taxes (see Note M). The effect on operating income and net income before the cumulative effect of the change in method of accounting for municipal property taxes on the reported quarters was not material.

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

UI's Common Stock is traded on the New York Stock Exchange, where the high and low sale prices during 1991 and 1990 were as follows:

	1991 Sale Price		1990 Sale Price	
	High	Low	High	Low
First Quarter	34 1/8	30	34 1/8	28 1/4
Second Quarter	35 1/8	32 1/4	30 1/4	27 1/8
Third Quarter	34 1/8	32 1/4	29 1/4	26 1/4
Fourth Quarter	39 1/8	34 1/8	31 1/4	28 1/4

UI has paid quarterly dividends on its Common Stock since 1900. The quarterly dividends declared in 1990 and 1991 were at a rate of 58 cents per share and 61 cents per share, respectively.

The indenture under which all of the Company's Debentures are issued places limitations on the payment of cash dividends on the common stock of the Company and on the amounts that can be expended to purchase or redeem shares of common stock. The indenture under which the Company's Medium-Term Notes and Notes are issued also places limitations on the payment of cash dividends on common stock and on the purchase or redemption of common stock. Under the most restrictive provision of these indentures, retained earnings in the amount of \$67.1 million were free from such limitations at December 31, 1991.

As of January 31, 1992, there were 22,426 Common Stock shareowners of record.

## Report of Independent Accountants

### To the Shareowners and Directors of The United Illuminating Company

We have audited the accompanying consolidated balance sheets of The United Illuminating Company as of December 31, 1991, 1990 and 1989, and related consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The United Illuminating Company as of December 31, 1991, 1990 and 1989, and the consolidated results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note M to the consolidated financial statements, the Company changed its method of accounting for municipal property taxes in 1991.

**Collipere & Lybrand**  
Hartford, Connecticut  
February 10, 1992

## Investor Information

### Investor Relations

Kurt Mohlman  
Director, Financial Planning and  
Investor Relations  
United Illuminating  
P.O. Box 1364  
New Haven, CT 06506

### Stock Listing

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

### Annual Meeting

Wiggin & Dana

### Annual Meeting Notice

The Company's Annual Meeting will be held at the New Haven Lawn Club, 193 Whitney Avenue, New Haven, CT on Wednesday, May 20, 1992 beginning at 10:00 a.m.

### Shareowner Services

Judith Skalskowitz  
Supervisor, Shareowner Services  
United Illuminating  
P.O. Box 1364  
New Haven, CT 06506

### Co-Transfer and Dividend Withholding Agents

The United Illuminating Company  
P.O. Box 1946  
New Haven, CT 06506-1946  
Attention: Shareowner Services

### Register and Co-Transfer Agent

Commercial Stock Transfer &  
Trust Company  
2 Broadway  
New York, NY 10004  
Telephone: (212) 406-2740  
FAX: (212) 509-5150

### Dividend Reinvestment Plan

Common Stock shareowners of record interested in obtaining information regarding the benefits of participating in UI's Dividend Reinvestment Plan may write:

Mary Ellen Mandity  
Corporate Secretary  
United Illuminating  
P.O. Box 1364  
New Haven, CT 06506

### Quarterly Reports

The Company will promptly respond to shareholders, directors and others who request copies. If your shareowner has not requested in your name, but one held forward in the name of a broker, banker or other intermediary, you will only receive such quarterly reports if you send a written request for such reports and provide your name and address to the Corporate Secretary within at the following address: United Illuminating Company, New Haven, CT 06506.

**UI** Illuminating

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New Haven, Connecticut 06500

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## Form 10-K

(Mark One)

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, 1991

OR

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

Commission File Number 1-5366

### Eastern Utilities Associates

(Exact name of registrant as specified in its charter)

Massachusetts  
(State or other jurisdiction of  
incorporation or organization)

04-1271872  
(I.R.S. Employer Identification No.)

One Liberty Square  
Boston, Massachusetts  
(Address of principal executive offices)

02109  
(Zip Code)

Registrant's telephone number, including area code: (617) 357-9590

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

<u>Title of each Class</u>	<u>Name of each Exchange on which registered</u>
Common Shares, par value \$5 per share	New York Stock Exchange Pacific Stock Exchange

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

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  No

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

State the aggregate market value of the voting stock held by non-affiliates of the registrant. As of March 2, 1992:

Common Shares, \$5 par value -- \$361,958,970

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

Common Shares Outstanding at March 2, 1992  
16,933,753

#### Documents Incorporated by Reference

Portions of the Annual Report to Shareholders for the year ended December 31, 1991, are incorporated by reference into Part II.  
Portions of the Proxy Statement dated March 26, 1992 are incorporated by reference into Part III.

EASTERN UTILITIES ASSOCIATES

1991 Form 10-K Annual Report  
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## GLOSSARY OF DEFINED TERMS

The following is a glossary of frequently used abbreviations or acronyms found throughout this report:

### The EUA System Companies

Blackstone	Blackstone Valley Electric Company
Eastern Edison	Eastern Edison Company
EUA	Eastern Utilities Associates
EUA Cogenex	EUA Cogenex Corporation
EUA Energy	EUA Energy Investment Corporation
EUA Ocean State	EUA Ocean State Corporation
EUA Power	EUA Power Corporation
EUA Service	EUA Service Corporation
EUA System	EUA and Subsidiary Companies
Montaup	Montaup Electric Company
Newport	Newport Electric Corporation
Registrant	EUA
Retail Subsidiaries	Blackstone, Eastern Edison and Newport

### Companies

Maine Yankee	Maine Yankee Atomic Power Company
OSP	Ocean State Power Project
Yankee Atomic	Yankee Atomic Electric Company

### Regulators/Regulations

1935 Act	Public Utility Holding Company Act of 1935
Bankruptcy Court	United States Bankruptcy Court for the District of New Hampshire
CERCLA	Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980
DEP	Massachusetts Department of Environmental Protection
DEQE	Massachusetts Department of Environmental Quality Engineering
EPA	Federal Environmental Protection Agency
FERC	Federal Energy Regulatory Commission



GLOSSARY OF DEFINED TERMS (Cont'd)

Regulators/Regulations (continued)

MDPU	Massachusetts Department of Public Utilities
NHPUC	New Hampshire Public Utility Commission
NRC	Nuclear Regulatory Commission
NWPA	Nuclear Waste Policy Act
Price-Anderson Act	The Price-Anderson Act, as amended by the Price-Anderson Amendments Act of 1988
PURPA	Public Utility Regulatory Policies Act of 1978
RIDEM	Rhode Island Department of Environmental Management
RIDPUC	Rhode Island Division of Public Utilities and Carriers
RIPUC	Rhode Island Public Utilities Commission
SEC	Securities and Exchange Commission

Other

AFUDC	Allowance for Funds Used During Construction
Bondholders Committee	Officially Appointed Bondholders Committee Representing Holders of EUA Power's Series B and Series C Secured Note.
BTU	British Thermal Unit
EMF	Electric and Magnetic Fields
IPP	Independent Power Producer
KWH	Kilowatthour
MW	Megawatt
NEPOOL	New England Power Pool
PCB	Polychlorinated Biphenyls
QF	Qualifying cogeneration and small power production facilities pursuant to PURPA
Seabrook Project	Seabrook Nuclear Power Project
Secured Notes	EUA Power's 17-1/2% Series B and Series C Secured Notes due May 15, 1993 and November 15, 1992, respectively
Seabrook Unit 1	Seabrook Nuclear Power Project generating Unit No. 1
Seabrook Unit 2	Seabrook Nuclear Power Project generating Unit No. 2

PART I

Item 1.

BUSINESS

General

The Registrant, Eastern Utilities Associates, is a Massachusetts voluntary association organized and existing under a Declaration of Trust dated April 2, 1928, as amended, and is a registered holding company under the 1935 Act. EUA owns directly all of the shares of common stock of three operating retail electric utility companies: Blackstone, Eastern Edison and Newport. Blackstone operates in northern Rhode Island, Eastern Edison operates in southeastern Massachusetts, and Newport operates in south coastal Rhode Island. Eastern Edison owns all of the permanent securities of Montaup, a generation and transmission company, which supplies electricity to Eastern Edison, to Blackstone, to Newport and to two unaffiliated utilities for resale. EUA also owns directly all of the shares of common stock of EUA Service, which provides various accounting, financial, engineering, planning, data processing and other services to all EUA System companies including the Retail Subsidiaries, Montaup, EUA Cogenex, EUA Energy and EUA Ocean State. EUA Cogenex is an energy service generation company. EUA Energy was organized to invest in cogeneration and small power production facilities and in research relating to energy or energy conservation. EUA Ocean State owns a 29.9% interest in OSP's two 255 MW gas-fired generating units. The holding company system of EUA, the Retail Subsidiaries, Montaup, EUA Service, EUA Power, EUA Cogenex, EUA Energy and EUA Ocean State is referred to as the EUA System. For the three years 1989 through 1991, electric utility operations accounted for approximately 96% of total operating revenues.

EUA also owns all of the common stock of EUA Power, a New Hampshire corporation whose principal asset is its 12.1% ownership interest in the Seabrook Nuclear Generating Station located in Seabrook, New Hampshire. On February 28, 1991, EUA Power filed a voluntary petition in the United States Bankruptcy Court for the District of New Hampshire for protection under Chapter 11 of the Federal Bankruptcy Code. Effective December 31, 1990, EUA deconsolidated EUA Power for financial reporting purposes (see EUA Power Corporation below).

The EUA System supplies retail electric service in 33 cities and towns in southeastern Massachusetts and Rhode Island. The largest communities served are the cities of Brockton and Fall River, Massachusetts. The retail electric service territory covers approximately 595 square miles and has an estimated population of approximately 726,000. On December 31, 1991, EUA System companies served approximately 289,000 retail customers.

About 43% of the net generating capacity of the EUA System (excluding EUA Power's 12.1% ownership interest in Seabrook Unit 1) comes from a combination of the following sources: (i) wholly-owned EUA System generating plants, primarily Montaup's 224 MW Somerset facility located in Somerset, Massachusetts; (ii) Montaup's net entitlement of 76 MW from the 584 MW Canal No. 2 unit, which is located in Sandwich, Massachusetts and is 50% owned by Montaup; and, (iii) entitlements from units in which Montaup or Newport have partial ownership interests (by joint ownership through tenancy-in-common or by stock ownership) in which Montaup's or Newport's share is 4.5% or less. The remaining

57% of the net generating capacity of the EUA System comes from units in which Montaup or Newport have long-term or short-term power contract for shares ranging from 0.49% to 44.12% of the unit's capacity, including 28% of the entitlement of OSP Units 1 and 2 in which EUA Ocean State has a 29.9% equity interest, or entitlements from the Hydro-Quebec Project through NEPOOL. See Item 2. PROPERTIES -- Power Supply for further details of the EUA System's sources of power supply.

The Retail Subsidiaries and Montaup hold valid franchises, permits and other rights which are necessary to allow these companies to conduct electric business within the territories which they serve. Such franchises, permits and other rights contain no unduly burdensome restrictions or limitations upon duration.

The EUA System's electric sales are seasonal to some extent due to electricity usage for heating and lighting in the winter and air conditioning in the summer.

The EUA System is not dependent on a single customer or a few customers for its electric sales.

There is no competition from other electric utilities within the retail territories served by the Retail Subsidiaries. The EUA System's wholesale power companies, Montaup and EUA Power, however, are facing new sources of competition primarily as a result of PURPA. PURPA was intended, among other things, to promote national energy independence and diversification of energy supply and to improve the overall efficiency of energy usage. PURPA created a new class of non-utility power generation facilities called QFs. PURPA allows QFs to sell power to local utilities generated by the QF at specified rates based on each utilities' avoided cost (the cost to the utility of generating the next kwh of electricity at the margin.) Federal regulation has also permitted a second class of non-utility generators generally referred to as IPPs. Montaup and EUA Power may face increased competition, primarily based on price, from QFs and IPPs in the future. Montaup could be affected by such competition to supply generation to its customers, while EUA Power is competing with other New England and New York utilities and with QFs and IPPs as it attempts to market its wholesale power to other electric utilities. Because both units of OSP are fully subscribed for the life of the units, there is no competition issue present.

All of the transmission facilities within the EUA System are interconnected with the NEPOOL transmission grid. EUA Power, Montaup and the Retail Subsidiaries are members of NEPOOL, which is open to all investor-owned, municipal and cooperative electric utilities in New England that are connected to the New England power grid. NEPOOL provides for coordinated planning of future facilities as well as operation of nearly 100% of the existing generating capacity in New England and of related transmission facilities essentially as if they were one system. The NEPOOL agreement imposes obligations concerning generating capacity reserve and the right to use major transmission lines, and provides for central dispatch of the generating capacity of NEPOOL's members with the objective of achieving economical use of the region's facilities. Pursuant to the NEPOOL agreement, interchange sales to NEPOOL are made at a price approximately equal to the fuel cost for generation without contribution to the support of fixed charges. The capacity responsibilities of Montaup and the Retail Subsidiaries under the NEPOOL

agreement are based on an allocated share of a New England capacity requirement which is determined for each period on the basis of certain regional reliability criteria. Because of its participation in NEPOOL, the EUA System's operating revenues and costs are affected to some extent by the operations of other members.

As of December 31, 1991, the EUA System had 1,363 regular employees. Relations with employees are considered to be satisfactory. Labor bargaining unit contracts covering certain employees of Eastern Edison in the Fall River area, of Newport and of Montaup expire in June 1993, September 1993 and March 1996, respectively.

#### Construction and Energy Related Investments

The EUA System's construction expenditures (including AFUDC of approximately \$2.5 million and excluding EUA Power) for the year ended December 31, 1991 were approximately \$54.2 million.

Planned construction expenditures (excluding EUA Power) for 1992, 1993 and 1994, as set forth below, are estimated to total \$145.5 million (including AFUDC of approximately \$5.3 million and estimated environmental expenditures and nuclear fuel costs where applicable).

#### EUA SYSTEM CONSTRUCTION PROGRAM (Thousands of Dollars)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>3-Yr. Total</u>
Generation	\$ 9,054	\$ 5,998	\$ 7,982	\$ 23,034
Transmission	2,584	2,744	2,141	7,469
Distribution	16,415	15,788	16,195	48,398
General	2,850	2,943	3,025	8,818
Total Utility	<u>30,903</u>	<u>27,473</u>	<u>29,343</u>	<u>87,719</u>
EUA Cogenex	11,461	22,652	23,652	57,765
Total	<u>\$42,364</u>	<u>\$50,125</u>	<u>\$52,995</u>	<u>\$145,484</u>

Investments in energy related facilities in 1991, primarily those of EUA Ocean State and EUA Cogenex, amounted to approximately \$45.7 million. Energy related investments of EUA Cogenex for the years 1992 through 1994 are estimated to be \$34.5 million, \$20.0 million and \$19.0 million, respectively. EUA Ocean State does not anticipate any significant investments over such period.

EUA Power's estimated cash construction expenditures (including nuclear fuel of \$11.4 million) for the period 1992 to 1994 totalling approximately \$18.8 million are excluded from the table above.

#### Fuel for Generation

For 1991, the EUA System's sources of energy, by fuel type, were as follows: 31% nuclear, 27% oil, 21% coal, 17% gas and 4% other. During 1991, Montaup had an average inventory of 89,208 tons of coal for its steam generating units at the Somerset station, the equivalent of 63 days' supply

(based on average daily output at 80% capacity factor for the coal units (see Item 2. PROPERTIES -- Power Supply)). The cost of coal averaged about \$48.11 per ton in 1991 which is equivalent to oil at \$11.66 per barrel. Montaup has entered into a coal supply contract which will provide 100% of its requirements through mid-1992 and is currently investigating coal supply options beyond that point. Since the commencement of coal-burning at its Somerset units in mid-1983, Montaup's average inventory of fuel oil has been reduced.

Canal Electric Company, on behalf of itself, Montaup and others has contracts with a supplier for up to 100% of the fuel-oil requirements of Canal Unit Nos. 1 and 2 for the period ending June 30, 1993. The contract permits limited purchases of fuel oil in the spot market.

Montaup's costs of fossil and nuclear fuels for the years 1989 through 1991, together with the weighted average cost of all fuels, are set forth below:

	Mills per kwh		
	1989	1990	1991
Nuclear . . . . .	7.6	8.3	8.7
Coal . . . . .	20.1	21.2	21.4
Oil . . . . .	24.7	26.3	18.9
Gas* . . . . .		30.6	16.2
All fuels . . . . .	18.8	18.4	15.7

\*Provided less than 1% of system requirements prior to 1990.

The rate schedules of Montaup and the Retail Subsidiaries are designed to pass on to customers the increases and decreases in fuel costs and the cost of purchased power, subject to review and approval by appropriate regulatory authorities (see Rates below).

The owners (or lead participants) of the nuclear units in which the EUA System has an interest have made, or expect to make, various arrangements for the acquisition of uranium concentrate, the conversion, enrichment, fabrication and utilization of nuclear fuel and the disposition of that fuel after use. The owners and lead participants of United States nuclear units have entered into contracts with the United States Department of Energy (DOE) for disposal of spent nuclear fuel in accordance with the NWPA. This act requires (subject to various contingencies) that the federal government design, license, construct and operate a permanent repository for high level radioactive wastes and spent nuclear fuel and establish prescribed fees for the disposal of such wastes and fuel. Objections on environmental and other grounds have been asserted against proposals for storage as well as disposal of spent nuclear fuel. The DOE anticipates that a permanent disposal site for spent fuel will be ready to accept fuel for storage or disposal on or before 2010. Montaup owns a 4.01% interest in Millstone Unit 3 and a 2.9% interest in Seabrook Unit 1 and EUA Power owns a 12.1% interest in Seabrook Unit 1. Millstone Unit 3 has sufficient on-site storage facilities to accommodate high-level wastes and spent fuel for the projected life of the unit. No additional storage expenditures are projected for the foreseeable future. At the Seabrook Project there is on-site storage capacity which, with minimal capital expenditures, should be sufficient for twenty years or until the year 2010. No near-term

capital expenditures are anticipated to deal with any increase in storage requirements after 2010.

### Nuclear Power Issues

#### General:

Nuclear generating facilities, including those in service in which Montaup participates, as shown in the table under Item 2. PROPERTIES -- Power Supply, are subject to extensive regulation by the NRC. The NRC is empowered to authorize the siting, construction and operation of nuclear reactors after consideration of public health, safety, environmental and anti-trust matters (see Yankee Atomic below).

The NRC has promulgated numerous requirements affecting safety systems, fire protection, emergency response planning and notification systems, and other aspects of nuclear plant construction, equipment and operation. Some of the nuclear units in which the EUA System has an interest have made modifications to comply with these requirements. Montaup has been affected, to the extent of its proportionate share, by the costs of such modifications to units in which it has an interest.

Nuclear units in the United States have been subject to widespread criticism and opposition. Some nuclear projects have been cancelled following substantial construction delays and cost overruns as the result of licensing problems, unanticipated construction defects and other difficulties. Various groups have by litigation, legislation and participation in administrative proceedings sought to prohibit the completion and operation of nuclear units and the disposal of nuclear waste. In the event of cancellation or shutdown of any unit, NRC regulations require that it be completely decontaminated of any residual radioactivity. The cost of such decommissioning, depending on the circumstances, could substantially exceed the owners' investment at the time of cancellation.

The continuing public controversy concerning nuclear power could also affect the operating units in which the EUA System has an interest. While management cannot predict the ultimate effect of such controversy, it is possible that it could result in the premature shutdown of one or more of the units (see Yankee Atomic below).

The Price-Anderson Act provides, among other things, that the liability for damages resulting from a nuclear incident would not exceed an amount which at present is about \$7.6 billion. Under the Price-Anderson Act, prior to operation of a nuclear reactor, the licensee is required to insure against this exposure by purchasing the maximum amount of liability insurance available from private sources (currently \$200,000,000) and to maintain the insurance available under a mandatory industry-wide retrospective rating program. Should an individual licensee's liability for an incident exceed \$200,000,000, the difference between such liability and the overall maximum liability, currently about \$7.6 billion, will be made up by the retrospective rating program. Under such a program, each owner of an operating nuclear facility may be assessed a retrospective premium of up to a limit of \$66,200,000 (which shall be adjusted for inflation at least every five years) for each reactor owned in the event of any one nuclear incident occurring at any reactor in the United States, with provision for payment of such assessment to be made over time as necessary, to

limit the payment in any one year to no more than \$10,000,000 per reactor owned. With respect to operating nuclear facilities of which it is a part owner or from which it contracts (on terms reflecting such liability) to purchase power, Montaup and EUA Power would each be obligated to pay their proportionate share of any such assessment.

Joint owners of nuclear projects are also subject to the risk that one of their number may be unable or unwilling to finance its share of the project's costs, thus jeopardizing continuation of the project. On February 28, 1991, EUA Power, a 12.13% owner of the Seabrook Project, filed for protection under Chapter 11 of the Federal Bankruptcy Code. (See EUA Power Corporation below for further discussion). On May 6, 1991, New Hampshire Electric Cooperative, Inc., a 2.2% owner of the Seabrook Project, announced that it had filed for Chapter 11 bankruptcy protection. A reorganization plan, filed by the New Hampshire Electric Cooperative with the Bankruptcy Court in September, 1991 and revised on January 14, 1992 was approved by the Bankruptcy Court in March 1992 and awaits the approval of the NHPUC. EUA cannot predict the outcome or effects of these bankruptcy proceedings.

#### Decommissioning:

Each of the three operating nuclear generating companies in which Montaup has an equity ownership interest (see Item 2. PROPERTIES -- Power Supply) has developed its estimate of the cost of decommissioning its unit and has received the approval of FERC to include charges for the estimated costs of decommissioning its unit in the cost of energy which it sells. From time to time, these companies re-estimate the cost of decommissioning and apply to FERC for increased rates in response to increased decommissioning costs. Maine Yankee has filed a decommissioning financing plan under a Maine statute which requires the establishment of a decommissioning trust fund. That statute also provides that if the trust has insufficient funds to decommission the plant, the licensee (Maine Yankee) is responsible for the deficiency and, if the licensee is unable to provide the entire amount, the "owners" of the licensee are jointly and severally responsible for the remainder. The definition of "owner" under the statute includes Montaup and may include companies affiliated with Montaup. The applicability and effect of this statute cannot be determined at this time. Montaup would seek to recover through its rates any payments that might be required.

#### Yankee Atomic:

Yankee Atomic announced on February 26, 1992 that Yankee Atomic will permanently cease power operation of the Yankee Nuclear Power Station in Rowe, Massachusetts and will prepare for an orderly decommissioning of the facility. Yankee Atomic cited economics and regulatory uncertainty as the key factors in the decision to close the generating plant eight years prior to the expiration of its operating license. Yankee Atomic had operated the plant successfully for more than 30 years.

Montaup has a 7.8 MW entitlement from the plant and has a 4.5% equity ownership in Yankee Atomic with a book value of approximately \$1.0 million at December 31, 1991. The plant shutdown should not negatively impact earnings of EUA because Montaup expects to recover its investment in addition to on-going costs, including decommissioning, through rates.

### Seabrook Unit 1 Licensing:

The last of the Seabrook Unit 1 licensing issues, an appeal to the NRC of a decision of the Atomic Safety and Licensing Board finding that adequate provision had been made for sheltering persons who might be on the beach at the time of an incident, was still pending at December 31, 1991. EUA believes the operating license will not be permanently adversely affected and that Seabrook Unit 1 will continue to be licensed to operate at full power.

### Seabrook Unit 2:

Montaup also has 2.9% ownership interest in Seabrook Unit 2. On November 6, 1986, the joint owners of the Seabrook Project, recognizing that Seabrook Unit 2 had been cancelled in 1984, voted to dispose of Seabrook Unit 2. Plans regarding disposition of Seabrook Unit 2 are now under consideration, but have not been finalized and approved. Montaup is unable, therefore, to estimate the costs for which it would be responsible in connection with the disposition of Seabrook Unit 2. Monthly charges are required to be paid by Montaup with respect to Seabrook Unit 2 in order to preserve and protect its components and various warranties. Montaup is currently recovering its investment in Seabrook Unit 2 under a FERC approved rate case settlement. At December 31, 1991, Montaup's unamortized investment in Seabrook Unit 2 was \$2.5 million.

### EUA Power Corporation

#### Background:

EUA Power was organized solely for the purpose of acquiring its 12.1% ownership interest in the Seabrook Project located in Seabrook, New Hampshire and selling in the wholesale market its share of the electricity generated by Seabrook Unit 1. On August 19, 1990, Seabrook Unit 1 commenced commercial operation. At December 31, 1991, EUA Power's net investment in Seabrook Unit 1, including nuclear fuel and after the provision for the estimated loss on its Seabrook Unit 1 investment, was approximately \$330.1 million.

On February 28, 1991, EUA Power filed a voluntary petition in the Bankruptcy Court for protection under Chapter 11 of the Federal Bankruptcy Code because the cash generated by the short-term sale of electricity from its entitlement in Seabrook Unit 1 was insufficient to pay interest on its outstanding Secured Notes when interest became due on May 15, 1991 and the prospects for signing long-term power sales contracts prior to that date were minimal. Subsequently, EUA wrote-off its entire investment in EUA Power and established certain reserves for contingencies relating to EUA Power. EUA also deconsolidated EUA Power for financial reporting purposes effective December 31, 1990. EUA Power is now operating its business as a debtor-in-possession under protection of the Bankruptcy Court and will endeavor to develop or support a plan of reorganization which would be acceptable to all parties (although management of EUA Power cannot predict the timing or likelihood of developing such a plan). On July 2, 1991, the Bankruptcy Court terminated EUA Power's exclusivity period with respect to filing a plan of reorganization. The Bondholders Committee has indicated that it may file a plan of reorganization which would convert the Secured Notes into all, or substantially all, of the equity of EUA Power. EUA cannot predict whether such a plan, if filed, would be confirmed by the Bankruptcy Court.



While operating as a debtor-in-possession, EUA Power intends to continue its marketing efforts which have consisted of both direct negotiations with utilities and participation in utility sponsored supply bidding processes. However, the economic conditions in the Northeast, the availability of competing long-term power supplies and bidding requirements for power contracts being implemented by various state utility commissions, are adversely affecting EUA Power's ability to enter into long-term power sales contracts. Consequently, EUA Power is unable to predict when, if ever, it will be able to obtain a long-term power sales contract.

EUA Power currently has outstanding \$279,597,200 of Secured Notes which are collateralized by its 12.1% ownership interest in Seabrook Units 1 and 2. No interest has been paid on the Secured Notes since November 15, 1990. EUA Power also has outstanding 180,000 Contingent Interest Certificates (CICs) evidencing the right to receive additional payments contingent upon and measured by EUA Power's income in certain years following the commercial operation of Seabrook Unit 1. Such Secured Notes and CICs are solely the obligation of EUA Power and are not guaranteed by EUA or any other person.

On December 13, 1991, \$21,000,000 of Solid Waste Disposal Facility Revenue Bonds, issued by the Industrial Development Authority of the State of New Hampshire on behalf of EUA Power, were subject to a mandatory redemption. Under the terms of a guarantee, issued by EUA in favor of the bank pursuant to a letter of credit and reimbursement agreement supporting the issuance of the bonds, EUA paid approximately \$21,000,000 to the bank which issued the letter of credit.

EUA Power has no employees. Since EUA Power's organization, EUA Service has provided, or arranged for, various management and professional services. In February 1992, the Bankruptcy Court authorized EUA Power to enter into a 1992 service contract with EUA Service which provides EUA Power with various management and professional services. The 1992 service contract may be terminated by either party on 30 days notice.

On May 30, 1991 the Bondholders Committee filed a preference suit against EUA. See Item 3. LEGAL PROCEEDINGS -- Other Proceedings.

In June 1991 New Hampshire imposed a Nuclear Station Property Tax applicable only to the Seabrook Project. EUA Power and the other Seabrook Joint Owners believe that the tax is constitutionally invalid. In October 1991 the Attorneys General of Connecticut, Massachusetts and Rhode Island petitioned the United States Supreme Court in an original jurisdiction case for a determination of the legality of the tax, and in January 1992 the Supreme Court agreed to take the case. EUA Power's 1991 assessment was approximately \$1.4 million. In September 1991, EUA Power paid approximately 50% of that amount and, subsequently, refused to pay an additional installment which became due on December 15, 1991. In February 1992, the New Hampshire Attorney General informed EUA Power that the New Hampshire Department of Revenue Administration would commence litigation against EUA Power in the Bankruptcy Court to collect the tax if EUA Power did not pay the overdue installment by March 9, 1992. EUA Power did not make such payments and does not intend to make any future installments until the legality of the tax is determined.

## EUA Power Liquidity:

EUA Power intends, with the approval of the Bankruptcy Court and to the extent its cash flow permits, to continue making payments of its obligations under the Seabrook Joint Ownership Agreement (JOA). EUA Power is required under the JOA to pay its share of Seabrook Unit 1 and Seabrook Unit 2 expenditures including, without limitation, operations and maintenance expenses, construction and nuclear fuel expenditures and decommissioning costs, regardless of the level of Seabrook Unit 1's operations. Under certain circumstances, a failure by EUA Power to make its monthly payments under the JOA could adversely affect its entitlement in Seabrook Unit 1. Because of current market conditions EUA Power's short-term power sales have been made at prices below cash costs.

On August 29, 1991 the Bankruptcy Court signed a Stipulation and Consent Order with respect to debtor-in-possession financing (DIP Financing) to be provided by certain joint owners of Seabrook for the benefit of EUA Power. The DIP Financing was entered into by EUA Power, Connecticut Light and Power Company and United Illuminating (the Participating Joint Owners), and the Bondholders Committee. The DIP Financing has been approved by the NHPUC and the SEC under the 1935 Act.

Under the terms of the DIP Financing, the Participating Joint Owners have agreed to make monthly advances to the Seabrook Project disbursing agent for the benefit of EUA Power in an aggregate amount not to exceed \$15,000,000 outstanding at any one time to cover EUA Power's share of certain Seabrook Project related expenses, as needed, to the extent such expenses are not covered by EUA Power's revenues from energy or capacity sales.

The advances will bear interest at the prime rate of the First National Bank of Boston plus 7% and are repayable in full in August 1992, subject to extension. The DIP Financing provides a priority lien on all of EUA Power's assets for the benefit of the Participating Joint Owners over substantially all other claims against EUA Power including those of the Series B and Series C Secured Noteholders. The DIP Financing further provides, that in the event of default on repayment of the principal or interest on the monthly advances, the Participating Joint Owners may purchase EUA Power's Seabrook Project interest for 75% of the lesser of fair market value or book value, and may apply all or part of amounts owed under the DIP Financing against the purchase price.

As of March 20, 1992, EUA Power's outstanding unpaid debt was \$9.4 million under the DIP Financing. At current prices EUA Power's revenues from the sale of electricity are below its cash requirement. If this trend continues, short-term power sales will not provide sufficient revenues to repay advances on the maturity date. In its filing with the SEC in connection with the DIP Financing, EUA Power indicated that funds for repayment of the advances may be provided from all or any of the following: (i) revenues derived from future sales of capacity or energy to the extent such revenues exceed then current monthly costs; (ii) proceeds from the liquidation or sale of the assets of EUA Power pursuant to an order from the Bankruptcy Court; (iii) subject to the appropriate regulatory approvals, further debtor-in-possession financing; and, (iv) pursuant to a plan or reorganization approved by the Bankruptcy Court. From time to time, EUA Power has reduced the advances with funds generated from sales of its Seabrook entitlement.

EUA Power cannot predict whether it will be able to enter into contracts for the sale of its share of Seabrook Unit 1 capacity or energy prior to the maturity date, if at all, at prices to cover its cash costs and provide for repayment of advances or whether alternative debtor-in-possession financing can be arranged to repay advances under the DIP Financing.

#### Seabrook Unit 2:

EUA Power also has a 12.1% ownership interest in Seabrook Unit 2. On November 6, 1986, the joint owners of Seabrook Project, recognizing that Seabrook Unit 2 had been cancelled in 1984, voted to dispose of Seabrook Unit 2. Plans regarding disposition of Seabrook Unit 2 are now under consideration, but have not been finalized and approved. EUA Power is unable, therefore, to estimate the costs for which it would be responsible in connection with the disposition of Seabrook Unit 2. Monthly charges are required to be paid by EUA Power with respect to Seabrook Unit 2 in order to preserve and protect its components and various warranties.

#### Decommissioning Fund:

The agreements of purchase and sale under which EUA Power purchased its Seabrook interest, required EUA Power to establish a fund of \$10 million to secure payment of part of its share of decommissioning costs of Seabrook Unit 1. Under an agreement entered into among EUA Power, a bank and the other joint owners of Seabrook, one method of securing release of the fund was for EUA to issue a written guarantee of EUA Power's decommissioning costs. In May 1990, EUA guaranteed this obligation and obtained a letter of credit supporting the guarantee, and the entire fund was released to EUA Power. EUA has not provided a reserve for this guarantee because management believes that it is unlikely that such amounts will ever be paid.

#### Public Utility Regulation

Eastern Edison and Montaup are subject to regulation by the MDPU with respect to the issuance of securities, the form of accounts, and in the case of Eastern Edison, rates to be charged, services to be provided and other matters. Blackstone and Newport are subject to regulation in numerous respects by the RIPUC and the RIDPUC, including matters pertaining to financing, sales and transfers of utility properties, accounting, rates and service. EUA Power is subject to regulation by the NHPUC in many respects including the issuance of securities, contracts with affiliates, forms of accounts, transfers of utility properties and other matters but excluding the rates charged for sales of electricity at wholesale. In addition, by reason of its ownership of fractional interests in certain facilities located in other states, Montaup is subject to limited regulation in those states.

QFs, including those in which EUA Cogenex may have an interest, must satisfy the regulatory requirements of PURPA and are exempt from most state and federal laws regulating power generation. IPPs, including OSP in which EUA Ocean State has a 29.9% ownership interest, do not benefit from the PURPA exemptions and may be subject to FERC regulation under the Federal Power Act as well as various other federal, state and local regulations.

The EUA System is subject to the jurisdiction of the SEC under the 1935 Act by virtue of which the SEC has certain powers of regulation, including

jurisdiction over the issuance of securities, changes in the terms of outstanding securities, acquisition or sale of securities or utility assets or other interests in any business, intercompany loans and other intercompany transactions, payment of dividends under certain circumstances, and related matters. Eastern Edison, insofar as it may be deemed to be a holding company under the 1935 Act by reason of its ownership of securities of Montaup, has been exempted from registering as a holding company by complying with the applicable rules thereunder.

See Rates with respect to regulation of rates charged to customers. See Environmental Regulation. See Fuel for Generation with respect to the disposal of spent nuclear fuel. See Environmental Regulation of Nuclear Plants and see Nuclear Power Issues with respect to regulation of nuclear facilities by the NRC. See also National Energy Policy.

The Retail Subsidiaries, Montaup, and EUA Power are also subject to the jurisdiction of FERC under Parts II and III of the Federal Power Act. That jurisdiction includes, among other things, rates for sales for resale, interconnection of certain facilities, accounts, service, and property records.

### Rates

Rates charged by Montaup (which sells power only for resale) are subject to the jurisdiction of FERC. The rates for services rendered by the Retail Subsidiaries for the most part are subject to approval by and are on file with the MDPU in the case of Eastern Edison and with the RIPUC in the case of Blackstone and Newport. For the twelve months ended December 31, 1991, 68% of EUA's consolidated revenues were subject to the jurisdiction of FERC, 12% to that of the MDPU and 15% to that of the RIPUC. OSP is also subject to the jurisdiction of the FERC. Both OSP units are fully subscribed and all OSP Unit 1 contracts have previously been approved by FERC. OSP Unit 2 is billing its wholesale customers at filed rates on a subject to refund basis pending final FERC approval. EUA Power's rates are also subject to the jurisdiction of FERC.

Recent general rate increases for Montaup and the Retail Subsidiaries are as follows (dollars in thousands):

	<u>Applied For</u>		<u>Implemented (1)</u>		<u>Effective (2)</u>		<u>Return on Common Equity</u>
	<u>Annual Revenue</u>	<u>Date</u>	<u>Annual Revenue</u>	<u>Date</u>	<u>Annual Revenue</u>	<u>Date</u>	
Federal							
- Montaup							
M-12	20,500	03/05/90	20,500	08/19/90	20,000	01/23/91(3)	12.00
M-13	10,500	03/06/91	10,500	05/07/91	8,100	12/03/91	11.72
Massachusetts							
- Eastern Edison							
MDPU - 88-100	11,876	06/14/88			7,500	01/13/89	12.50(4)
Rhode Island							
- Blackstone							
RIPUC - 1946	4,912	11/17/89			3,600	06/01/90	12.40
RIPUC - 2016	5,140	6/17/91(5)			2,999	03/16/92(6)	11.43
- Newport							
RIPUC 2036	7,344	12/27/91(7)					

Notes:

- (1) Montaup's rate increases were implemented on a subject to refund basis.
- (2) Per final order or settlement agreement.
- (3) Still pending is Phase II which deals with the Seabrook Project prudency issues (see FERC Proceeding below).
- (4) Rate used for AFUDC calculation purposes. Settlement contains no specific finding on allowed common equity return.
- (5) Reduced from \$6,027,000 as originally filed.
- (6) The new rate to be applied to meter readings taken thirty days after the date of the order.
- (7) Assuming full suspension period, decision expected in September, 1992.

FERC Proceedings:

On March 5, 1990, Montaup filed its M-12 request based on a forward-looking test year beginning May 1, 1990. The requested annual increase of \$20,500,000 primarily reflected the increased operation and maintenance expenses and full rate base treatment of Seabrook Unit 1. The application included a request to add approximately \$124,389,000 of Seabrook Unit 1 construction costs to Montaup's rate base in addition to the \$74,571,000 of Seabrook Unit 1 construction work in progress previously allowed in rate base. The annual increase also included \$7,000,000 for the implementation of conservation and load management programs in the service territories of Montaup's affiliated companies. On April 25, 1990, FERC authorized the implementation of the rate increase, subject to refund, effective with the commercial operation of Seabrook Unit 1. On May 22, 1990 a FERC administrative

law judge issued an order to separate the M-12 request into two phases. Phase I was to address all cost of service issues other than Seabrook Unit 1 prudency concerns, and Phase II would address the Seabrook Unit 1 prudency issues. On August 19, 1990, commercial operation of Seabrook Unit 1 was declared and the M-12 rate was made effective, subject to refund. On October 22, 1990, Montaup filed a settlement agreement with FERC with respect to Phase I, reducing the original filed rate by \$500,000. The Phase I settlement agreement was approved by the FERC on January 23, 1991.

On December 6, 1991, the FERC administrative law judge presiding over Phase II of Montaup's M-12 rate case proceeding issued an initial decision finding that Montaup had been prudent in its oversight of its Seabrook Unit 1 investment with respect to emergency planning and recommended no prudency disallowance. Exceptions to the initial decision have been filed by the intervening parties. A final decision with respect to Phase II is expected to be issued by FERC in 1992. Montaup is recovering its investment in Seabrook Unit 1 through rates, subject to refund.

On December 3, 1991, FERC approved a settlement agreement between Montaup and the intervenors in Montaup's March 1991 wholesale rate increase request (M-13). Montaup had filed for an annual increase of \$10.5 million and FERC allowed implementation of the new rate commencing May 7, 1991 subject to refund pending final adjudication. The approved settlement agreement called for an annual increase of \$8.1 million. Montaup refunded the difference collected to its wholesale electric utility customers in December 1991 billings.

After the acquisition of Newport, Montaup and Newport had instituted a 90/10 allocation of the energy savings which the two companies realize through their treatment as a single entity in NEPOOL in recognition of the difference in the size of each company. On December 20, 1991, after discussions with the staff of FERC and in compliance with their position, Montaup and Newport filed with FERC an application to have a proposed 50/50 allocation of their energy savings approved. Protests and motions to intervene opposing the filing and seeking a larger allocation of the savings to Montaup were filed with the FERC in January 1992 by the MDPU, the Attorney General of Massachusetts and Montaup's non-affiliated customers. FERC has not yet acted upon the filing. If FERC approves the 50/50 allocation method, the savings realized, estimated at \$1.4 million through December 1991, will be shifted to Newport, and Montaup's customers will ultimately bear the cost of that shift.

#### Massachusetts Proceedings:

On December 30, 1988, the MDPU issued its order in response to an \$11,876,000 rate increase request of Eastern Edison. The \$7,500,000 rate relief granted represented 63% of Eastern Edison's initial rate request filed in June of 1988 and based on a 1987 test year. The new rates filed in compliance with the order became effective for sales subsequent to January 13, 1989.

In authorizing the increase, the MDPU accepted a settlement proposal offered jointly by Eastern Edison and the Massachusetts Attorney General, the sole intervenor. The settlement stipulated the total revenue requirement while disclaiming any comment on the merits of specific adjustments underlying the total increase requested. The settlement also specified the depreciation rate and the common equity component of AFUDC. The composite rate for the

depreciation calculation is now 4.07%, up slightly from the 4.05% previously authorized. Solely for the purpose of calculating AFUDC, the common equity return component is set at 12.5%. Eastern Edison's last allowed return on common equity was 15.25% established in a 1984 MDPU order.

#### Rhode Island Proceedings:

On November 17, 1989, Blackstone filed a request with the RIPUC for an annual increase in revenues of \$4,912,000. The RIPUC issued its order on June 4, 1990 granting rate relief of \$3,600,000 annually, which was 73% of Blackstone's initial rate request. In authorizing the increase, the RIPUC accepted a conditional offer of settlement offered jointly by Blackstone and the RIDPUC. The settlement stipulated the total revenue requirement without comment on the merits of any issue underlying the total increase requested. The settlement did specify a common equity return of 12.4%, implementation of revised rates on June 1, 1990, acceptance of the Company's depreciation study as reasonable, and a filing requirement to be made within ninety days after Blackstone refinanced its 14-1/4% Series A First Mortgage Bonds. Also Blackstone agreed to various requests for information to be supplied to the RIPUC and the RIDPUC and to a 42% minimum equity ratio by December 31, 1990. Blackstone refinanced its 14-1/4% debt in November 1990 and made the required filing with the RIPUC in February 1991. This filing had no impact upon the settled revenue increase. In addition, at December 31, 1990, Blackstone's common equity ratio exceeded the minimum required by the settlement.

On June 17, 1991, Blackstone filed with the RIPUC a request for increased annual revenues of approximately \$6 million or 5.0%. Subsequently, Blackstone reduced this request to \$5.1 million or 4.2%. On March 16, 1992 the RIPUC issued its order granting Blackstone rate relief of \$3.0 million or 58 percent of the requested amount. The order included an allowed return on common equity of 11.34%.

On December 27, 1991 Newport filed an application with the RIPUC for a total rate increase of \$7.3 million, to take effect in two steps. Phase I would increase annual revenues by \$6.1 million and is related to increases in Newport's cost of service and a decline in kwh sales.

In Phase II, Newport proposed to increase rates by an additional \$1.2 million, to take effect in January 1993, when Newport is required to adopt Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 106, "Employer's Accounting for Post-retirement Benefits Other than Pensions." A ruling from the RIPUC on Newport's rate case is not anticipated until September 1992 unless Newport is able to reach an earlier negotiated settlement with intervenors.

#### Environmental Regulation

##### General:

The Retail Subsidiaries, Montaup and EUA Power and other companies owning generating units from which power is obtained are subject, like other electric utilities, to standards administered by federal, state and local authorities with respect to the siting of facilities and associated environmental factors. QFs and IPPs in which the EUA System may have an interest are also subject to environmental and land use regulations at the federal, state and local levels.

The EPA, and certain state and local authorities, have jurisdiction over releases of pollutants, contaminants and hazardous substances into the environment and have broad authority in connection therewith including the ability to require installation of pollution control devices and remedial actions.

Both federal and Massachusetts legislation require consideration of reports evaluating environmental impact as a prerequisite to the granting of various permits and licenses, with a view to minimizing such impact. Federal and Massachusetts air quality regulations also require that plans (including procedures for operation and maintenance) for construction or modification of fossil fuel generating facilities receive prior approval from the DEP. In addition, in Massachusetts, certain electric generation and transmission facilities on which construction commenced after April 1976 will be permitted to be built only if they are consistent with a long-range forecast filed by the utility concerned and approved by the Massachusetts Energy Facilities Siting Council. In Rhode Island, siting, construction and modification of major electric generating facilities must be approved by the Rhode Island Energy Facility Siting Board and the Rhode Island Coastal Resource Management Council.

Montaup, its affiliates and non-affiliates with which it has power supply arrangements are also subject, like other electric utilities, to regulation with regard to zoning, land use and similar controls by various state and local authorities.

Under their continuing jurisdiction, the EPA and state and local authorities may, after appropriate proceedings, require modification of generating facilities for which construction permits or operating licenses have already been issued, or impose new conditions on such permits or licenses, and may require that the operation of a generating unit cease or that its level of operation be temporarily or permanently reduced.

Other activities of the EUA System from time to time are subject to the jurisdiction of various other local, state and federal regulatory agencies. It is not possible to predict with certainty what effects the above described statutes and regulations will have on the EUA System. The Retail Subsidiaries and Montaup expect that compliance with applicable environmental regulations will require additional capital expenditures by them during 1992. Such expenditures are not expected to be significant.

Some of the generating facilities in which the EUA System companies have an interest, and are required to pay a share of the costs, have encountered and may in the future encounter problems under governmental regulations, particularly those relating to nuclear facilities or to protection of the environment. Such problems may result in increases in capital costs and operating costs which may be substantial, in delays or cancellation of construction of planned facilities, or in modification or termination of operations of existing facilities.

A number of scientific studies in the past several years have examined the possibility of health effects from EMF that are found everywhere there is electricity. While some of the studies have indicated some association between exposure to EMF and health effects, many of the studies have indicated no direct association. In addition, the research to date has not conclusively established a direct causal relationship between EMF exposure and human



health. Additional studies, which are intended to provide a better understanding of EMF, are continuing.

Some states where the EUA System does not operate have enacted regulations to limit the strength of magnetic fields at the edge of transmission line rights-of way. Legislation has been introduced in the United States Congress and in the legislatures of Massachusetts and Rhode Island that would prohibit or limit construction of new lines until more definite conclusions on potential EMF health effects are reached. Some proposals provide funding for additional research. Management cannot determine at this time what effect these laws or any new regulations, if passed, will have on the EUA System's construction program and its reliability.

Management continues to monitor the research and has established an internal EMF task force to provide guidance as the issue emerges.

The EPA has issued regulations relating to the generation, transportation, storage and disposal of certain wastes under the Resource Conservation and Recovery Act of 1976 (RCRA); in Massachusetts, the requirements are implemented and enforced by the DEP, whereas in Rhode Island, RIDEM implements and enforces its own regulations in this area under a state statute comparable to RCRA as well as pursuant to EPA authorization.

There is an extensive body of federal and state statutes governing environmental matters, including CERCLA, as amended by Superfund Amendments and Reauthorization Act of 1986 and, at the state level, the Massachusetts Oil and Hazardous Material Release Prevention and Response Act of 1983 which permit, among other things, federal and state authorities to initiate legal action providing for liability, compensation, cleanup, and emergency response to the release or threatened release of hazardous substances into the environment and for the cleanup of inactive hazardous waste disposal sites which constitute substantial hazards. Under CERCLA, joint and several liability for cleanup costs may be imposed on, among others, the owners or operators of a facility where hazardous substances were disposed, the party who generated the substances, or any party who arranged for the disposition or transport of the substances. Due to the nature of the business of EUA's utility subsidiaries, certain materials are generated that may be classified as hazardous substances under CERCLA. As a rule, the subsidiaries employ licensed contractors to dispose of such materials. See Item 3. LEGAL PROCEEDINGS -- Environmental Proceedings.

#### Water Regulation:

The objective of the Federal Water Pollution Control Act is to restore and maintain the chemical, physical, and biological integrity of the Nation's navigable waters. The elimination of pollutant discharges (including heat) into navigable waters is one goal aimed at achieving this objective. Another step mandated by Federal Water Pollution Control Act was the creation of a rigorous permit program. All water discharge permits for plants in Massachusetts, including those for the Somerset and Canal plants, are issued by the DEP under delegated authority from the EPA. Under the Federal Water Pollution Control Act, the Massachusetts Wetland Protection Act and the Rhode Island Freshwater Wetland Act standards have been established to control the dredging and filling of wetlands. The EPA and the DEP are pursuing a non-degradation (no loss) policy for wetlands.

Under the Massachusetts Water Management Act, the DEP is responsible for promulgating regulations relating to water usage and conservation.

Most of the generating units from which Montaup obtains power operate under permits which limit their effluent discharges into water and which require monitoring and, in some instances, biological studies of the impact of the discharges. Such permits are issued for a period of not more than five years, at the expiration of which renewal must be sought.

#### Air Regulation:

The EPA has established clean air standards for certain pollutants, including standards limiting emissions from coal-fired and oil-fired generators. Congress passed amendments to the Clean Air Act in 1990 which created new regulatory programs and generally updated and strengthened air pollution control laws. These amendments will expand the regulatory role of the EPA regarding emissions from electric generating facilities. Title IV of the Clean Air Act amendments establishes a two-phased utility power plant pollution control program to reduce emissions of sulfur dioxide and oxides of nitrogen. EUA System generating facilities will most probably be first affected in 1995, when EPA regulations will take effect for facilities owned by the EUA System.

In Massachusetts and Rhode Island, various requirements of the Clean Air Act amendments are implemented and enforced by the state agencies under delegated authority from the EPA. In Rhode Island, the RIDEM has established clean air standards for certain non-criteria pollutants for which no federal standards have been promulgated.

The DEP recently issued regulations pursuant to the Massachusetts Acid Deposition Act of 1985. These regulations establish a statewide cap on sulfur dioxide emissions and require Montaup's facilities to meet an annual average emission rate of 1.21 pounds of sulfur dioxide per million BTU of fuel input by the end of 1994. Montaup is essentially required to meet this sulfur dioxide standard by the year 2000 as a result of Title IV of the Clean Air Act amendments; the major effect of the DEP regulations therefore is to require compliance six years earlier. The DEP also has authority for negotiating with representatives of other states and Canadian provinces regarding regional programs for the reduction of acid rain. As required by the regulations, Montaup submitted its plan detailing how it would meet the sulfur dioxide standard by substituting lower sulfur fuels and utilizing emissions trading.

Montaup already burns coal with low sulfur content at its Somerset station. Tests of even lower-sulfur coal at Montaup's Somerset station indicate it will be able to utilize lower sulfur coal than is already being burned to meet the 1995 air standards with only a minimal capital investment.

Title I of the Clean Air Act amendments addresses ozone non-attainment. Oxides of nitrogen are one of the precursors of ozone formation. The amendments required the formation of the Northeast Ozone Transport Commission which has jurisdiction from Virginia to Maine, including Massachusetts and Rhode Island. This commission may recommend more stringent nitrogen oxide emission controls than mandated under Title IV of the Clean Air Act amendments. At this time, EUA and Montaup anticipate material impact from the air toxics provisions. EUA and Montaup intend to continue to monitor

regulations promulgated under the Clean Air Act amendments to evaluate the impact on their business and operations.

All domestic fossil fuel plants from which Montaup obtains power operate under permits which limit their emissions into the air and require monitoring of the emissions. Air quality requirements adopted by state authorities in Massachusetts pursuant to the Clean Air Act, as amended, impose limitations with respect to pollutants such as sulfur dioxides, oxides of nitrogen and particulate matter. Montaup Somerset Station currently is permitted to burn coal which results in sulfur dioxide emissions not in excess of 2.42 pounds per million BTU heat release potential (approximately 1.5% sulfur content coal). The Canal Station is permitted to burn fuel oil which results in sulfur dioxide emissions not in excess of 2.42 pounds per million BTU heat release potential (approximately 2.2% sulfur content fuel oil). The Clean Air Act amendments provide EPA with broad new permitting authority, with the goal of having states issue federally enforceable operating permits which will outline limits and conditions necessary to comply with all applicable air requirements. According to the Clean Air Act amendments, each source of sulfur dioxide emissions will receive allowances equal to the tons of sulfur dioxide it is permitted to emit. If a source reduces its emissions beyond those required by law, the extra allowances can be traded to another source. The Clean Air Act amendment's permitting program will be phased in from now until 1997. The impact of these requirements are not expected to have a material impact on EUA.

#### Environmental Regulation of Nuclear Power

The NRC has promulgated a variety of standards to protect the public from radiological pollution caused by the normal operation of nuclear generating facilities. For example, the NRC requires licensed facilities to develop plans to respond to unexpected developments.

In some environmental areas the NRC and the EPA have overlapping jurisdiction. Thus, NRC regulations are subject to all conditions imposed by the EPA and a variety of federal environmental statutes, including obtaining permits for the discharge of pollutants (including heat) into the nation's navigable waters. In addition, the EPA has established standards, and is in the process of reviewing existing standards, for certain toxic air pollutants, including radionuclides, under the Clean Air Act which apply to NRC-licensed facilities. The effective date for the new radionuclide standards has been stayed as to nuclear generating units. The EPA has also promulgated environmental radiation protection standards for nuclear power plants which regulate the doses of radiation received by the general public.

The NWPA provides for development by the federal government of facilities for the disposal or permanent storage of civilian nuclear waste. For further details about NWPA see Fuel for Generation. The NRC has also promulgated regulations regarding the disposal of nuclear waste materials designed to protect the public from radiological dangers.

Environmental regulation of nuclear facilities in which the EUA has an interest or from which they purchase power may result in significant increases in capital and operating costs, in delays or cancellation of construction of planned improvements, or in modification or termination of existing facilities.

## National Energy Policy

National energy legislation, dealing with coal conversion, gas deregulation, energy conservation, energy taxes, non-utility generation and utility rate regulation became effective in 1978. One portion of this legislation, PURPA, is designed to affect state regulatory policies, expand the sources of power generation available to utilities, and bring about extensive changes in rate structures, pricing and cost methodology. Generic hearings on these and related subjects have been held before the MDPU and the RIPUC, and various requirements have been instituted or changed.

Commencing with the late 1980's, FERC issued a series of company specific opinions and proposed regulations addressing electric utility industry structure and pricing. These decisions addressed such matters as market based pricing for existing power plants owned by utilities, competitive bidding arrangements as a means of allocating power sales contracts, and opportunity cost pricing for transmission services.

In 1991, President Bush proposed a National Energy Strategy. Legislation pending in Congress includes proposed revisions to nuclear power plant licensing under the Atomic Energy Act and holding company regulation under the 1935 Act.

Proposed regulations and legislation, as well as cases at FERC that may establish new generation and transmission pricing approaches, may impact the business of the EUA System. It is not possible to predict fully what further effects changes in legislation or regulatory policies, and regulations which have been and may be adopted to implement such changes, will have on the EUA System, including rates and fuel supply.

Item 2.

## PROPERTIES

### Power Supply

Pursuant to EUA's acquisition of Newport, as of April 1, 1990, Newport's two solely-owned diesel generating units, Jepson in Jamestown, Rhode Island and Eldred in Portsmouth, Rhode Island, began supplying the EUA System with 8 MW and 8.25 MW, respectively. With the exception of these two peaking generating units and Montaup's two jet fuel turbine generating units referred to in the table below, which are also peaking units, Montaup's solely-owned generating units have not been increased since 1959. Montaup's Somerset Units 5 and 6 were converted from oil to coal burning in 1983. The EUA System has found it more economical to join with other utilities in the joint ownership of large generating units and in long-term purchase contracts, and to supplement these sources with short-term purchases as required. EUA believes that spreading the EUA System's sources of electricity among a number of plants should improve the reliability of its power supply and limit the financial exposure associated with a prolonged generating unit outage.

In addition to its participation in the generating units described under Item 2 - Properties, Montaup has negotiated a purchased power contract with Aquidneck Power Limited Partnership for 85 MW of capacity. The proposed facility will be a peaking power unit burning No. 2 fuel oil.

Montaup is recovering through rates approximately \$13 million annually for its conservation and load management (C&LM) programs. C&LM is designed to (i) decrease existing energy demand and (ii) offset future load growth through conservation incentives thereby minimizing future need for large capital investment in generating facilities.

The peak EUA System demand experienced to date was 878.6 MW on July 19, 1991.

EUA SYSTEM CAPABILITY  
GENERATING UNITS IN SERVICE AS OF DECEMBER 31, 1991

IN SERVICE DATE	UNIT NAME	FUEL TYPE	OWNER / OPERATOR	GROSS SYSTEM SHARE %	WINTER MAXIMUM CLAIMED CAPABILITY MW	GROSS SYSTEM SHARE MW	UNIT SALES MW	NET SYSTEM SHARE MW
<b>100% OWNERSHIP:</b>								
1951	SOMERSET 5	COAL	MONTAUP ELECTRIC CO.	100.00	68.75	68.75	0.00	68.75
1959	SOMERSET 6	COAL	MONTAUP ELECTRIC CO.	100.00	106.84	106.84	0.00	106.84
1970	SOMERSET J1	JET OIL	MONTAUP ELECTRIC CO.	100.00	24.00	24.00	0.00	24.00
1971	SOMERSET J2	JET OIL	MONTAUP ELECTRIC CO.	100.00	24.40	24.40	0.00	24.40
1985	PAWTUCKET HYDRO	HYDRO	BLACKSTONE VALLEY ELEC.	100.00	1.28	1.28	0.00	1.28
1961	JEPSON	DIESEL	NEWPORT ELECTRIC CORP.	100.00	8.00	8.00	0.00	8.00
1978	ELDRED	DIESEL	NEWPORT ELECTRIC CORP.	100.00	8.25	8.25	0.00	8.25
SUBTOTAL:						241.52	0.00	241.52
<b>JOINT OWNERSHIP:</b>								
1976	CANAL 2	NO.6 OIL	CANAL ELECTRIC COMPANY	50.00	584.00	292.00	216.50	75.50
1979	WYMAN 4 (YAR 4)	NO.6 OIL	CENTRAL MAINE POWER CO.	2.83(1)	619.25	16.28	0.00	16.28
1974	MILLSTONE 3	NUCLEAR	NORTHEAST UTILITIES	4.01	1146.00	45.94	0.00	45.94
1979	SEABROOK	NUCLEAR	NEW HAMPSHIRE YANKEE	2.90(2)	1150.00	33.35	0.00	33.35
SUBTOTAL:						387.57	216.50	171.07
<b>EQUITY OWNERSHIP:</b>								
1968	CONN. YANKEE	NUCLEAR	CONN. YANKEE ATOMIC POWER	4.50	590.00	26.55	0.00	26.55
1972	MAINE YANKEE	NUCLEAR	MAINE YANKEE ATOMIC POWER	3.59	850.00	31.61	0.00	31.61
1961	MASS. YANKEE (ROME)	NUCLEAR	YANKEE ATOMIC ELECTRIC CO.	4.50	173.05	7.79	0.00	7.79
1972	VERMONT YANKEE	NUCLEAR	VT. YANKEE NUCLEAR POWER	2.25	520.00	11.70	0.00	11.70
SUBTOTAL:						77.65	0.00	77.65
<b>PURCHASED POWER:</b>								
1968	CANAL 1	NO.6 OIL	CANAL ELECTRIC COMPANY	25.00(3)	572.00	143.00	0.00	143.00
1972	PILGRIM 1	NUCLEAR	BOSTON EDISON COMPANY	11.00(3)	669.20	73.61	0.00	73.61
1977	POTTER 2	GAS/OIL	BRAINTREE ELEC. LIGHT DEPT.	41.67(3)	96.00	40.00	0.00	40.00
1975	CLEARY 9	GAS/OIL	TAUNTON MUNIC. LIGHTING	13.64(3)	110.00	15.00	0.00	15.00
1982	STONY BROOK 2A	NO.2 OIL	MASS. MUNIC. WHOLESALE CO.	44.12	85.00	37.50	0.00	37.50
1986	STONY BROOK 2B	NO.2 OIL	MASS. MUNIC. WHOLESALE CO.	44.12	85.00	37.50	0.00	37.50
1984	MONEIL	WOOD	VERMONT ELECTRIC POWER	15.24(4)	53.00	8.08	0.00	8.08
1979	WYMAN 4	NO.6 OIL	CENTRAL MAINE POWER	0.81(4)	619.25	5.00	0.00	5.00
1972	SALEM IBR 4	NO.6 OIL	NEW ENGLAND POWER	1.13(4)	443.50	5.00	0.00	5.00
1974	BRAYTON 4	NO.6 OIL	NEW ENGLAND POWER	1.13(4)	441.55	5.00	0.00	5.00
1990	OSP 1	GAS	OCEAN STATE POWER	28.00(5)	284.00	79.52	0.00	79.52
1991	OSP 2	GAS	OCEAN STATE POWER	28.00(6)	268.00	75.04	0.00	75.04
1991	NEA	GAS	NORTHEAST ENERGY ASSOC	8.62(7)	336.00	28.96	0.00	28.96
<b>MU SLICE - EUA</b>								
1970	SMOW J11-J14	JET OIL	NORTHEAST UTILITIES	0.97	195.60	1.90	0.00	1.90
1969	COS COB 10-12	JET OIL	NORTHEAST UTILITIES	0.97	71.10	0.69	0.00	0.69
1971	MONTVILLE 6	NO.6 OIL	NORTHEAST UTILITIES	0.86	410.00	3.51	0.00	3.51
1964	MIDDLETOWN 3	NO.6 OIL	NORTHEAST UTILITIES	0.86	240.00	2.06	0.00	2.06
1973	MIDDLETOWN 4	NO.6 OIL	NORTHEAST UTILITIES	0.86	400.00	3.42	0.00	3.42
1960	NORWALK HBR 1	NO.6 OIL	NORTHEAST UTILITIES	0.86	164.00	1.40	0.00	1.40
1963	NORWALK HBR 2	NO.6 OIL	NORTHEAST UTILITIES	0.86	172.00	1.47	0.00	1.47
1970	MILLSTONE 1	NUCLEAR	NORTHEAST UTILITIES	0.65	659.50	4.29	0.00	4.29
1975	MILLSTONE 2	NUCLEAR	NORTHEAST UTILITIES	0.49	862.00	4.26	0.00	4.26
1986	MILLSTONE 3	NUCLEAR	NORTHEAST UTILITIES	0.61	1146.00	6.94	0.00	6.94
1972	CFLD G 1-4	PUMPED HYDRO	NORTHEAST UTILITIES	0.99	1080.00	10.70	0.00	10.70
SUBTOTAL:						593.85	0.00	593.85
<b>HYDRO QUEBEC ENTITLEMENT:</b>								
1991	HYDRO QUEBEC I&II	HYDRO	HQ / NEPOOL	4.06(8)	1215.00	49.33	0.00	49.33
SUBTOTAL:						49.33	0.00	49.33
TOTAL GROSS SYSTEM CAPABILITY (MW) -----						1349.92		
LESS: UNIT CONTRACT SALES (MW) -----							216.50	
TOTAL NET SYSTEM CAPABILITY (MW) -----								1133.42

- NOTES (1) INCLUDES .67% GROSS SYSTEM SHARE HELD BY NEWPORT.  
(2) MONTAUP JOINT OWNERSHIP SHARE PERCENTAGE IS 2.90% WHICH IS INCLUDED IN EUA SYSTEM CAPABILITY REPORTING TO NEPOOL. EUA POWER CORPORATION JOINT OWNERSHIP SHARE PERCENTAGE IS EQUAL TO 139.52MW OR 12.13% WHICH WAS PURCHASED WITH THE INTENT TO RESELL AND, THEREFORE, NOT RETAINED AS PART OF NEPOOL EUA SYSTEM CAPABILITY.  
(3) "LIFE OF UNIT" PURCHASE CONTRACT.  
(4) PURCHASED POWER OF NEWPORT.  
(5) COMMERCIAL - SERVICE DATE 12/31/90. MONTAUP IS A POWER PURCHASER WITH 22% ENTITLEMENT AND NEWPORT IS A POWER PURCHASER WITH 6% ENTITLEMENT. EUA OCEAN STATE HOLDS 29.9% EQUITY INTEREST IN OCEAN STATE POWER PARTNERSHIP.  
(6) COMMERCIAL IN SERVICE DATE 10/1/91. MONTAUP IS A POWER PURCHASER WITH 22% ENTITLEMENT AND NEWPORT IS A POWER PURCHASER WITH 6% ENTITLEMENT. EUA OCEAN STATE HOLDS 29.9% EQUITY INTEREST IN OCEAN STATE POWER PARTNERSHIP.  
(7) COMMERCIAL IN SERVICE DATE 9/15/91.  
(8) HYDRO QUEBEC PHASE II FIRM ENERGY CONTRACT BETWEEN NEPOOL PARTICIPANTS AND HYDRO QUEBEC BEGAN ON 7/1/91.

Montaup's participation in generating units of which it is not the sole owner takes various forms including stock ownership, joint ownership and purchase contracts. In most cases (other than short-term purchased power contracts) the purchaser is required to pay its share (i.e., the same percentage as the percentage of their entitlement to the output) of all of the costs of the generating unit (whether or not the generating unit is operating) including fixed costs, operating costs, costs of additional construction or modification, costs associated with condemnation, shutdown, retirement, or decommissioning of the unit, and certain transmission charges. See Note K of Notes to Consolidated Financial Statements contained in the Registrant's Annual Report to Shareholders for the year ended December 31, 1991, (Exhibit 13-1 filed herewith) concerning Montaup's guarantee of its pro rata share of a certain obligation of Maine Yankee. Under its contracts with Maine Yankee, Connecticut Yankee Atomic Power Company, Vermont Yankee Nuclear Power Corporation, and Yankee Atomic and, under its agreements relating to Phase II of the interconnection with Hydro-Quebec, Montaup may be called upon to provide additional capital and/or other types of direct or indirect financial support.

#### Other Property

The EUA System owns approximately 5,100 miles of transmission and distribution lines and approximately 110 substations located in the cities and towns served.

In addition to the above, the Retail Subsidiaries, Montaup, and EUA Service also own several buildings which house distribution, maintenance or general office personnel. See Note H of Notes to Consolidated Financial Statements contained in the Registrant's Annual Report to Shareholders for the year ended December 31, 1991, (Exhibit 13-1 filed herewith) regarding encumbrances.

### Item 3. LEGAL PROCEEDINGS

#### Rate Proceeding

See descriptions of proceedings under Item 1, BUSINESS -- Rates.

#### Bankruptcy Proceeding

See descriptions of the Chapter 11 filing of EUA Power under Item 1, BUSINESS -- and -- EUA Power Corporation.

#### Environmental Proceedings

1. In March 1985, Blackstone was notified by the DEQE, which is now the DEP, that it had been identified, along with other parties, as a potentially responsible party under Massachusetts law for a condition of soil and ground water contamination in Lowell, Massachusetts. The site in question was occupied by a scrap metal reclamation facility which received transformers and other electrical equipment from utility companies and others from the early 1960s until 1984. Among the contaminants apparently released at the site were PCBs. The potentially responsible parties (PRPs), including Blackstone, performed site studies and proposed a remedial action plan, which was approved by the DEQE several years ago. Since that time, the PRPs have negotiated over

access, taxes and similar issues with the site owner and other parties. The remedial option selected but not yet completed is a process of solidification, however, a risk assessment that may now be required could lead the PRPs to choose capping as the remedial option. The cost of implementing either remedy (which is less than the total costs for parties associated with the site) could vary from \$600,000 for solidification to \$250,000 for capping. Blackstone is alleged to be the fifth ranked generator out of approximately twenty potentially responsible parties. However, Blackstone's estimated 2% share allocation is considerably less than the shares of the four largest contributors at the site. As a result, Blackstone expects to be offered a deminimus party buyout settlement from the major members of the site PRPs in the near future.

2. Blackstone was notified by a letter dated November 21, 1986 from the DEQE (now the DEP), that the DEP had reason to believe that earlier in this century Blackstone arranged for the disposal of hazardous materials consisting of coal tar materials containing a form of cyanide and other substances at two sites in Attleboro, Massachusetts. The description of the materials indicates that such disposal, if arranged by Blackstone, occurred before Blackstone transferred its gas business to another company in 1961. The DEP's indemnification issues between Blackstone and this other company have not yet been resolved. The DEP's letter cites Massachusetts statutory law imposing joint and several liability, without fault, for actions resulting in releases of hazardous materials. Blackstone also received a letter dated November 25, 1986, from the office of the Attorney General of Massachusetts, with respect to the same matters, stating that Massachusetts had incurred costs of approximately \$2,164,000 in connection with assessment and removal actions at one of the two sites and that further assessment at both sites was proceeding. With regard to the first site, Massachusetts has instituted legal proceedings in the United States District Court in Boston against Blackstone and other parties seeking reimbursement for past and future costs associated with this site. Extensive discovery has been conducted. Until recently, pending before the Court were the parties' cross-motions for summary judgment on the issue of whether the substance removed from the site was hazardous pursuant to CERCLA. At a hearing on November 20, 1991, the Court denied Blackstone's motion for summary judgment and granted Massachusetts' motion finding the substance to be within the CERCLA definition of "hazardous." The case is now moving into additional phases that will address issues of notice and due process, administrative records, and the reasonableness and consistency of cleanup costs incurred by Massachusetts. On February 14, 1992, Blackstone filed a Motion for Reconsideration of the Court's opinion granting the Commonwealth's Motion for Partial Summary Judgment. While denying liability, Blackstone entered into an Administrative Consent Order with the DEP in 1987 concerning the second site under which Blackstone has performed assessments of the site in order to determine what remediation, if any, is necessary. Phase II testing results were submitted by Blackstone to the DEP for review and approval several years ago, but Blackstone has never received a response or DEP authorization to proceed with further studies or remedial actions.

3. Blackstone received a letter dated October 28, 1986 from the RIDEM stating that there may have been a release of hazardous material at a former coal gasification facility in Pawtucket, Rhode Island, now owned in part by Blackstone, which had been found to contain cyanide contaminated waste materials as well as a large amount of petroleum-contaminated soil due to tanks formerly located at the site. Blackstone, stating that it had not assumed any



liability, had a fence erected and has contracted for an assessment of the site. Blackstone has been requested by Valley Gas Company (Valley) to indemnify Valley against liabilities resulting from this site; Blackstone has not yet responded to Valley's request. Blackstone has undertaken some removal of materials from the site during 1990, under RIDEM approval and supervision. The RIDEM initiated a site investigation at this facility in 1991 which constitutes the second step in a site screening and assessment process established by EPA. The results of the site investigation will determine whether the site is a candidate for the Hazard Ranking System.

4. In 1987, Blackstone cleaned up a PCB spill which occurred approximately 18 years ago and was discovered in 1986 at the Davies Vocational School in Lincoln, Rhode Island. The Company is negotiating post-closure care at the site and has entered into a consent agreement with the RIDEM.

5. Montaup and EUA Service have received a Notice of Responsibility on July 27, 1987 from the DEP for suspected hazardous material at a site owned by Montaup on Hortonville Road in Swansea, Massachusetts. EUA Service has contracted for and received an environmental site assessment for the property identifying the previous property owner as the party likely responsible for the deposit of suspected hazardous waste materials on the site. This assessment has been submitted to the DEP, identifying the previous property owner.

6. Blackstone received a notice from the EPA dated July 29, 1988, stating that Blackstone is potentially liable for the alleged disposal of hazardous waste on a hazardous waste site in North Smithfield, Rhode Island. The EPA has conducted a remedial investigation and a feasibility study for this site and is seeking participation in clean-up activities. Blackstone is attempting to determine whether there is any basis for the liability claimed by the EPA. Individually and as a member of a group of approximately eighty PRPs, Blackstone has conducted negotiations with the EPA concerning settlement and concerning the need to grant access and use rights over land owned by Blackstone that is adjacent to the waste site. In September 1990, however, the EPA served a number of parties (not including Blackstone) with unilateral administrative orders to compel such parties to carry out remedial activities at the site. Separate settlement negotiations among Blackstone, the EPA and the parties that are subject to the administrative orders resulted in a settlement agreement between Blackstone and certain major generators of materials at the site, effective as of March 1, 1991. The parties (not including the EPA) have indemnified Blackstone against liabilities and actions associated with the site in return for a settlement payment and Blackstone's agreement to convey to the parties an easement and access agreement over land adjacent to the site to facilitate site remediation. Negotiations between Blackstone and those parties over certain terms of the easement and access agreement are continuing.

7. In February 1988, Blackstone was notified by the RIDEM that it was the apparent owner of property located in Lincoln, Rhode Island, which property was on the EPA's list of potential hazardous waste sites. In October 1990, Blackstone petitioned the RIDEM to have this property delisted. Testing has shown that Blackstone's parcel is not contaminated, nor is Blackstone responsible for any other parcel within the site. EPA notified Blackstone on June 25, 1991 that Blackstone's parcel was one of eleven that would not be delisted due to lack of information about the site. Blackstone believes that

the parcel will be deleted in the initial phase of the site assessment process.

8. During March-April 1990, Eastern Edison conducted a limited environmental investigation (Phase I study) of a portion of its Dupont Substation in Brockton, MA. During the investigation, Eastern Edison notified the DEP that it had encountered oils and PCBs. On May 3, 1990, the DEP notified Eastern Edison of its liability for releases of oil and/or hazardous materials at the site, and requested a copy of the Phase I study. Following its review of the Phase I study on January 23, 1991, the DEP issued a Notice of Responsibility to Eastern Edison requiring a Phase II - Comprehensive Site Investigation. On February 12, 1991, Eastern Edison notified DEP that it will perform the Phase II and continue to work with the DEP at this site. A scope of work for the Phase II study was submitted on April 12, 1991. Eastern Edison will proceed once the DEP approves the scope of work.

9. Blackstone received a letter dated May 25, 1990 from the RIDEM requiring site assessment and remediation activities relative to gasoline contamination encountered at Blackstone's Operations Center in Lincoln, Rhode Island. Gasoline contamination was encountered during an underground storage tank removal and replacement project. Environmental assessments have been completed and submitted to the RIDEM. A remedial system was designed, permitted and put in service in July 1991.

Blackstone, Eastern Edison, Montaup and EUA Service are unable to predict the outcome of any of the foregoing environmental matters or to estimate the potential costs which may ultimately result. It is the policy of these companies in such cases to provide notice to liability insurers and to make claims, but with respect to the foregoing matters it is not possible at this time to predict whether liability, if any, will be assumed by, or can be enforced against, the insurance carrier. Under CERCLA, each responsible party can be held "jointly and severally" liable for clean-up costs. EUA or a subsidiary could thus be held fully liable for environmental damages for which they were only partially responsible. However, EUA might then be entitled to recover costs from other PRPs.

As of December 31, 1991 the EUA System has incurred costs of approximately \$2,100,000 in connection with the foregoing environmental matters and estimates that additional expenditures may be incurred through 1993 up to \$4,300,000. Of these amounts, approximately \$1,900,000 of incurred costs to date and approximately \$3,600,000 of the estimated future costs relate to Blackstone.

As a general matter, the EUA System will seek to recover costs relating to environmental proceedings in their rates, although there is no assurance that they will be authorized to recover any particular cost. Blackstone is currently recovering in rates certain of the incurred costs over a five-year period. Montaup is currently recovering certain of the incurred costs in its rates. Estimated amounts after 1993 are not now determinable since site studies which are the basis of these estimates have not been completed. As a result of the recoverability in current rates, EUA believes that the impact of ultimate environmental costs are not material to the EUA System or to any individual subsidiary and has not recorded a liability for those amounts.

## Shareholder Proceedings

On January 22, 1991, an owner of 200 EUA common shares filed a class action suit on behalf of certain EUA shareholders in Superior Court of The Commonwealth of Massachusetts (Superior Court) naming EUA and certain current and former Trustees of EUA as defendants. The suit alleged that EUA issued materially misleading statements and misrepresentations about the financial status and prospects of EUA Power and their impact on the financial status and prospects of EUA, thereby fraudulently inducing certain EUA shareholders to purchase common shares at prices in excess of their fair value. The plaintiff sought compensatory damages, costs and expenses, including reasonable attorneys' fees, and other relief. On September 9, 1991, the parties signed a settlement agreement. On November 14, 1991, the Superior Court signed a judgement, which was entered on January 14, 1992: (i) approving the settlement as fair, reasonable and adequate and directing the parties to consummate the settlement according to the terms of the settlement agreement and (ii) dismissing the action in its entirety on the merits and with prejudice and barring and permanently enjoining each member of the plaintiff class from prosecuting against any of the defendants any claims or causes of action which members of the plaintiff class had, have or might in the future have against any and all of the defendants arising out of or relating in any way to (a) the complaint filed in the action or (b) the purchase or sale of EUA common shares during the period March 1, 1987 through January 23, 1991, inclusive. The settlement agreement provides that the plaintiff class includes all persons who purchased common shares of EUA, including through EUA's Dividend Reinvestment and Common Share Purchase Plan, during (i) the period March 1, 1987 through February 15, 1990, inclusive, and did not sell all of those shares until, if ever, after February 15, 1990, and/or (ii) the period February 16, 1990 through January 23, 1991, inclusive. The settlement agreement provides further that after the judgement signed by the Superior Court is no longer subject to review, EUA shall pay \$2.75 million plus accrued simple interest at an annual rate of 6.25% from November 14, 1991 into a settlement fund.

On November 19, 1991, a former shareholder of approximately 540,000 common shares filed a motion with the Superior Court requesting exclusion from the plaintiff class in the class action suit which had been filed in the Superior Court on January 22, 1991 by an owner of 200 common shares. The motion alleged that the shareholder did not receive notice in time for it to exclude itself from the plaintiff class by the exclusion deadline of November 14, 1991. On December 23, 1991, the shareholder filed a second motion with the Superior Court requesting the Superior Court to re-open the question of the adequacy of the class notice. EUA has opposed both motions. To date, the Superior Court has not ruled on either motion.

On February 11, 1992 that same former shareholder filed a suit against EUA and three officers of EUA in the Federal District Court for Massachusetts, alleging fraudulent and negligent misrepresentation and violations of Rule 10b-5 under the Securities Exchange Act in connection with statements made regarding the business prospects for EUA Power and the portion of EUA's common share dividends attributable to AFUDC from EUA Power. EUA and the three officers named in the Federal District Court suit deny all allegations of liability and all of the claims and contentions alleged by the former shareholder. If the Superior Court denies the former shareholder's motions, EUA believes that the district court lawsuit should be barred by the settlement of the class action suit which was approved by the Superior Court on November

14, 1991 with judgment entered on January 14, 1992. A provision of the settlement agreement allows EUA to terminate the settlement agreement if more than five percent (5%) of the eligible shares elect to be excluded from the class. In the event that the Superior Court were to determine that the notice to class had been inadequate, it is not clear what impact such a determination would have on the settlement agreement.

If the settlement agreement becomes final it should not negatively impact earnings subsequent to June 30, 1991 because of a reserve of \$1,500,000 (after tax) established by EUA in the second quarter of 1991 and contributions from insurance proceeds. EUA and the thirteen former and present Trustees of EUA named in the class action lawsuit, have denied and continue to deny all allegations of liability and all of the claims and contentions alleged by the plaintiffs in the lawsuit, but considered it desirable that prolonged and costly litigation be avoided and that the lawsuit be settled and dismissed with prejudice.

EUA and the officers of EUA named in the district court lawsuit deny all allegations of liability and all of the claims and contentions alleged by the former shareholder in the district court suit. If the former shareholder is successful in its motion requesting exclusion from the plaintiff class, EUA intends vigorously to defend the district court suit.

#### Other Proceedings

On May 30, 1991, the Bondholders Committee, filed a preference suit against EUA in Bankruptcy Court seeking to recover \$38,452,500 plus interest in alleged preferential transfers from EUA Power to EUA. EUA believes that it has an adequate defense against such suit, but cannot predict the outcome nor the effect of this suit or any other action which may be brought against EUA by the Bondholders Committee.

On June 23, 1989, the Internal Revenue Service (IRS) issued a report in connection with its examination of the consolidated income tax return of EUA for the year 1984. The report included a proposed adjustment to disallow Montaup's Seabrook Unit 2 abandonment loss deduction of \$3.7 million claimed in the return. EUA has been advised by the IRS Regional Director of Appeals that the IRS has reached a settlement on this issue with other affected taxpayers. The settlement permits an abandonment loss deduction in 1984, as originally claimed by EUA, but provides a reduction of the loss for salvage of approximately \$1.0 million which would be allowed as a tax deduction in subsequent years. Although there can be no assurance that this settlement will be applied to EUA, based on preliminary discussions with the IRS, EUA believes it will reach a comparable settlement which will not have a material effect on the financial statements.

On June 30, 1987, the MDPU commenced a proceeding for the purpose of investigating Eastern Edison's power planning process after rejecting a proposed Purchased Capacity Adjustment Clause. One of the purposes of this proceeding is to investigate the prudence of Eastern Edison's all-requirements contract with Montaup. No procedural dates have been set nor has any other activity occurred in this docket. EUA cannot predict the outcome of this matter at this time.

On January 8, 1992, the Massachusetts Municipal Wholesale Electric Cooperative and its member municipalities, all of which are members of NEPOOL, filed a suit in Massachusetts Superior Court against the investor-owned utilities that are also members of NEPOOL. The suit alleges damages by NEPOOL's establishment of minimum size requirements for generating units designated as pool-planned generating units. The suit names as defendants members of NEPOOL, including Blackstone, Eastern Edison, EUA Power, Montaup and Newport (NEPOOL members of the EUA System). Management cannot predict the ultimate outcome of this proceeding at this time.

#### SEC Review

In January of 1991, the SEC's Division of Corporation Finance commenced a review of EUA's Annual Report on Form 10-K for the year ended December 31, 1989 and subsequent Quarterly Reports on Form 10-Q. EUA submitted written responses to all of the inquiries made by the Division of Corporation Finance. In May of 1991, EUA was informed by the SEC's Division of Enforcement that it would conduct an informal review with respect to certain issues addressed by the Division of Corporation Finance principally relating to the accounting for the capitalized financing costs related to EUA Power's investment in Seabrook Unit 1 and the effect which recording such amounts had on reported earnings for 1990, 1989 and 1988. EUA informed the Division of Enforcement that it would cooperate with the informal inquiry and in July of 1991 EUA completed its responses to the Division of Enforcement's initial inquiries. EUA has received no communications from the Division of Enforcement since EUA completed its responses in July, 1991.

EUA cannot predict the outcome of the SEC's review. The SEC could require that EUA restate its financial statements for 1990, 1989 or 1988, or for any quarterly period during such years. EUA continues to believe that its financial statements have been prepared in accordance with generally accepted accounting principles and present fairly the financial position and results of operations of EUA.

#### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

#### EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and positions of all of the executive officers of EUA as of March 22, 1992 are listed below along with their business experience during the past five years. Officers are elected annually by the Trustees at the meeting of Trustees next following the annual meeting of shareholders. There are no family relationships among these officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected.

<u>Name, Age and Position</u>	<u>Business Experience During Past 5 Years</u>
Richard M. Burns, 54 Comptroller (1)	Comptroller since 1976, Assistant Secretary since 1978, and Assistant Treasurer since April 1986. Chief Accounting Officer of EUA.
Arthur A. Hatch, 61 Executive Vice President (2)	Executive Vice President since January 1990; President of Eastern Edison from June 1986 to December 1989; responsible for power supply, rate activities, information systems, strategic planning, purchasing management, engineering and operations of the transmission and distribution facilities of the EUA System.
Clifford J. Hebert, Jr., 44 Treasurer (3)	Treasurer since April 1986. Responsible for financial and treasury activities of the EUA System.
William F. O'Connor, 52 Secretary (4)	Secretary since 1971; responsible for corporate affairs and human resources activities of the EUA System.
Dorothy G. Pardus, 51 Chairman of the Board, Chief Executive Officer and Trustee (5)	Chairman since July 1990; Chief Executive Officer since April 1989; President from December 1985 through June 1990; Chief Operating Officer from January 1988 to April 1989; Chief Financial Officer from 1979 to January 1988; responsible primarily for the overall management of the EUA System.
John R. Stevens, 51 President, Chief Operating Officer and Trustee (6)	President since July 1990; Chief Operating Officer since January 1990; Senior Executive Vice President from January 1990 to July 1990; Executive Vice President from June 1987 to December 1989; prior to that time he was a Vice President of Boston Edison Company for more than five years; responsible for corporate communications, retail operations, new ventures and the financial affairs of the EUA System.

- (1) Vice President, Comptroller, Assistant Treasurer, Assistant Clerk/Secretary and Director of EUA Service and EUA Power; Vice President, Assistant Treasurer and Assistant Clerk/Secretary of Eastern Edison and Blackstone; Comptroller, Assistant Treasurer and Director of EUA Cogenex; Vice President, Assistant Treasurer, Assistant Clerk and Director of Montaup and EUA Energy; Assistant Treasurer of EUA Ocean State; Vice President and Assistant Treasurer of Newport.
- (2) Executive Vice President and Director of Blackstone, Eastern Edison, EUA Cogenex, EUA Energy, EUA Ocean State, EUA Power, EUA Service, Montaup and Newport.

- (3) Treasurer of Blackstone, Eastern Edison, EUA Energy, EUA Ocean State, Montaup, EUA Service and Newport; Treasurer and Assistant Clerk/Secretary of EUA Cogenex and EUA Power.
- (4) Vice President, Clerk, Secretary and Director of EUA Service; Secretary/Clerk of Blackstone, Eastern Edison, EUA Ocean State and Newport; Clerk and Director of EUA Cogenex, EUA Energy and Montaup; Director and Assistant Secretary of EUA Power.
- (5) Chairman and Director of Blackstone, Eastern Edison, EUA Cogenex, EUA Energy, EUA Ocean State, EUA Power, EUA Service, Montaup and Newport.
- (6) Vice Chairman and Director of Blackstone, Eastern Edison, EUA Cogenex and Newport; President and Director of EUA Energy, EUA Ocean State, EUA Power, Montaup and EUA Service.

Except as described below, there have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any director or executive officer during the past five years.

On February 28, 1991, EUA Power, filed a voluntary petition with the Bankruptcy Court for protection under Chapter 11 of the Bankruptcy Code. EUA Power, a wholly-owned subsidiary of EUA, was organized solely for the purpose of acquiring an interest in the Seabrook Project and selling in the wholesale market its share of electricity generated by the project. Messrs. Burns, Hatch, Hebert, O'Connor, Pardus, and Stevens are also officers or directors of EUA Power.

## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information set forth under the caption Quarterly Financial and Common Share Information included in the Registrant's Annual Report to Shareholders for the year ended December 31, 1991 (Exhibit 13-1 filed herewith) is incorporated herein by reference.

The closing price of the Registrant's Common Shares as reported by the Wall Street Journal on March 3, 1992 was \$21.125.

### Item 6. SELECTED DATA

The information set forth under the caption Selected Consolidated Financial Data included in the Registrant's Annual Report to Shareholders for the year ended December 31, 1991 (Exhibit 13-1 filed herewith) is incorporated herein by reference.

### Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The statements and information set forth under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Registrant's Annual Report to Shareholders for the year ended December 31, 1991 (Exhibit 13-1 filed herewith) are incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Registrant and its subsidiaries, included in the Registrant's Annual Report To Shareholders for the year ended December 31, 1991 (Exhibit 13-1 filed herewith) are incorporated herein by reference:

Consolidated Statement of Income for the three years in the period ended December 31, 1991.

Consolidated Statement of Retained Earnings (Deficit) for the three years in the period ended December 31, 1991.

Consolidated Statement of Cash Flows for the three years in the period ended December 31, 1991.

Consolidated Balance Sheet at December 31, 1991 and 1990.

Consolidated Statement of Equity Capital and Preferred Stock at December 31, 1991 and 1990.

Consolidated Statement of Indebtedness at December 31, 1991 and 1990.

Notes to Consolidated Financial Statements at December 31, 1991, 1990, and 1989.

Report of Independent Certified Public Accountants, dated March 11, 1992.

The statements and information set forth under the captions Quarterly Financial and Common Share Information included in the Registrant's Annual Report to Shareholders for the year ended December 31, 1991 (Exhibit 13-1 filed herewith) are incorporated herein by reference.

Item 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning trustees and executive officers set forth on pages 2 through 5 of the Registrant's definitive Proxy Statement dated March 26, 1992 and filed with the Commission is incorporated herein by reference. See also "Executive Officers Of The Registrant" following Item 4 herein.

Item 11. EXECUTIVE COMPENSATION

The information concerning executive compensation set forth on page 5 of the Registrant's definitive Proxy Statement dated March 26, 1992 and filed with the Commission is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The statements concerning security ownership of certain beneficial owners and management set forth on pages 3 and 4 of the Registrant's definitive Proxy Statement dated March 26, 1992 and filed with the Commission are incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None



PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) Financial Statements

The response to this portion of Item 14 is set forth under Item 8.

(a)(2) Financial Statement Schedules

The following additional consolidated financial statement schedules filed herewith should be considered in conjunction with the financial statements in the Registrant's Annual Report to Shareholders for the year ended December 31, 1991 (Exhibit 13-1 filed herewith):

1. Financial Statement Schedules:

- Schedule V - Property, Plant and Equipment for the three years ended December 31, 1991.
- Schedule VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment for the three years ended December 31, 1991.
- Schedule VII - Valuation and Qualifying Accounts for the three years ended December 31, 1991.
- Schedule IX - Short-Term Borrowings for the three years ended December 31, 1991.
- Schedule X - Supplementary Income Statement Information for the three years ended December 31, 1991.

All other schedules have been omitted because the required information is not present or not sufficiently material to require submission of the schedule, or because the information required is included in the financial statements or the notes thereto.

- 2. Report of Independent Certified Public Accountants (Coopers & Lybrand) for 1991, 1990 and 1989 included in the Registrant's Annual Report to Shareholders for the year ended December 31, 1991 (Exhibit 13-1 filed herewith).

(a)(3) Exhibits (\*denotes filed herewith).

- 3-1 - Declaration of Trust of EUA, dated April 2, 1928, as amended Exhibit A-3, File No. 70-3188; Exhibit 1 to EUA's 8-K Reports for April in each of the years 1957, 1962, 1966, 1968, 1972, and 1973, File No. 1-5366; Exhibit A-1 (a), Amendment No. 2 to Form U-1, File No. 70-5997; Exhibit 4-3, Registration No. 2-72589; Exhibit 1 to Certificate of Notification, File No. 70-6713; Exhibit 1 to Certificate of Notification, File No. 70-7084; Exhibit 3-2, Form 10-K of EUA or 1987, File No. 1-5366).

- 4-1 - Form of 8% Debenture Bonds due 2000 of Montaup (Exhibit 4-10, Registration No. 2-41488).
- 4-2 - Form of 8-1/4% Debenture Bonds due 2003 of Montaup (Exhibit B-3, Form USS of EUA for year 1973).
- 4-3 - Form of 14% Debenture Bonds due 2005 of Montaup (Exhibit 4-11, Registration No. 2-55990).
- 4-4 - Form of 10% Debenture Bonds due 2008 of Montaup (Exhibit 5-3, Registration No. 2-65785).
- 4-5 - Form of 16-1/2% Debenture Bonds due 2010 of Montaup (Exhibit 4-11, Form 10-K of EUA for 1980, File No. 1-5366).
- 4-6 - Form of 18% Debenture Bonds due 2011 of Montaup (Exhibit 4-12, Form 10-K of EUA for 1981, File No. 1-5366).
- 4-7 - Form of 17% Debenture Bonds due 1992 of Montaup (Exhibit 4-12, Form 10-K of EUA for 1982, File No. 1-5366).
- 4-8 - Form of 12-3/8% Debenture Bonds due 2013 of Montaup (Exhibit 4-13, Form 10-K of EUA for 1983, File No. 1-5366).
- 4-9 - Form of 10-1/8% Debentures due 2008 of Montaup (Exhibit 4, Form 10-Q of Eastern Edison for quarter ended September 30, 1983, File No. 0-8480).
- 4-10 - Form of 9% Debenture Bonds due 2020 of Montaup (Exhibit 4-10, Form 10-K of Eastern Edison for 1990, File No. 0-3480).
- 4-11 - Indenture of First Mortgage and Deed of Trust dated as of September 1, 1948 of Eastern Edison (Exhibit 4-1, Registration No. 2-77468).
- 4-12 - First Supplemental Indenture dated as of February 1, 1953 of Eastern Edison (Exhibit A, File No. 70-3015).
- 4-13 - Second Supplemental Indenture dated as of May 1, 1954 of Eastern Edison (Exhibit A-3, File No. 70-3371).
- 4-14 - Third Supplemental Indenture dated as of June 1, 1955 of Eastern Edison (Exhibit C to Certificate of Notification, File No. 70-3371).
- 4-15 - Fourth Supplemental Indenture dated as of September 1, 1957 of Eastern Edison (Exhibit D to Certificate of Notification, File No. 70-3619).
- 4-16 - Fifth Supplemental Indenture dated as of April 1, 1959 of Eastern Edison (Exhibit D to Certificate of Notification, File No. 70-3798).

- 4-17 - Sixth Supplemental Indenture dated as of October 1, 1963 of Eastern Edison (Exhibit F to Certificate of Notification, File No. 70-4164).
- 4-18 - Seventh Supplemental Indenture dated as of June 1, 1969 of Eastern Edison (Exhibit D to Certificate of Notification, File No. 70-4748).
- 4-19 - Eighth Supplemental Indenture dated as of July 1, 1972 of Eastern Edison (Exhibit C to Certificate of Notification, File No. 70-5195).
- 4-20 - Ninth Supplemental Indenture dated as of September 1, 1973 of Eastern Edison (Exhibit F to Certificate of Notification, File No. 70-5379).
- 4-21 - Tenth Supplemental Indenture dated as of October 1, 1975 of Eastern Edison (Exhibit C to Certificate of Notification, File No. 70-5719).
- 4-22 - Eleventh Supplemental Indenture dated as of January 1, 1979 of Eastern Edison (Exhibit 5-24, Registration No. 2-65785).
- 4-23 - Twelfth Supplemental Indenture dated as of October 1, 1980 of Eastern Edison (Exhibit F to Certificate of Notification, File No. 70-6463).
- 4-24 - Thirteenth Supplemental Indenture dated as of July 1, 1981 of Eastern Edison (Exhibit C to Certificate of Notification, File No. 70-6608).
- 4-25 - Fourteenth Supplemental Indenture dated as of June 1, 1982 of Eastern Edison (Exhibit C to Certificate of Notification, File No. 70-6737).
- 4-26 - Fifteenth Supplemental Indenture dated as of August 1, 1983 of Eastern Edison (Exhibit F to Certificate of Notification, File No. 70-6851).
- 4-27 - Sixteenth Supplemental Indenture dated as of September 1, 1984 of Eastern Edison (Exhibit 4-31, Form 10-K of EUA for 1984, File No. 1-5366).
- 4-28 - Seventeenth Supplemental Indenture dated as of July 1, 1986 of Eastern Edison (Exhibit F to Certificate of Notification, File No. 70-7254).
- 4-29 - Eighteenth Supplemental Indenture dated as of June 1, 1987 of Eastern Edison (Exhibit C to Certificate of Notification, File No. 70-7373).
- 4-30 - Nineteenth Supplemental Indenture dated as of November 1, 1987 of Eastern Edison (Exhibit C to Certificate of Notification, File No. 70-7373).

- 4-31 - Twentieth Supplemental Indenture dated as of May 1, 1988 of Eastern Edison (Exhibit C to Certificate of Notification, File No. 70-7373).
- 4-32 - Twenty-First Supplemental Indenture dated as of September 1, 1988 of Eastern Edison (Exhibit F to Certificate of Notification, File No. 20-7511).
- 4-33 - Twenty-second Supplemental Indenture dated as of December 1, 1990 of Eastern Edison (Exhibit 4-34, Form 10-K of Eastern Edison for 1990, File No. 0-8480).
- 4-34 - Indenture dated as of December 1, 1990 of Eastern Edison with Citibank, N.A., as Trustee (Exhibit 4-35, Form 10-K of Eastern Edison for 1990, File No. 0-8480).
- 4-35 - First Mortgage Indenture and Deed of Trust dated as of December 1, 1980 of Blackstone (Exhibit A, Form 8-K of EUA dated January 14, 1981, File No. 1-5366).
- 4-36 - First Supplemental Indenture dated as of August 1, 1989 of Blackstone (Exhibit 4-33, Form 10-K of EUA for 1989, File No. 1-5366).
- 4-37 - Second Supplemental Indenture dated as of November 26, 1990 of Blackstone (Exhibit 4-3, Form 10-K of BVE for 1990, File No. 0-2602).
- 4-38 - Indenture of Mortgage dated as of November 15, 1986 of EUA Power (Exhibit 4-1, Registration No. 33-10978).
- 4-39 - First Supplemental Indenture dated as of February 24, 1987 of EUA Power (Exhibit 4-35, Form 10-K of EUA for 1986, File No. 1-5366).
- 4-40 - Second Supplemental Indenture dated as of May 1, 1988 of EUA Power Corporation (Exhibit 4-40, Form 10-K of EUA for 1988, File No. 1-5366).
- 4-41 - Third Supplemental Indenture dated as of November 1, 1988 of EUA Power Corporation (Exhibit 4-41, Form 10-K of EUA for 1988, File No. 1-5366).
- 4-42 - Form of Note Exchange Inducement Agreement of EUA Power Corporation (Exhibit 4-6, Registration No. 33-23127).
- 4-43 - Form of Registration Rights Agreement of EUA Power Corporation relating to Exhibit 4-6 (Exhibit 4-7, Registration No. 33-23127).
- 4-44 - Loan and Trust Agreement among Industrial Development Authority of the State of New Hampshire, EUA Power and Shawmut Bank, NA, as Trustee dated as of December 1, 1990 (Exhibit 4-44, Form 10-K of EUA for 1990, File No. 1-5366).

- 4-45 - Note Purchase Agreement dated as of January 13, 1988 of Service (Exhibit 4-38, Form 10-K of EUA for 1987, File No. 1-5366).
- 4-46 - Note Agreement dated as of June 28, 1990 of EUA Cogenex with the Prudential Insurance Company of America. (Exhibit 4-46, Form 10-K of EUA for 1990, File No. 1-5366).
- 4-47 - Form of 9 3/8% Debenture Bonds due 2020 of Montaup (Exhibit 4-11, Form 10-K of Eastern Edison for 1990, File No. 0-8480).
- 4-48 - Form of Eastern Edison Medium Term Note (Exhibit 4-36, Form 10-K of Eastern Edison for 1990, File No. 0-8480).
- 4-49 - Indenture of First Mortgage dated as of June 1, 1954 of Newport, as supplemented on August 1, 1959, April 1, 1962, October 1, 1964, April 1, 1967, September 1, 1969, September 1, 1970, June 1, 1978, October 1, 1978, May 1, 1986, December 1, 1987 and November 1, 1989 (Exhibit 4-49, Form 10-K of EUA for 1990, File No. 1-5366).
- 4-50 - United States Government Small Business Administration Loan to Newport entitled, "Base Closing Economic Injury Loan", signed May 30, 1975 and amended on October 6, 1983 (Exhibit 4-50, Form 10-K of EUA for 1990, File No. 1-5366).
- 4-51 - Indenture of Second Mortgage dated as of September 1, 1982 of Newport, as supplemented on December 1, 1988 (Exhibit 4-51, Form 10-K of EUA for 1990, File No. 1-5366).
- 4-52 - Loan Agreement between Rhode Island Port Authority and Economic Development Corporation and Newport dated as of September 1, 1982 (Exhibit 4-52, Form 10-K of EUA for 1990, File No. 1-5366).
- 4-53 - Letter of Credit and Reimbursement Agreement dated as of December 21, 1990 between EUA Power Corporation and Citibank, N.A. (Exhibit 4-53, Form 10-K of EUA for 1990, File No. 1-5366).
- 4-54 - Guaranty, dated as of December 31, 1990 by Eastern Utilities Associates in favor of Citibank, N.A. (Exhibit 4-54, Form 10-K of EUA for 1990, File No. 1-5366).
- \*4-55 - Note Agreement dated as of October 29, 1991 between EUA Cogenex and Prudential Insurance Company of America.
- \*4-56 - Note Purchase Agreement dated as of January 16, 1992 between EUA Ocean State Corporation and John Hancock Mutual Life Insurance Company.
- 10-1 - Employees' Retirement Plan of Eastern Utilities Associates and its Subsidiary Companies Trust Agreement as amended and restated, effective July 1, 1981 (Exhibit 10-1, Registration No. 2-80205).
- 10-2 - Employees' Retirement Plan of Eastern Utilities Associates and its Subsidiary Companies Plan as amended and restated,

effective January 1, 1985 as amended as of January 1, 1985, July 1, 1987, January 1, 1989 and December 30, 1990 (Exhibit 10-2, Form 10-K of EUA for 1985, File No. 1-5366; Exhibit 10-77, Form 10-K of EUA for 1986, File No. 1-5366; Exhibit 10-118, Form 10-K of EUA for 1987, File No. 1-5366; Exhibit 10-95, Form 10-K of EUA for 1988, File No. 1-5366; Exhibit 10-79, Form 10-K of Eastern Edison for 1990, File No. 0-8480).

- 10-3 - Form of Service Contract between EUA Service Corporation and each of the other companies (including EUA) in the EUA System (Exhibit 13-1, Registration No. 2-55990).
- 10-4 - Advisory Service Contract between EUA Service Corporation and Stone & Webster Management Consultants, Inc. effective as of April 1, 1982 (Exhibit 10-3, Registration No. 2-80205).
- 10-5 - Montaup Contract, as amended (Exhibit 4-B, Registration No. 2-14119; Exhibit 13-A1, Registration No. 2-14718; Exhibit 4-B-2, Registration No. 2-26509; Exhibit 4-B-3, Registration No. 2-33061; Exhibits 13-3 and 13-4, Registration No. 2-48966; Exhibit B-2, Form USS of EUA for year 1974 and Exhibit 5-40, Registration No. 2-62862).
- 10-6 - Stockholder Agreement (composite copy) between Yankee Atomic Electric Company and Montaup dated December 10, 1958 Exhibit 13-6-A, Registration No. 2-15798).
- 10-7 - Research Agreement (composite copy) between Yankee Atomic Electric Company and Montaup dated June 30, 1959 (Exhibit 13-6-B, Registration No. 2-15798).
- 10-8 - Power Contract (composite copy) between Yankee Atomic Electric Company and Montaup dated June 30, 1959 as Revised April 1, 1975, as further amended October 1, 1980, April 1, 1985, May 6, 1988, June 26, 1989 and July 1, 1989, (Exhibit 10-6, Registration No. 2-72655; Exhibit 10-73, Form 10-K of EUA for 1985, File No. 1-5366; Exhibit 10-96, Form 10-K of EUA for 1988, File No. 1-5366; Exhibits 10-93 and 10-94, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-9 - Transmission Contract (composite copy) among Yankee Atomic Electric Company's Sponsors, including Montaup, dated June 30, 1959 (Exhibit 13-6-D, Registration No. 2-15798).
- 10-10 - Power Contract (composite copy) between Connecticut Yankee Atomic Power Company and Montaup dated July 1, 1964 (Exhibit B-1, File No. 70-4245).
- 10-11 - Capital Funds Agreement (composite copy) between Connecticut Yankee Atomic Power Company and Montaup dated September 1, 1964 (Exhibit B-2, File No. 70-4245).
- 10-12 - Transmission Agreement (composite copy) among Connecticut Yankee Atomic Power Company's Sponsors, including Montaup, dated October 1, 1964 (Exhibit B-3, File No. 70-4245).

- 10-13 - Stockholder Agreement (composite copy) among Connecticut Yankee Atomic Power Company's Sponsors, including Montaup, dated July 1, 1964 (Exhibit B-4, File No. 70-4245).
- 10-14 - Transmission Agreement between Boston Edison Company, Montaup, New England Power Company, Cambridge Electric Light Company, Cape & Vineyard Electric Company and New Bedford Gas and Edison Light Company dated December 1, 1965 (Exhibit 4, File No. 0-688).
- 10-15 - Contract for sale of power to Montaup by Canal Electric Company dated December 1, 1965 (Exhibit 2D, File No. 0-688).
- 10-16 - Capital Funds Agreement (composite copy) between Vermont Yankee Nuclear Power Corporation and Montaup dated as of February 1, 1968, and Amendment thereto dated as at March 12, 1968 (Exhibit B-2, File No. 70-4611; Exhibit B-3, File No. 70-4611).
- 10-17 - Form of Power Contract between Vermont Yankee Nuclear Power Corporation and Montaup dated as of February 1, 1968, as amended June 1, 1972, April 15, 1983, April 24, 1985, June 1, 1985, May 6, 1988 (2), June 15, 1989 and December 1, 1989 (Exhibit B-4, File No. 70-4591; Exhibit 13-21, Registration No. 2-46612; Exhibit 10-63, Form 10-K of EUA for 1983, File No. 1-5366; Exhibit 10-74, Form 10-K of EUA for 1985, File No. 1-5366; Exhibit 10-78, Form 10-K of EUA for 1986, File No. 1-5366; Exhibits 10-97 and 10-98, Form 10-K of EUA for 1988, File No. 1-5366; Exhibit 10-95, Form 10-K of EUA for 1989, File No. 1-5366; Exhibit 10-80, Form 10-K of Eastern Edison for 1990, File No. 0-8480).
- 10-18 - Sponsor Agreement (composite copy) among Vermont Yankee Nuclear Power Corporation's Sponsors, including Montaup, dated as of August 1, 1968 (Exhibit 4-0, Registration No. 2-33061).
- 10-19 - Capital Funds Agreement (composite copy) between Maine Yankee Power Company and Montaup dated May 20, 1968 and as amended August 1, 1985 (Exhibit B-2, File No. 70-4658; Exhibit 10-78, Form 10-K of EUA for 1985, File No. 1-5366).
- 10-20 - Power Contract (composite copy) between Maine Yankee Atomic Power Company and Montaup dated May 20, 1968, as amended December 19, 1983 and January 1, 1984 (Exhibit B-3, File No. 70-4658; Exhibit 10-64, Form 10-K of EUA for 1983, File No. 1-5366; Exhibit 10-66, Form 10-K of EUA for 1984, File No. 1-5366).
- 10-21 - Stockholder Agreement (composite copy) among Maine Yankee Atomic Power Company's Sponsors, including Montaup, dated May 20, 1968 (Exhibit B-4, File 70-4658).
- 10-22 - Agreement (composite copy) among Vermont Yankee Nuclear Power Corporation's Sponsors, including Montaup, dated as of April 30, 1969 (Exhibit B-7, File No. 70-4435).

- 10-23 - Form of Vermont Yankee Transmission Agreement dated as of April 1, 1971, (Exhibit 13-42, Registration No. 2-41488).
- 10-24 - Form of Agreement among Maine Yankee Atomic Power Company's Sponsors dated as of May 20, 1969 (Exhibit B-5, File No. 70-4658).
- 10-25 - Form of Maine Yankee Transmission Agreement dated as of April 1, 1971 and as amended as of March 1, 1978 (Exhibit 13-43, Registration No. 2-41488; Exhibit 19, Form 10-K of EUA for 1977, File No. 1-5366).
- 10-26 - Participation Agreement between Maine Electric Power Company, Inc. and participants in purchase and transmission of New Brunswick power, including Montaup, dated June 20, 1969, supplemented by Amendment dated as of June 24, 1970 (Exhibit 4.23.1, Registration No. 2-35073; Exhibit 13-37, Registration No. 2-37944).
- 10-27 - Form of New England Power Pool Agreement dated as of September 1, 1971, as amended as of July 1, 1972, March 1, 1973, April 2, 1973, March 15, 1974, June 1, 1975, September 1, 1975, December 31, 1976, January 18, 1977, July 1, 1977, August 1, 1977, August 15, 1978, January 31, 1980, February 1, 1980, September 1, 1981, December 1, 1981, June 1, 1982, June 15, 1983, October 1, 1983, August 1, 1985, August 15, 1985, January 1, 1986, September 1, 1986, March 1, 1988, May 1, 1988, March 15, 1989 and October 1, 1990, (Exhibit 13-45, Registration No. 2-41488; Exhibit 13-38, Registration No. 2-46612; Exhibits 13-39 and 13-40, Registration No. 2-48966; Exhibit B-3, Form USS of EUA for year 1974; Exhibit 13-35(a), Registration No. 2-54449; Exhibit 13-35, Registration No. 2-55990, Exhibits 5-69 and 5-70, Registration Exhibit 13-35(a), Registration No. 2-54449; Exhibit 13-35, Registration No. 2-55990, Exhibits 5-69 and 5-70, Registration No. 2-58625; Exhibit 6, Form 10-K of EUA for 1977, File No. 1-5366; Exhibit 1, Form 10-K of EUA for 1979, File No. 1-5366; Exhibit No. 10-67, Registration No. 2-80205; Exhibit 10-65, Form 10-K of EUA for 1983, File No. 1-5366; Exhibit 10-66, Form 10-K of EUA for 1983, File No. 1-5366; Exhibits 10-75, 10-76, and 10-77, Form 10-K of EUA for 1985, File No. 1-5366; Exhibit 10-79, Form 10-K of EUA for 1986, File No. 1-5366; Exhibits 10-99 and 10-100, Form 10-K of EUA for 1988, File No. 1-5366; Exhibit 10-96, Form 10-K of EUA for 1989, File No. 1-5366; Exhibit 10-81, Form 10-K of Eastern Edison for 1990, File No. 0-8480).
- 10-28 - Agreement between Montaup and Boston Edison Company dated August 1, 1972 and as amended January 1, 1985 for purchase of power from Pilgrim No. 1 nuclear unit at Plymouth, Massachusetts (Exhibit 13-41, Registration No. 2-46612; Exhibit 10-67, Form 10-K of EUA for 1984, File No. 1-5366).
- 10-29 - Joint Ownership Agreement--NEPCO Nuclear Units dated as of January 2, 1976 as amended August 6, 1976 among New England Power Company and other utilities, including Montaup (Exhibit



- 13-41, Registration No. 2-55990; Exhibit 5-77, Registration No. 2-58625).
- 10-30 - Power Purchase and Transmission Agreement between Montaup and Maine Electric Power Company, Inc. dated December 1, 1971 (Exhibit 13-43, Registration No. 2-44377).
- 1 - 1 - Unit Participation Agreement between Maine Electric Power Company, Inc. and New Brunswick Electric Power Commission dated November 15, 1971 (Exhibit 13-43.1, Registration No. 2-44377).
- 10-32 - Assignment Agreement dated March 20, 1972 between Maine Electric Power Company, Inc. and New Brunswick Electric Power Commission (Exhibit 13-43.3, Registration No. 2-44377).
- 10-33 - Agreement dated October 13, 1972 for Joint Ownership, Construction and Operation of Pilgrim Unit No. 2 among Boston Edison Company and other utilities including Montaup, as amended July 25, 1973, September 15, 1974, December 1, 1974, February 15, 1975, April 30, 1975, June 30, 1975, November 30, 1975 and December 15, 1975 (Exhibit 13-51, Registration No. 2-46612; Exhibit 13-56, Registration No. 2-48966; Exhibit B-5, Form USS of EUA for year 1974; Exhibit 13-52-A and 13-52-B, Registration No. 2-53819; Exhibit 13-45(a), Registration No. 2-54449; Exhibits 13-48 and 13-47(a), Registration No. 2-55990).
- 10-34 - Agreement for Sharing Costs Associated with Pilgrim Unit No. 2 Transmission dated October 13, 1972 among Boston Edison Company and other utilities including Montaup (Exhibit 13-52, Registration No. 2-46612).
- 10-35 - Agreement dated as of May 1, 1973 for Joint Ownership, Construction and Operation of New Hampshire Nuclear Units among Public Service Company of New Hampshire and other utilities including Montaup, as amended as of May 24, 1974, June 21, 1974, September 25, 1974, October 25, 1974, January 31, 1975, as supplemented by Letter Agreement dated April 27, 1978 and amended as of April 18, 1979 (two amendments), April 25, 1979, June 8, 1979, October 11, 1979, December 15, 1979, June 16, 1980, December 31, 1980, June 1, 1982, April 27, 1984, June 15, 1984, March 8, 1985, March 14, 1986, May 1, 1986, September 19, 1986, November 1987, January 13, 1989 and November 1, 1990. (Exhibit 13-57, Registration No. 2-48966; Exhibit B-6, Form USS of EUA for year 1974; Exhibit 5-130, Registration No. 2-62862; Exhibit 5-70, Registration No. 2-65785; Exhibit 2, Form 10-K of EUA for 1979, File No. 1-5366; Exhibit 5-34, Registration No. 2-69052; Exhibit 20-1, Form 10-K of EUA for 1980, File No. 1-5366; Exhibit 10-69, Registration No. 2-80205; Exhibit 2, Form 10-Q of EUA for the Quarter Ended March 31, 1984, File No. 1-5366; Exhibit 3, Form 10-K of EUA for the Quarter Ended June 30, 1984, File No. 1-5366; Exhibit 10-70, Form 10-K of EUA for 1985, File No. 1-5366; Exhibits 10-80 and 10-81, Form 10-K of EUA for 1986, File No. 1-5366; Exhibits 10-95 and 10-96, Form 10-K of EUA for 1987, File No. 1-5366; Exhibit 10-101, Form

- 10-K of EUA for 1988, File No. 1-5366; Exhibit 10-82, Form 10-K of Eastern Edison for 1990, File No. 0-8480).
- 10-36 - Transmission Support Agreement dated as of May 1, 1973 among Public Service Company of New Hampshire and other utilities including Montaup with respect to New Hampshire nuclear units, as amended February 1, 1983 (Exhibit 13-58, Registration 2-48966; Exhibit 10-69, Form 10-K of EUA for 1982, File No. 1-5366).
- 10-37 - Purchase Contract between Montaup and Newport Electric Corporation dated April 1, 1973 (Exhibit 13-59, Registration 2-48966).
- 10-38 - Agreement dated September 21, 1972, Amendment thereto dated April 26, 1973, and supplementing letter dated March 28, 1975 relative to Canal Unit No. 2 Transmission among Montaup, New Bedford Gas and Edison Light Company and Boston Edison Company (Exhibit 13-60, Registration 2-48966; Exhibit 13-58, Registration No. 2-53819).
- 10-39 - Sharing Agreement dated as of September 1, 1973 among The Connecticut Light and Power Company and other utilities, including Montaup, concerning participation in a nuclear generating unit located in Connecticut (Millstone Unit No. 3), as amended and supplemented by Amendatory Agreement dated May 11, 1984 as amended as of April 1, 1986 (Exhibit B-17, Form USS of EUA for year 1973; Exhibit B-8, as amended as of April 11, 1986, Form USS of EUA for year 1974; Exhibit B-30, Form USS of EUA for year 1976; Exhibit 10-68, Form 10-K of EUA for 1984, File No. 1-5366; Exhibit 10-82, Form 10-K of EUA for 1986, File No. 1-5366).
- 10-40 - Agreement for Joint Ownership, Construction and Operation of William F. Wyman Unit No. 4 dated November 1, 1974 as amended June 30, 1975, August 16, 1976 and December 31, 1978 among Central Maine Power Company and other utilities including Montaup (Exhibit B-9, Form USS of EUA for year 1974; Exhibit 13-58, Registration No. 2-55990; Exhibit 5-95, Registration No. 2-58625; Exhibit 5-40, Registration No. 2-69052).
- 10-41 - Transmission Agreement dated November 1, 1974 among Central Maine Power Company and other utilities including Montaup with respect to William F. Wyman Unit No. 4 (Exhibit B-10, Form USS of EUA for year 1974).
- 10-42 - Agreement for Joint Ownership dated as of October 27, 1970 between Canal Electric Company and Montaup (Exhibit 13-71, Registration No. 2-55990).
- 10-43 - Agreement for use of Common Facilities by Canal Units I and II and for Allocation of Related Costs dated as of October 27, 1970 between Canal Electric Company and Montaup (Exhibit 13-72, Registration No. 2-55990).

- 10-44 - Agreement of Lease dated as of June 1, 1972 between Canal Electric Company and Montaup (Exhibit 13-73, Registration No. 2-55990).
- 10-45 - Supplementary Power Contract dated as of April 1, 1978, by and between Connecticut Yankee Atomic Power Company and Montaup (Exhibit 10-45, Form 10-K of EUA for 1987, File No. 1-5366).
- 10-46 - Fuel Oil Contract dated October 28, 1981 and amended as of October 25, 1982 between Apex Oil Company and Montaup (Exhibit 10-55, Form 10-K of EUA for 1981, File No. 1-5366; Exhibit 10-76, Registration No. 2-80205).
- 10-47 - Eastern Utilities Associates Employees' Savings Plan Trust Agreement (Exhibit 10-57, Form 10-K of EUA for 1981, File No. 1-5366).
- 10-48 - Eastern Utilities Associates Employees' Savings Plan as amended and restated effective August 1, 1983 and as amended as of January 1, 1985, March 1, 1988 and June 19, 1989 (Exhibit 10-53, Form 10-K of EUA for 1983, File No. 1-5366; Exhibit 10-83, Form 10-K of EUA for 1986, File No. 1-5366; Exhibit 10-50, Form 10-K of EUA for 1988, File No. 1-5366; Exhibit B-3, Form U-1 of EUA dated March 7, 1991, File No. 70-7829).
- 10-49 - Guarantee Agreement (composite copy) dated as of November 13, 1981 between The Connecticut Bank and Trust Company, as Trustee, and Montaup relating to debentures of Connecticut Yankee Atomic Power Company (Exhibit 10-61, Form 10-K of EUA for 1981, File No. 1-5366).
- 10-50 - Guarantee Agreement dated as of November 5, 1981 between Bankers Trust Company, as Trustee of the Vernon Energy Trust, and Montaup relating to a nuclear fuel sales agreement and related transactions entered into by Vermont Yankee Nuclear Power Corporation (Exhibit 10-63, Form 10-K of EUA for 1981, File No. 1-5366).
- 10-51 - Nuclear Fuel Sales Agreement of Vermont Yankee Nuclear Power Corporation and related documents (Exhibit B-1, File No. 70-6569).
- 10-52 - Phase I Vermont Transmission Line Support Agreement dated as of December 1, 1981 and as amended as of June 1, 1982, November 1, 1982 and January 1, 1986 between Vermont Electric Transmission Company, Inc. and several New England utilities, including Montaup (Exhibit 10-65, Form 10-K of EUA for 1981, File No. 1-5366; Exhibit 10-72, Registration No. 2-80205; Exhibit 10-64, Form 10-K of EUA for 1982, File No. 1-5366; Exhibit 10-84, Form 10-K of EUA for 1986, File No. 1-5366).
- 10-53 - Agreement with respect to Use of Quebec Interconnection dated as of December 1, 1981 and as amended as of May 1, 1982, November 1, 1982 and June 1, 1990 among several New England electric utilities, including Montaup (Exhibit 10-66, Form 10-K

of EUA for 1981, File No. 1-5366; Exhibit 10-73, Registration No. 2-80205; Exhibit 10-68, Form 10-K of EUA for 1983, File No. 1-5366; Exhibit 10-83, Form 10-K of Eastern Edison for 1990, File No. 0-8480).

- 10-54 - Phase I Terminal Facility Support Agreement dated December 1, 1981 and as amended as of June 1, 1982, November 1, 1982 and January 1, 1986 between New England Electric Transmission Corporation and several New England utilities, including Montaup (Exhibit 10-68, Form 10-K of EUA for 1981, File No. 1-5366; Exhibit 10-74, Registration No. 2-80205; Exhibit 10-68, Form 10-K of EUA for 1982, File No. 1-5366; Exhibit 10-85, Form 10-K of EUA for 1986, File No. 1-5366).
- 10-55 - Additional Power Contract between Vermont Yankee Nuclear Power Corporation and Montaup dated as of February 1, 1984 (Exhibit 10-69, Form 10-K of EUA for 1983, File No. 1-5366).
- 10-56 - Loan Agreement between Massachusetts Industrial Finance Agency and Eastern Edison dated as of August 1, 1983 (Exhibit 1, Form File No. 0-8480).
- 10-57 - Trust Agreement between Massachusetts Industrial Finance Agency and State Street Bank and Trust Company dated as of August 1, 1983 (Exhibit 2, Form 10-Q of Eastern Edison for quarter ended September 30, 1983, File No. 0-8480).
- 10-58 - Escrow agreement dated as of August 1, 1983 by and among Eastern Edison, MGIC Indemnity Corporation and Bank of New England, N.A. (Exhibit 3, Form 10-Q of Eastern Edison for quarter ended September 30, 1983, File No. 0-8480).
- 10-59 - Second Supplementary Power Contract between Montaup and Connecticut Yankee Atomic Power Company executed on April 5, 1984 (Exhibit 10-70, Form 10-K of EUA for 1984, File No. 1-5366).
- 10-60 - Additional Power Contract between Montaup and Connecticut Yankee Atomic Power Company executed on April 5, 1984 (Exhibit 10-71, Form 10-K of EUA for 1984, File No. 1-5366).
- 10-61 - Loan Agreement between Rhode Island Industrial Facilities Corporation and Blackstone dated as of December 1, 1984 (Exhibit 10-72, Form 10-K of EUA for 1984, File No. 1-5366).
- 10-62 - Trust Indenture between Rhode Island Industrial Facilities Corporation and the Rhode Island Hospital Trust Company dated as of December 1, 1984 (Exhibit 10-73, Form 10-K of EUA for 1984, File No. 1-5366).
- 10-63 - Remarketing Agreement between Rhode Island Hospital Trust Company, Citibank and Blackstone dated as of December 19, 1984 (Exhibit 10-74, Form 10-K of EUA for 1984, File No. 1-5366).

- 10-64 - Letter of Credit and Reimbursement Agreement between Blackstone Valley Electric Company and Citibank N.A. dated as of December 1, 1984 (Exhibit 10-75, Form 10-K of EUA for 1984, File No. 1-5366).
- 10-65 - Agreement for Seabrook Project Disbursing Agent, dated as of May 23, 1984, as amended March 8, 1985, May 20, 1985, June 18, 1985, January 1, 1986, November, 1987, August 1, 1989, and restated as of November 1, 1990, among the participants in the Seabrook nuclear generating project, including Montaup and Yankee Atomic Electric Company (Exhibit 2, Form 10-Q of EUA for the Quarter Ended June 30, 1984, File No. 1-5366; Exhibit 10-69, Form 10-K of EUA for 1985, File No. 1-5366; Exhibits 10-86, 10-87 and 10-88, Form 10-K of EUA for 1986, File No. 1-5366; Exhibit 10-97, Form 10-K of EUA for 1987, File No. 1-5366; Exhibit 10-105, Form 10-K of EUA for 1989, File No. 1-5366; Exhibit 10-84, Form 10-K of Eastern Edison for 1990, File No. 0-8480).
- 10-66 - Preliminary Quebec Interconnection Support Agreement - Phase II dated as of September 1, 1984, as amended March 1, 1985, January 1, 1986, March 1, 1987, July 1, 1987, October 15, 1987, December 15, 1987, March 1, 1988, August 1, 1988, November 1, 1988, January 15, 1989, November 1, 1989 and April 1, 1990 among several New England electric utilities, including Montaup (Exhibit 10-79, Form 10-K of EUA for 1984, File No. 1-5366; Exhibits 10-71 and 10-72, Form 10-K of EUA for 1985, File No. 1-5366; Exhibits 10-98, 10-99, 10-100 and 10-101, Form 10-K of EUA for 1987, File No. 1-5366; Exhibit 10-104 and 10-105, Form 10-K of EUA for 1988, File No. 1-5366; Exhibits 10-97, 10-98 and 10-99, Form 10-K of EUA for 1989, File No. 1-5366; Exhibit 10-85, Form 10-K of Eastern Edison for 1990, File No. 0-8480).
- 10-67 - Agreement with respect to Amendment of Agreement with respect to Use of Quebec Interconnection dated as of September 1, 1985 among several New England electric utilities, including Montaup (Exhibit 10-80, Form 10-K of EUA for 1985, File No. 1-5366).
- 10-68 - Agreement Authorizing Execution of Phase II Firm Energy Contract dated as of September 1, 1985, among several New England electric utilities, including Montaup (Exhibit 10-81, Form 10-K of EUA for 1985, File No. 1-5366).
- 10-69 - Purchase Agreement No. EUA 87-1 dated as of January 1, 1987 between Wellmore Coal Corporation and Montaup (Exhibit 10-71, Form 10-K of EUA for 1986, File No. 1-5366).
- 10-70 - Guarantee Agreement dated as of September 23, 1985 between MYA Fuel Company and Montaup relating to a Loan Agreement of Maine Yankee Atomic Power Company with MYA Fuel Company (Exhibit 10-84, Form 10-K of EUA for 1985, File No. 1-5366).
- 10-71 - Guarantee Agreement dated as of August 1, 1985 among The Connecticut Bank and Trust Company, Connecticut Yankee Atomic Power Company and Montaup Electric Company relating to

Revolving Credit Loans of Connecticut Yankee (Exhibit 10-85, Form 10-K of EUA for 1985, File No. 1-5366).

- 10-72 - Phase II New England Power Facilities Support Agreement dated as of June 1, 1985, between New England Power Company and several New England electric utilities, including Montaup as amended as of May 1, 1986, February 1, 1987, June 1, 1987 and September 1, 1987 (Exhibits 10-89 and 10-90, Form 10-K of EUA for 1986 File No. 1-5366; Exhibits 10-102, 10-103 and 10-104, Form 10-K of EUA for 1987, File No. 1-5366).
- 10-73 - Phase II New Hampshire Transmission Facilities Support Agreement dated as of June 1, 1985 between New England Hydro Transmission Corporation and several New England electric utilities, including Montaup as amended as of May 1, 1986, February 1, 1987, June 1, 1987, September 1, 1987 and October 1, 1987 (Exhibits 10-91 and 10-92, Form 10-K of EUA for 1986, File No. 1-5366; Exhibits 10-105, 10-106, 10-107 and 10-108, Form 10-K of EUA for 1987, File No. 1-5366).
- 10-74 - Phase II Massachusetts Transmission Facilities Support Agreement dated as of June 1, 1985, between New England Hydro-Transmission Company and several New England electric utilities, including Montaup, as amended as of May 1, 1986, February 1, 1987, June 1, 1987, September 1, 1987 and October 1, 1987 (Exhibits 10-93 and 10-94, Form 10-K of EUA for 1986, File No. 1-5366; Exhibits 10-109, 10-110, 10-111 and 10-112, Form 10-K of EUA for 1987, File No. 1-5366).
- 10-75 - Phase II Boston Edison AC Facilities Support Agreement dated as of June 1, 1985, between Boston Edison and several New England electric utilities, including Montaup as amended as of May 1, 1986, February 1, 1987, June 1, 1987 and September 1, 1987 (Exhibit 10-95, Form 10-K of EUA for 1986, File No. 1-5366; Exhibit 10-95, Form 10-K of EUA for 1986, File No. 1-5366; Exhibits 10-119, 10-113, 10-114 and 10-115, Form 10-K of EUA for 1987, File No. 1-5366).
- 10-76 - Equity Funding Agreement for New England Hydro-Transmission Corporation dated as of June 1, 1985, between New England Hydro-Transmission Corporation and several New England electric utilities, including Montaup as amended as of May 1, 1986 and September 1, 1987 (Exhibits 10-96 and 10-97, Form 10-K of EUA for 1986, File No. 1-5366; Exhibit 10-116, Form 10-K of EUA for 1987, File No. 1-5366).
- 10-77 - Equity Funding Agreement for New England Hydro-Transmission Electric Company, Inc. dated as of June 1, 1985, between New England Hydro-Transmission Electric Company, Inc. and several New England electric utilities, including Montaup as amended as of May 1, 1986 and September 1, 1987 (Exhibits 10-98 and 10-99, Form 10-K of EUA for 1986, File No. 1-5366; Exhibit 10-117, Form 10-K of EUA for 1987, File No. 1-5366).

- 10-78 - Agreement to Share Certain Costs Associated with the Tewksbury Seabrook Transmission Line dated as of May 8, 1986, among NEPOOL participants, including Montaup (Exhibit 10-100, Form 10-K of EUA for 1986, File No. 1-5366).
- 10-79 - Unit Power Agreement for the Sale of Unit Capacity and Energy from Ocean State Power Project to Montaup Electric Company dated as of May 14, 1986 as amended as of August 27, 1986, September 27, 1987, October 21, 1988, July 21, 1989, February 1, 1990 and December 21, 1990 (Exhibits 10-101 and 10-102, Form 10-K of EUA for 1986, File No. 1-5366; Exhibits 10-106 and 10-107, Form 10-K of EUA for 1988, File No. 1-5366; Exhibit 10-106, Form 10-K of EUA for 1989, File No. 1-5366; Exhibits 10-86 and 10-87, Form 10-K of Eastern Edison for 1990, File No. 0-8480).
- 10-80 - Power Purchase Agreement dated as of October 17, 1986, between Northeast Energy Associates and Montaup as amended as of June 28, 1989 (Exhibit 10-103, Form 10-K of EUA for 1986, File No. 1-5366; Exhibit 10-103, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-81 - Stock Purchase Agreement dated as of December 10, 1986, among Eastern Utilities Associates, Citizens Corporation and Citizens Energy Corporation (Exhibit 10-104, Form 10-K of EUA for 1986, File No. 1-5366).
- 10-82 - Unit Sales Agreement between Montaup Electric Company and Massachusetts Municipal Wholesale Electric Company for Purchase of Capacity and Energy from Canal No. 2 dated as of November 1, 1986 (Exhibit 10-105, Form 10-K of EUA for 1986, File No. 1-5366).
- 10-83 - Agreement of Purchase and Sale between Maine Public Service Company and EUA dated April 7, 1986 (Exhibit B-9, File No. 70-7161).
- 10-84 - Agreement of Purchase and Sale between Fitchburg Gas and Electric Light Company and EUA dated April 8, 1986 (Exhibit B-1, File No. 70-7251).
- 10-85 - Addendum to Agreement of Purchase and Sale, dated June 30, 1986, among Bangor Hydro-Electric Company, EUA and EUA Power Corporation (Exhibit B-6(a), File No. 70-7161).
- 10-86 - Addendum to Agreement of Purchase and Sale, dated June 23, 1986, among Central Maine Power Company, EUA and EUA Power Corporation (Exhibit B-7(a), File No. 70-7161).
- 10-87 - Addendum to Agreement of Purchase and Sale, dated June 27, 1986, among Central Vermont Public Service Corporation, EUA and EUA Power Corporation (Exhibit B-8(a), File No. 70-7161).

- 10-88 - Addendum to Agreement of Purchase and Sale, dated June 26, 1986, among Maine Public Service Company, EUA and EUA Power Corporation (Exhibit B-9(a), File No. 70-7161).
- 10-89 - Addendum to Agreement of Purchase and Sale, dated June 30, 1986, among Fitchburg Gas and Electric Light Company, EUA and EUA Power Corporation (Exhibit 7, Form 10-Q of EUA for the Quarter Ended June 30, 1986, File No. 1-5366).
- 10-90 - Purchase Agreement for the purchase of coal dated as of July 1, 1988 between United Coal Company and Montaup (Exhibit 10-108, Form 10-K of EUA for 1988, File No. 1-5366).
- 10-91 - Service Agreement dated as of December 20, 1988 between EUA Service Corporation, Ocean State Power and EUA Ocean State (Exhibit 10-109, Form 10-K of EUA for 1988, File No. 1-5399).
- 10-92 - Settlement Agreement dated as of January 13, 1989 among Montaup, EUA Power, certain past and present owners of the Seabrook Project and Yankee Atomic Electric Company (Exhibit 10-110, Form 10-K of EUA for 1988, File No. 1-5366).
- 10-93 - Interconnection Agreement by and between Blackstone and Ocean State Power dated November 1, 1988, as amended and restated effective August 16, 1989 by and among Blackstone, Ocean State Power I and Ocean State Power II (Exhibit 10-100, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-94 - Power Purchase Agreement between Blackstone and Blackstone Hydro, Inc. dated as of January 8, 1989 and assignment to Montaup (Exhibits 10-101 and 10-102, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-95 - Unit Power Agreement for the Sale of Second Unit Capacity and Energy from Ocean State Power Project to Montaup Electric Company dated as of September 28, 1988 as amended by an amendment dated July 21, 1989, and February 7, 1990 and a Supplemental Agreement dated July 21, 1989 (Exhibit 10-104, Form 10-K of EUA for 1989, File No. 1-5366; Exhibit No. 10-88, Form 10-K of Eastern Edison for 1990, File No. 0-8480).
- 10-96 - Ocean State Power Amended and Restated General Partnership Agreement among EUA Ocean State, Ocean State Power Company, TCPL Power Ltd., Narragansett Energy Resources Company and NECO Power, Inc. (collectively, the "OSP Partners") dated as of December 2, 1988, and First Amendment thereto dated as of March 27, 1989 (Exhibit 10-107, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-97 - Assignment and Security Agreement between EUA Ocean State and Irving Trust Company dated as of December 29, 1988 and Amendment No. 1 thereto dated as of September 29, 1989 (Exhibit 10-108, Form 10-K of EUA for 1989, File No. 1-5366).



- 10-98 - Equity Contribution Agreement among EUA Ocean State Power, the OSP Partners including EUA Ocean State, and Irving Trust Company dated as of December 29, 1988 and Amendment No. 1 thereto dated as of September 29, 1989 (Exhibit 10-109, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-99 - Equity Contribution Support Agreement among EUA, Ocean State Power and Irving Trust Company dated as of December 29, 1988 and Amendment No. 1 thereto dated as of September 29, 1989 (Exhibit 10-110, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-100 - Ocean State Power II Amended and Restated General Partnership Agreement among EUA Ocean State, JMC Ocean State Corporation, Makowski Power, Inc., TCPL Power Ltd., Narragansett Energy Resources Company and Newport Electric Power Corporation (collectively, the "OSP II Partners") dated as of September 29, 1989 (Exhibit 10-110, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-101 - Assignment and Security Agreement between EUA Ocean State and The Bank of New York dated as of September 29, 1989 (Exhibit 10-112, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-102 - Equity Contribution Agreement among Ocean State Power II, the OSP II Partners including EUA Ocean State and The Bank of New York dated as of September 29, 1989 (Exhibit 10-113, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-103 - Equity Contribution Support Agreement among EUA, Ocean State Power II and The Bank of New York dated as of September 29, 1989 (Exhibit 10-114, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-104 - Service Contract among EUA Service Corporation, Ocean State Power II and EUA Ocean State dated as of September 29, 1989 (Exhibit 10-115, Form 10-K of EUA for 1989, File No. 1-5366).
- 10-105 - Precedent Agreement dated as of November 29, 1989 between EUA and NECO Enterprises, Inc. (Exhibit B-4, Form U-1, File No. 70-7677).
- 10-106 - Amendment to and Restatement of Stock Purchase Agreement dated as of February 1, 1990 between EUA, NECO Enterprises, Inc., Newport Electric Corporation and a special-purpose subsidiary of EUA for the acquisition by EUA of the stock of Newport Electric Corporation (Exhibit B-3, Form U-1, File No. 70-7677).
- 10-107 - Purchase Power Contract between Newport and The Connecticut Light and Power Company-Gas Turbine Units (South Meadow), December 1, 1985 through October 31, 1991 (Exhibit 10-107, Form 10-K of EUA for 1990, File No. 1-5366).
- 10-108 - Purchase Power Contract between Newport and Montaup dated July 23, 1963, as revised on March 23, 1983 (Exhibit 10-108, Form 10-K of EUA for 1990, File No. 1-5366).

- 10-109 - Purchase Power Contract between Newport and Montaup for Contract Demand Service effective May 1, 1983, as amended on July 1, 1983, December 28, 1983 and November 1, 1984 (Exhibit 10-89, Form 10-K of Eastern Edison for 1990, File No. 0-8480) (Exhibit 10-109, Form 10-K of EUA for 1990, File No. 1-5366).
- 10-110 - Letter amendment dated August 4, 1983 reallocating the participating shares originally assigned to the Chicopee Municipal Lighting Plant and the Taunton Municipal Lighting Plant under the Phase I Vermont Transmission Line Support Agreement between Vermont Electric Transmission Company, Inc. and several New England electric utilities, including Newport, dated December 1, 1981, as amended on June 1, 1982 and November 1, 1982 (See Exhibit 10-52) (Exhibit 10-110, Form 10-K of EUA for 1990, File No. 1-5366).
- 10-111 - Letter of Assurance in connection with the Credit Agreement between Vermont Electric Transmission Company, Inc. and Bank of America National Trust and Savings Association dated July 19, 1983 (Exhibit 10-111, Form 10-K of EUA for 1990, File No. 1-5366).
- 10-112 - Letter amendment dated July 29, 1983 reallocating the participating shares originally assigned to the Chicopee Municipal Lighting Plant and the Taunton Municipal Lighting Plant under the Phase I Terminal Facility Support Agreement between the New England Transmission Corporation and several New England electric utilities, including Newport, dated December 1, 1981, as amended on June 1, 1982 and November 1, 1982 (See Exhibit 10-54) (Exhibit 10-112, Form 10-K of EUA for 1990, File No. 1-5366).
- 10-113 - Letter of Assurance in connection with the Credit Agreement between the New England Electric Transmission Corporation and The First National Bank of Boston dated July 19, 1983 (Exhibit 10-113, Form 10-K of EUA for 1990, File No. 1-5366).
- 10-114 - Unit Power Contract between Newport and New England Power for purchase of 15 MW of power for a ten year period starting November 1, 1985 and ending October 31, 1995 (Exhibit 10-114, Form 10-K of EUA for 1990, File No. 1-5366).
- 10-115 - Purchase Power Contract between Newport and City of Burlington Electric Department (life of the unit contract) for purchase of 8 MW from Joseph C. McNeil Electric Generating Station located in Burlington, Vermont dated December 19, 1984 (Exhibit 10-115, Form 10-K of EUA for 1990, File No. 1-5366).
- 10-116 - Firm Energy Contract between Hydro-Quebec and several New England electric utilities, including Newport, dated as of October 14, 1985 (Exhibit 10-116, Form 10-K of EUA for 1990, File No. 1-5366).
- 10-117 - Unit Power Agreement for the Sale of Unit Capacity and Energy from Ocean State Power Project to Newport Electric Corporation

dated May 14, 1986, as amended on August 20, 1986, July 12, 1988, September 23, 1988, October 21, 1988, July 21, 1989, February 7, 1990 and December 21, 1990 (Exhibit 10-117, Form 10-K of EUA for 1990, File No. 1-5366).

- 10-118 - Unit Power Agreement for the Sale of Second Unit Capacity and Energy from Ocean State Power Project to Newport Electric Corporation dated July 12, 1988 as amended September 23, 1988, July 21, 1989 and February 7, 1990 (Exhibit 10-118, Form 10-K of EUA for 1990, File No. 1-5366).
- 10-119 - Purchase Power Contract dated as of April 1, 1973 between Montaup and Newport for shares of Maine Yankee, Vermont Yankee, and Pilgrim (Exhibit 10-119, Form 10-K of EUA for 1990, File No. 1-5366).
- \*10-120 - Fifth Amendment to Exhibit 10-48 dated as of January 1, 1992.
- \*10-121 - Fifth Amendment to Exhibit 10-2 effective as of July 1, 1991.
- \*10-122 - Sixth Amendment to Exhibit 10-2 effective as of September 2, 1991.
- \*10-123 - Seventh Amendment to Exhibit 10-2 effective as of March 1, 1992.
- \*10-124 - Equity Maintenance Agreement dated as of October 29, 1991 among EUA and The Prudential Insurance Company of America and Pruco Life Insurance Company.
- \*10-125 - Guaranty, dated January 16, 1992 made by EUA in favor of John Hancock Mutual Life Insurance Company.
- \*13-1 - Annual Report to Shareholders of EUA for 1991, portions of which are incorporated by reference in this Annual Report on Form 10-K. Only the portions expressly so incorporated under PART II, Items 5, 6, 7 and 8 are to be deemed filed herewith.
- 22-1 - Direct subsidiaries of Eastern Utilities Associates and the state of organization of each are: Blackstone Valley Electric Company (Rhode Island), Eastern Edison Company (Massachusetts), EUA Power Corporation (New Hampshire), EUA Cogenex Corporation (Massachusetts), EUA Service Corporation (Massachusetts), EUA Ocean State Corporation (Rhode Island), EUA Energy Investment Corporation (Massachusetts) and Newport Electric Corporation (Rhode Island). Montaup Electric Company (Massachusetts) is a subsidiary of Eastern Edison Company. Each of the above subsidiaries does business under its indicated corporate name.
- \*24-1 - Consent of Independent Certified Public Accountants.
  - (b) Reports on Form 8-K.
  - On February 27, 1992, the Registrant filed a current report on Form 8-K with respect to Item 5 (Other Events).

- On February 26, 1992, the Registrant filed a current report on Form 8-K with respect to Item 5 (Other Events).
- On December 12, 1991, the Registrant filed a current report on Form 8-K with respect to Item 5 (Other Events) and Item 7 (Financial Statements, Pro Forma Financial Information and Exhibits).
- On November 15, 1991, the Registrant filed a current report on Form 8-K with respect to Item 5 (Other Events) and Item 7 (Financial Statements, Pro Forma Financial Information and Exhibits).

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
EASTERN UTILITIES ASSOCIATES		
By <u>Richard M. Burns</u> Richard M. Burns	Comptroller (Principal Accounting Officer)	March 25, 1992

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.

<u>Donald G. Pardus</u> Donald G. Pardus	Chairman and Chief Executive Officer (Principal Executive Officer) and Trustee	} March 25, 1992
<u>John R. Stevens</u> John R. Stevens	President and Chief Operating Officer (Principal Financial Officer) and Trustee	
<u>Richard M. Burns</u> Richard M. Burns	Comptroller (Principal Accounting Officer)	
<u>Russell A. Boss</u> Russell A. Boss	Trustee	
<u>Paul J. Choquette, Jr.</u> Paul J. Choquette, Jr.	Trustee	
<u>John E. Conway</u> John E. Conway	Trustee	
<u>Peter S. Damon</u> Peter S. Damon	Trustee	
<u>John F. G. Eichorn, Jr.</u>	Trustee	
<u>Peter B. Freeman</u> Peter B. Freeman	Trustee	
<u>Wesley W. Marple, Jr.</u> Wesley W. Marple, Jr.	Trustee	
<u>Margaret M. Stapleton</u> Margaret M. Stapleton	Trustee	
<u>W. Nicholas Thorndike</u> W. Nicholas Thorndike	Trustee	

EASTERN UTILITIES ASSOCIATES AND  
SUBSIDIARY COMPANIES

Item 14(a)(2). Financial Statement Schedules

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## Eastern Utilities Associates and Subsidiary Companies

## Property, Plant and Equipment

(In Thousands)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements	Other Charges Add (Deduct) - Describe	Balance at End of Period
For the Year Ended December 31, 1991:					
Production Nuclear.....	\$367,562	\$689	\$503		\$367,748
Production -- Steam.....	132,527	3,888	12,792 (a)	(2) (b)	123,621
Production -- Hydraulic.....	7,083				7,083
Production -- Other.....	7,467	399	215	(26) (b)	7,625
Transmission and Distribution.....	388,987	20,621	6,599	26 (b)	403,035
General Plant.....	55,539	1,932	108	(40) (b)	57,223
Intangible Plant.....	566			42 (b)	608
Electric Property Held for Future Use.....	824				824
Nuclear Fuel in Service.....	15,557	8,343 (c)	3,043		18,857
Construction Work in Progress.....	6,809	71			6,880
Nuclear Fuel in Process.....	9,026	(5,023) (c)			4,003
Total Utility Plant.....	\$991,947	\$28,920	\$23,260	\$0	\$997,607
Non-Utility Property	\$45,033	\$16,311	\$0	\$0	\$61,344
For the Year Ended December 31, 1990:					
Production Nuclear.....	\$177,658	\$688,750 (d)	\$96	(\$498,760)	\$367,562
Production -- Steam.....	130,605	1,219	553	1,256	132,527
Production -- Hydraulic.....	7,011			72	7,083
Production -- Other.....	4,454	224	48	2,837	7,467
Transmission and Distribution.....	314,711	35,355	5,658	44,579	388,987
General Plant.....	45,519	10,237	347	130	55,539
Intangible Plant.....	253	752	109	(330)	566
Electric Property Held for Future Use.....	608			216	824
Nuclear Fuel in Service.....	7,015	8,542 (d)			15,557
Construction Work in Progress.....	636,691	(630,301) (d)		419	6,809
Nuclear Fuel in Process.....	38,157	(855) (d)		(28,276)	9,026
Total Utility Plant.....	\$1,362,682	\$113,933	\$6,811	(\$477,857) (e)	\$991,947
Non-Utility Property	\$28,740	\$16,294	\$1		\$45,033
For the Year Ended December 31, 1989:					
Production Nuclear.....	\$177,247	\$569	\$156	(\$2)	\$177,658
Production -- Steam.....	129,730	3,513	127	(2,511) (f)	130,605
Production -- Hydraulic.....	6,527	74		410	7,011
Production -- Other.....	4,438	21	5		4,454
Transmission and Distribution.....	300,630	17,327	3,179	(67)	314,711
General Plant.....	42,753	2,968	186	(16)	45,519
Intangible Plant.....	253				253
Electric Property Held for Future Use.....	608				608
Nuclear Fuel in Service.....	9,006	334		(2,325) (g)	7,015
Construction Work in Progress.....	457,706	125,265		53,720 (h)	636,691
Nuclear Fuel in Process.....	78,108	18,349		(58,300) (i)	38,157
Total Utility Plant.....	\$1,207,006	\$168,420	\$3,653	(\$9,091)	\$1,362,682
Non-Utility Property	\$15,879	\$10,383	\$33	\$2,511 (j)	\$28,740

(a) Retirement of Montaup (Units 1 thru 4) \$12,370,758.

(b) Transfer between accounts.

(c) Transfer nuclear fuel from in Process to in Service.

(d) Transfer of Seabrook to Plant in Service (\$498,760,000 &amp; \$190,000,000 of EUA Power and Montaup, respectively) from CWIP.

(e) Includes the beginning balances of Newport Electric Corporation as of 4/1/90 aggregating \$63,821,000 and the deconsolidation of EUA Power's ending balances aggregating \$541,811,000 at 12/31/90. (See Footnote B of Notes to Consolidated Financial Statements of the Registrant's Annual Report to Shareholders for the year ended December 31, 1990.)

(f) Net OCA credits transferred to Construction Work in Progress.

(g) Transfer of nuclear fuel from in-service to spent nuclear fuel.

(h) Net OCA Credits to Construction Work In Progress of (\$4,580,000), reclassification of purchase price and associated capitalized interest. (See (f) above.) Reclassification of nuclear fuel for Re-load No. 3 (\$4,580).

(i) Reclassification of purchase price allocation and related allowance for funds used during construction.

(j) Transfer of Land.



**Eastern Utilities Associates and Subsidiary Companies**  
**Accumulated Depreciation, Depletion and Amortization of**  
**Property, Plant and Equipment**  
(in Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Other Charges Add (Deduct) - Describe	Balance at End of Period
For the Year Ended December 31, 1991:					
Accumulated Depreciation, Depletion and Amortization	<u>\$241,128</u>	<u>\$35,444</u>	<u>\$25,012</u>	<u>(\$57) (a)</u>	<u>\$251,503</u>
Nonutility Property	<u>\$6,932</u>	<u>\$6,703</u>	<u>\$0</u>	<u>(592) (b)</u>	<u>\$13,043</u>
For the Year Ended December 31, 1990:					
Accumulated Depreciation, Depletion and Amortization	<u>\$203,990</u>	<u>\$39,330</u>	<u>\$8,878</u>	<u>\$6,686 (c)</u>	<u>\$241,128</u>
Nonutility Property	<u>\$2,857</u>	<u>\$4,077</u>	<u>\$2</u>		<u>\$6,932</u>
For the Year Ended December 31, 1989:					
Accumulated Depreciation, Depletion and Amortization	<u>\$187,049</u>	<u>\$21,600</u>	<u>\$4,857</u>	<u>\$198 (d)</u>	<u>\$203,990</u>
Nonutility Property	<u>\$811</u>	<u>\$2,061</u>	<u>\$15</u>		<u>\$2,857</u>

(a) FERC audit adjustment due to change in rates, (\$57,000)

(b) Depreciation adjustment on project equipment sold or traded in.

(c) Depreciation of Office Furniture transferred from deferred debits, (\$101,000) and FERC audit adjustment due to change in rates (\$57,000). Also includes the beginning balance of Newport Electric Corporation as of 4/1/90 of \$16,005,000 and the deconsolidation of EUA Power's ending balance of \$9,161,000 at 12/31/90.

(d) Principally the amortization associated with the reclassification of nuclear fuel.

**Eastern Utilities Associates and Subsidiary Companies**  
**Valuation and Qualifying Accounts**

(In Thousands)

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Additions		Deductions - Describe	Balance at End of Period
		(1) Charged to Costs and Expenses	(2) Charged to Other Accounts		
For the Year Ended December 31, 1991: Allowance for Doubtful Accounts	<u>\$747</u>	<u>\$913</u>	<u>\$382</u>	<u>(a) \$1,305</u>	<u>(b) \$737</u>
For the Year Ended December 31, 1990: Allowance for Doubtful Accounts	<u>\$291</u>	<u>\$1,110</u>	<u>\$46</u>	<u>(a) \$700</u>	<u>(b) \$747</u>
For the Year Ended December 31, 1989: Allowance for Doubtful Accounts	<u>\$219</u>	<u>\$495</u>	<u>\$44</u>	<u>(a) \$467</u>	<u>(b) \$291</u>

- (a) Recoveries of accounts previously written off.  
(b) Principally Accounts Receivable written off.

**Eastern Utilities Associates and Subsidiary Companies**  
**Short-Term Borrowings**

(In Thousands)

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>	<u>COLUMN D</u>	<u>COLUMN E</u>	<u>COLUMN F</u>
Category of aggregate short-term borrowings	Balance at end of period	Weighted Average Interest Rate	Maximum amount outstanding during the period	Average amount outstanding during the period (a)	Weighted average Interest rate during the period (b)
Notes Payable to Banks:					
December 31, 1991	<u>\$118,449</u> (c)	<u>5.6%</u>	<u>\$118,449</u>	<u>\$78,253</u>	<u>6.3%</u>
1990	<u>\$43,071</u>	<u>9.8%</u>	<u>\$102,395</u>	<u>\$71,906</u>	<u>8.6%</u>
1989	<u>\$58,676</u>	<u>9.5%</u>	<u>\$95,489</u>	<u>\$69,930</u>	<u>9.8%</u>

- (a) The average amount outstanding during the period was computed by dividing the summation of the weighted daily principal balances outstanding by 365.
- (b) The weighted average interest rate during the period was computed by dividing the actual interest expense by the daily average short-term debt outstanding.
- (c) Includes \$46 million of EUA Ocean State's outstanding notes payable to banks classified as long-term debt for financial reporting purposes. See Note H, Notes to Consolidated Financial Statements.

**Eastern Utilities Associates and Subsidiary Companies**  
**Supplementary Income Statement Information**

COLUMN A	COLUMN B		
	For the Years Ended December 31,		
	1991	1990	1989
	Charged to Costs and Expense		
	(in thousands)		
Taxes -- Other than Income: (a)			
EUA Power Corporation.....	\$0	\$644	
Newport Electric Corporation.....	3,413	2,313	
EUA Cogenex.....	238	50	\$35
EUA Service Corporation.....	1,822	1,718	1,537
Blackstone Valley Electric Company.....	9,403	8,390	7,922
Eastern Edison Company.....	3,529	2,913	2,804
Montaup Electric Company.....	5,068	4,298	3,843
Total.....	<u>23,473</u>	<u>20,326</u>	<u>16,141</u>
Less: Charged to Other Accounts.....	987	65	(357)
Charged to Operating Expenses.....	<u>\$22,486</u>	<u>\$20,261</u>	<u>\$16,498</u>

Amounts of rents, advertising costs and research and development costs did not exceed 1% of gross revenues. Amounts of maintenance and repairs and depreciation expense were as shown in the income statement and notes thereto.

NOTES: (a)	Payroll Taxes	Local Property Taxes	Corporation Tax	Sales and Use Tax
For the Year Ended December 31, 1991:				
Newport Electric.....	392	726	\$2,283	\$12
EUA Cogenex.....	238			
EUA Service.....	1,601	221		
Blackstone.....	611	3,177	5,615	
Eastern Edison.....	1,218	2,308		3
Montaup.....	715	4,337		16
Total.....	<u>\$4,775</u>	<u>\$10,769</u>	<u>\$7,898</u>	<u>\$31</u>
For the Year Ended December 31, 1990:				
EUA Power.....	\$135	\$509		
Newport Electric.....	194	513	\$1,602	\$4
EUA Cogenex.....	50			
EUA Service.....	1,489	229		
Blackstone.....	413	3,083	4,894	
Eastern Edison.....	774	2,114		25
Montaup.....	529	3,749		20
Total.....	<u>\$3,584</u>	<u>\$10,197</u>	<u>\$6,496</u>	<u>\$49</u>
December 31, 1989:				
EUA Cogenex.....	\$29	\$1		\$5
EUA Service.....	1,296	228		13
Blackstone.....	428	2,706	\$4,788	
Eastern Edison.....	729	2,073		2
Montaup.....	462	3,367		14
Total.....	<u>\$2,944</u>	<u>\$8,375</u>	<u>\$4,788</u>	<u>\$34</u>

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Trustees and Shareholders of  
Eastern Utilities Associates:

Our report on the consolidated financial statements of Eastern Utilities Associates and subsidiaries (which includes an explanatory paragraph with respect to uncertainties regarding an SEC review, shareholder litigation, and bondholder litigation) has been incorporated by reference in this Form 10-K from page 36 of the 1991 Annual Report to Shareholders of Eastern Utilities Associates. In connection with our audits of such consolidated financial statements, we have also audited the related consolidated financial statement schedules listed in the index on page 32 of this Form 10-K.

In our opinion, the consolidated financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND

Boston, Massachusetts  
March 11, 1992