ROPES & GRAY
225 FRANKLIN STREET
BOSTON 02110

CABLE ADDRESS "ROPGRALOR"
TELEX NUMBER 940519

AREA CODE 617 423-6100

June 26, 1979

U.S. Nuclear Regulatory
Commission
Washington, D. C. 20555

Attention: D. B. Vassallo, Assistant Director for Light Water Reactors, Division of Project Management

Re: Seabrook Station, Units 1 and 2, Docket Nos. 50-443 and 50-444; Staff Letter Dated May 23, 1979; Request for Additional Financial Information

Dear Mr. Vassallo:

I enclose twenty-five copies of the Public Service Company of New Hampshire preliminary prospectus dated June 21, 1979 relating to 2,000,000 shares of its Common Stock. This prospectus should be added to the material which was furnished with my letter of June 22, 1979 in the above dockets.

Very truly yours,

John A. Ritsher

John A. Ritsher

JAR:vml
Enclosures

cc: Attached List

7907030355

B005
SE
1/25

302 124

Copies to:

Alan S. Rosenthal, Chairman
Atomic Safety and Licensing
Appeal Board
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Dr. John H. Buck
Atomic Safety and Licensing
Appeal Board
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Michael C. Farrar, Esquire
Atomic Safety and Licensing
Appeal Board
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Ivan W. Smith, Esquire
Atomic Safety and Licensing
Board Panel
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Joseph F. Tubridy, Esquire
4100 Cathedral Avenue, N.W.
Washington, D.C. 20016

Dr. Marvin M. Mann
Atomic Safety and Licensing
Board Panel
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Lawrence Brenner, Esquire
Office of the Executive Legal
Director
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

E. Tupper Kinder, Esquire
Assistant Attorney General
Environmental Protection Division
Office of the Attorney General
208 State House Annex
Concord, New Hampshire 03301

Karin P. Sheldon, Esquire
Sheldon, Harmon, Roisman & Weiss
Suite 506
1725 I Street, N.W.
Washington, D.C. 20006

Dr. Ernest O. Salo
Professor of Fisheries Research
Institute
College of Fisheries
University of Washington
Seattle, Washington 98195

Dr. Kenneth A. McCollum
1107 West Knapp Street
Stillwater, Oklahoma 74074

Robert A. Backus, Esquire
O'Neill Backus Spielman
116 Lowell Street
Manchester, New Hampshire 03105

Laurie Burt, Esquire
Assistant Attorney General
One Ashburton Place
Boston, Massachusetts 02108

A Registration Statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Registration Statement becomes effective. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

PRELIMINARY PROSPECTUS DATED JUNE 21, 1979

2,000,000 Shares

Public Service Company of New Hampshire

Common Stock

($5 Par Value)

Outstanding shares of the Common Stock are, and the shares offered hereby will be, listed on the New York Stock Exchange. The last reported sale price of the Common Stock on such Exchange on June 20, 1979 was $19.25 per share.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)
Per Share			
Total			

(1) The Company has agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

(2) Before deduction of expenses payable by the Company estimated at $115,000.

The shares of Common Stock are offered by the several Underwriters when, as and if issued by the Company and accepted by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that certificates for such shares will be ready for delivery at the office of Kidder, Peabody & Co. Incorporated, 10 Hanover Square, New York, New York, on or about July , 1979.

Kidder, Peabody & Co.
Incorporated

Blyth Eastman Dillon & Co.
Incorporated

[redacted]

The date of this Prospectus is July , 1979.

302 126

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE COMPANY'S COMMON STOCK AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

Public Service Company of New Hampshire (the "Company") is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission. Information for the year 1978 and prior years concerning directors and officers of the Company, remuneration and any material interests of such persons in transactions with the Company, is disclosed in proxy statements distributed to shareholders of the Company and filed with the Commission. Such reports, proxy statements and other information can be inspected at the office of the Commission at Room 6101 at 1100 L Street, N.W., Washington, D. C.; Room 1100, Federal Building, 26 Federal Plaza, New York, N.Y.; Suite 1710, Tishman Building, 10960 Wilshire Boulevard, Los Angeles, California; and Room 1228, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois. Copies of such material may also be obtained at prescribed rates from the Public Reference Section of the Commission at 500 North Capitol Street, N.W., Washington, D. C. 20549. Certain of the Company's securities are listed on the New York Stock Exchange where reports, proxy material and other information concerning the Company may also be inspected.

THE COMPANY

The Company was incorporated in New Hampshire in 1926. The mailing address of the Company is 1000 Elm Street, Post Office Box 330, Manchester, New Hampshire 03105 and the Company's telephone number is (603) 669-4000.

The Company is the largest electric utility in New Hampshire. It operates a single integrated system furnishing electric service in Manchester, Nashua, Portsmouth, Berlin, Dover, Keene, Laconia, Franklin, Rochester, Somersworth and 187 other New Hampshire municipalities, including about 83% of the total population of the State. It also sells electricity to other utilities and distributes and sells electricity in 6 towns in Vermont and 13 towns in Maine. The area served at retail has a population of about 746,000.

The Company is presently experiencing serious difficulties in financing its construction program and has taken steps to reduce that program. See "Problems Facing the Company" for information concerning the proposed reduction and a description of the substantial 1979 external financing required in order to enable the Company to maintain its construction program and continue its business operations, pending receipt of regulatory approvals for the proposed reduction in its construction program.

302 127

No dealer, salesman or any other person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or the Underwriters. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of these securities by any Underwriter in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The delivery of this Prospectus does not imply that the information herein is correct as of any time subsequent to its date.

TABLE OF CONTENTS

POOR ORIGINAL

PSNH PUBLIC SERVICE Company of New Hampshire

2,000,000 Shares

Public Service Company of New Hampshire

COMMON STOCK

($5 Par Value)

PROSPECTUS

Kidder, Peabody & Co.
Incorporated

Blyth Eastman Dillon & Co.
Incorporated

July , 1979

302 128

Name	Number of Shares of Stock
Total	2,000,000

The Underwriting Agreement provides that the several Underwriters are required to take and pay for all of the shares of the additional Common Stock offered hereby if any are taken. The obligations of the Underwriters are subject to certain conditions precedent.

The Company has been advised by Kidder, Peabody & Co. Incorporated and Blyth Eastman Dillon & Co. Incorporated, as Representatives of the several Underwriters, that the Underwriters propose to offer the additional Common Stock to the public initially at the offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession of not in excess of ¢ a share, and that the Underwriters and such dealers may reallow a discount of not in excess of ¢ a share to other dealers. The public offering price and the concessions and discounts to dealers may be changed by the Representatives.

302 129

THE ISSUE IN BRIEF

The following material is qualified in its entirety by the detailed information and the financial statements and notes appearing elsewhere in this Prospectus. See especially "Problems Facing the Company".

THE OFFERING

Company	Public Service Company of New Hampshire
Common Stock Offered	2,000,000 Shares
Expected Offering Date	July 11, 1979
Common Stock Listed	New York Stock Exchange (Symbol: PNH)
1979 Price Range (through June 20, 1979)	21⅛-17⅛
Book Value of Common Stock at March 31, 1979	$23.09 per share
Current Dividend Rate	53¢ per share quarterly ($2.12 annualized rate)

A quarterly dividend of 53¢ per share has been declared by the Board of Directors payable August 15, 1979 to holders of record of Common Stock on July 31, 1979. The shares of the additional Common Stock offered hereby will be entitled to this dividend.

THE COMPANY

Business	Electric utility
Estimated Service Area Population	746,000
Energy Sources (12 months ended December 31, 1978)	Oil — 53%, Coal — 27%, Nuclear — 15% and Hydro — 5%
Estimated 1979-1985 Construction Expenditures	$600,600,000*

*Assuming expected reduction of ownership interests in nuclear plants under construction. See "Problems Facing the Company".

FINANCIAL INFORMATION
(Thousands except Per Share Amounts)

	Twelve Months Ended April 30, 1979	Year ended December 31, 1978	Year ended December 31, 1977
Operating Revenues	$272,132	$260,751	$214,787
Net Income	37,662	36,507	21,722
Earnings Available for Common Stock	31,288	30,116	16,602
Average Shares of Common Stock Outstanding	10,261	9,275	7,680
Per Share of Common Stock:			
Earnings	$3.05	$3.25	$2.16
Dividends	$2.06	$1.94	$1.88

Capitalization and short-term debt as of March 31, 1979, and as adjusted for the proceeds from the sale of 1,200,000 shares of $25 par value Preferred Stock on May 22, 1979 and of the additional Common Stock (assumed to aggregate $65,800,000) (see "Capitalization"):

	Actual (Thousands)	As Adjusted (Thousands)	Percent of Adjusted Capitalization
Long-Term Debt (including current maturities)	$292,390	$292,390	41.0%
Preferred Stock	83,153	113,153	15.9
Common Stock Equity	273,082	307,466	43.1
	$648,625	$713,009	100.0%
Short-Term Debt	$95,100	$ [illegible]9,300	

302 130

PROBLEMS FACING THE COMPANY

The Company is presently experiencing serious difficulties in financing its construction program which, prior to the Company's decision to reduce its interests in nuclear plants as described below, had an estimated cost of $1,109,600,000 over the period 1979-1985. The major portion of this program has been the Company's 50% ownership interest in the 2300 MW nuclear plant at Seabrook, New Hampshire; the estimated cost of this interest and related nuclear fuel over the same period is approximately $752,600,000 (see "Construction Program" and "Financing").

The Company's financing program had been based upon the inclusion in the Company's rate base of a portion (approximately 50% on average over the period) of the expenditures for construction work in progress ("CWIP") associated with major generating facilities, and, in the Company's most recent retail rate order in 1978, the Company's request for such inclusion was granted by the New Hampshire Public Utilities Commission ("NHPUC"). On May 7, 1979, a New Hampshire statute prohibiting the inclusion of CWIP in the Company's rate base became law, and on June 5, 1979 a hearing was held before the NHPUC on its order to the Company to show cause why it should not, as of May 7, 1979, eliminate from its existing rates that portion based on CWIP. At the June 5 hearing, the NHPUC ruled that the Company could not present evidence as to its general revenue requirements, and that the only question before the NHPUC was whether the statute mandated immediate elimination of CWIP from rate base. Briefs have been filed and the decision of the NHPUC is pending. See "Rates — New Hampshire Retail".

Reduction of Construction Program. In view of the anticipated cash stringency resulting from the elimination of CWIP (see Note (D) to the Statement of Earnings) and the resultant difficulty of financing the 50% interest in Seabrook, the Company decided on March 3, 1979 to reduce its ownership interest in the Seabrook plant to 28% by offering ownership interests aggregating 22% to other utilities. It has also offered to other utilities its ownership interests in the Pilgrim #2 and Millstone #3 projects. If completed, these reductions would result in an estimated 1979-1985 construction program for the Company of $600,600,000.

By amendment to the Joint Ownership Agreement relating to the Seabrook plant, nine other New England utilities have agreed, subject to necessary regulatory and other approvals, to increase gradually over an Adjustment Period of about two years their ownership interests in the Seabrook plant by *pro rata* sharing of costs otherwise attributable to the Company's ownership interest until their aggregate investment in Seabrook will be increased by 22%, and the Company's investment reduced to 28%, of the total investment of all participants. See "Construction Program". The amendment to the Joint Ownership Agreement will become effective, and the Adjustment Period will begin, only after receipt by all of the utilities involved of any required approvals by the NHPUC, the Nuclear Regulatory Commission, the Massachusetts Department of Public Utilities and the Vermont Public Service Board and of approval by stockholders of two Massachusetts electric companies and the Company as to the change in the ownership interests of such Massachusetts utilities. Although opposition from intervenor groups is anticipated, decisions on the requested approvals are expected to be made by the end of 1979. The Company believes that if such approvals are received with respect to substantially all of the proposed reduction in the Company's ownership interest, the Company and the participants involved would probably agree to start the Adjustment Period with respect to the changes so approved.

302 131

Until the Adjustment Period begins, the Company must continue to finance its construction program at its present 50% ownership interest in the Seabrook project.

Immediate Financing Program. The Company has a revolving credit agreement with certain commercial banks which prior to April, 1979 permitted the Company, subject to periodic review by the banks, to borrow up to $95,000,000 until April 30, 1979. On April 24, 1979, the banks extended the maturity date to July 2, 1979 and increased the amount to $115,000,000 and they have since advised the Company that they are willing to extend the maturity date to October 15, 1979. The Company believes that the availability of such credit to October 15, 1979 and any extension of the October 15 maturity date will depend principally upon the success of the Company's financing program described below and the status of the regulatory approvals required for the commencement of the Adjustment Period; there can be no assurance that such extension will be granted. The Company has additional lines of credit of $5,350,000 with New Hampshire banks. At June 15, 1979, an aggregate of $104,350,000 was outstanding under such agreement and lines of credit.

The Company estimates that, in order to finance its construction program if the Adjustment Period begins in January, 1980, it must raise up to $80,000,000 by external financing during 1979 in addition to the funds raised from the sale of the 2,000,000 shares of additional Common Stock offered hereby (the "additional Common Stock") assuming the continued availability of such $120,350,000 of short-term bank credit. If the necessary approvals for the commencement of the Adjustment Period are obtained earlier than the end of the year, the Company's 1979 financing requirements would be reduced. After the sale of the additional Common Stock, the Company expects that it will have again fully utilized its presently available bank credit, and will require additional external financing, during September, 1979, assuming that the present construction schedule for the Seabrook plant is maintained.

As part of its plan to obtain the needed funds, the Company expects to receive in July, 1979 advance payments aggregating $10,600,000 from the other Seabrook participants against their present ownership interests in the project. These advances will be secured by the Company's interest in nuclear fuel for the Seabrook project. The Company will seek the necessary additional funds through a sale of general and refunding mortgage bonds and nuclear fuel financing. Advance payments from the other Seabrook participants will be repaid from the proceeds of any nuclear fuel financing obtained by the Company.

Adequate and timely rate relief, particularly if CWIP is eliminated as described above, is essential to the Company's financing plans. Adverse developments in rate proceedings could reduce the availability of external financing, including the availability of short-term bank credit. See "Business — Rates — New Hampshire Retail".

Consequence of Failure to Obtain Regulatory Approvals or Financing. There can be no assurance that the regulatory approvals for the proposed reduction in the Company's interest in the Seabrook project will be obtained or that the Company can obtain financing in the necessary amounts or in a timely manner. Timely approvals and financing are essential to enable the Company to maintain its construction program and continue its business operations.

INDUSTRY PROBLEMS

The Company has experienced and may in the future experience in varying degrees a number of problems generally common to the electric utility industry. These problems include obtaining adequate and timely rate increases, uncertainties caused by increasing political involvement in utility regulation, financing large construction programs during an inflationary period, obtaining sufficient capital on reasonable terms, compliance with environmental regulations, high costs of fossil fuel, delays in licensing and constructing new facilities, and effects of energy conservation.

Recent events at the Three Mile Island Nuclear Unit No. 2 in Pennsylvania ("TMI") resulted in damage to the plant and release of radioactivity into the surrounding environment and caused widespread concern about the safety of nuclear generating plants. The Company has interests not only in the Seabrook project but also in six other nuclear generating plants which are either operating or planned or under construction in New England (see "Business — Joint Projects"); its interests in the four such operating plants represent approximately 8% of the Company's present generating capacity. The Company cannot predict what effect, if any, the recent events at TMI may have upon the completion or the cost of completion of the Seabrook project or such other planned nuclear units or upon the continued operation of the existing nuclear generating plants in New England. Neither the Seabrook Units nor any of these six other New England plants utilize a nuclear steam supply system furnished by the vendor which supplied TMI. United Engineers & Constructors Inc., the engineer-constructor for the Seabrook project, was constructor of TMI but was not involved in its design. The TMI incident has prompted a rigorous reexamination of safety and operating procedures in all nuclear facilities. The plants in which the Company has an interest are being reviewed by their owner-operators, and those plants and all other nuclear facilities are being reexamined by the United States Nuclear Regulatory Commission. The TMI incident has also generated a multiplicity of legislative proposals in Congress and various state legislatures. The ultimate effect of these reexaminations and proposals cannot be predicted.

USE OF PROCEEDS

The proceeds to the Company from the sale of the additional Common Stock, estimated to amount to about $35,890,000, will be used for the Company's continuing construction program, including the reduction of short-term bank borrowings incurred in connection therewith. On the date of issue of the additional Common Stock, short-term bank borrowings are expected to be approximately $115,000,000.

CONSTRUCTION PROGRAM

The area served by the Company has experienced relatively rapid population and economic growth in the last several years. According to statistics compiled by the United States Department of Commerce, Bureau of the Census, the average annual rate of population growth in the State of New Hampshire was approximately 2% during the period 1970-78, the second highest rate of growth for any state east of Colorado. Figures released by the New Hampshire Department of Employment Security show that New Hampshire is experiencing one of the lowest unemployment rates in the nation, and the lowest in New England — 3.2% (not seasonally adjusted) for the month of March, 1979.

As a result, the electric needs of the Company's customers have increased (an average annual increase of 7.5% in the Company's annual peak load during the ten-year period ending December 31, 1978). Furthermore, such needs have been projected by the Company to increase at an average annual rate of approximately 6.5% at least through 1987, which would be the highest anticipated increase of any major electric utility in New England based upon estimates furnished to the New England Power Pool. The Company's forecasts indicate that its net purchases of capacity will have increased to 454 MW at the time of scheduled completion in 1983 of the first unit of the Seabrook plant described below, of which the Company's expected reduced share will be 322 MW. Certain of the utilities whose shares in the Seabrook plant are being increased may sell all or part of their increased Seabrook entitlements to the Company for varying periods. If the Company's load growth projections are correct, the Company would be required to purchase capacity from other electric utilities during most of the 1980's. If the Seabrook plant is not completed on schedule, such purchases will increase, and there can be no assurance that the Company would be able to purchase sufficient power to render adequate service to its customers.

The Company proposes to meet the projected needs of its customers primarily through its share of the 2,300 MW Seabrook nuclear plant, with two units each having a capacity of 1,150 MW currently planned for completion in 1983 and 1985, respectively. Unit #1 of the Seabrook plant is the only major base load generating station in New England now scheduled to begin service before 1985. In the view of the Company, both units of the plant are essential to meet not only the Company's needs but the New England load as well. As described under "Problems Facing the Company", the Company and nine other New England utilities* have agreed to adjust their ownership interests in the Seabrook project, subject to receipt of the necessary regulatory approvals. The following table shows the proposed changes in ownership interests:

Utility	Present Interest	Increase (Decrease) in Interest	Adjusted Interest	Adjusted MW Capacity
The Company	50.00000%	(22.00000)%	28.00000%	644.00
MMWEC	5.59249**	13.87446	19.46695	447.74
NB	4.37370**	2.17390	6.54760	150.59
Bangor	0.37249	1.80142	2.17391	50.00
Montaup	2.93531**	1.00000	3.93531	90.51
CMP	2.54178**	1.00000	3.54178	81.46
CVPS	1.59096**	1.00000	2.59096	59.59
GMP	0.00000	1.00000	1.00000	23.00
Taunton	0.10034	0.13065	0.23099	5.31
Hudson	0.05780**	0.01957	0.07737	1.78

*Massachusetts Municipal Wholesale Electric Company ("MMWEC"), New Bedford Gas and Edison Light Company ("NB"), Bangor Hydro-Electric Company ("Bangor"), Montaup Electric Company ("Montaup"), Central Maine Power Company ("CMP"), Central Vermont Public Service Corporation ("CVPS"), Green Mountain Power Corporation ("GMP"), Town of Hudson, Massachusetts, Light and Power Department ("Hudson") and Taunton Municipal Lighting Plant Commission ("Taunton").

**Reflects changes which will result from transfers by participants, other than the Company, previously agreed to but not yet completed.

134

After such adjustments, the Company's share of the cost of Seabrook, including the initial nuclear fuel, is estimated at $561,500,000, excluding any allowance for funds used during construction which allowance is estimated to be $301,600,000. If the Company's ownership interest should remain at 50%, these amounts would be $1,002,722,000 and $429,000,000, respectively. See "Problems Facing the Company" and "Financing" for a discussion of the factors affecting the financing of the Seabrook plant, and see "Business — Seabrook Nuclear Project" for a discussion of administrative proceedings and litigation relating to the Seabrook plant.

The Company's aggregate construction program for the seven-year period 1979 through 1985, which is subject to continuing review and adjustment, is currently estimated to be about $600,600,000 (excluding any allowance for funds used during construction) if its ownership interest in Seabrook is reduced to 28% as described above and under "Problems Facing the Company" and its ownership interests in Pilgrim #2 and Millstone #3 are sold. Such construction expenditures would total $1,109,600,000 if such interests remain at their present amounts. The following table sets forth the Company's estimated construction expenditures for 1979 (assuming no effect in this year of its reduced construction program) and the unadjusted and adjusted construction programs as described above based on current construction schedules and cost projections (including an inflation factor, which in the case of Seabrook is 8% per annum):

	Estimated Construction Expenditures (Millions of Dollars)		
Generating Facilities	1979	Unadjusted 1979-1985	Adjusted 1979-1985
Company's Share of Seabrook Nuclear Project			
Plant	$140.7	$ 673.0	$271.9
Nuclear Fuel	21.2	79.6	39.9
Total	161.9	752.6	311.8
Participation in Other Plants*			
Nuclear Plants	6.6	67.7	6.6
Nuclear Fuel	0.4	7.5	0.4
Total	7.0	75.2	7.0
Other Generation	2.5	12.4	12.4
Total Generating Facilities	171.4	840.2	331.2
Transmission Facilities	11.0	128.0	128.0
Distribution and General Facilities	18.2	141.4	141.4
Total	$200.6**	$1,109.6	$600.6

* See "Business — Joint Projects."

**Of this amount, approximately $66,100,000 had been expended through April 30, 1979.

The following table shows the aggregate amount for each of the years 1979 through 1985 of the Company's estimated construction program before and after adjustment to reflect the reduction of

the Company's ownership interest in Seabrook to 28% commencing in January, 1980 and the sale of its interests in Pilgrim #2 and Millstone #3 by that date:

	Unadjusted Construction Program	Adjusted Construction Program
1979	$ 200,600,000	$200,600,000
1980	220,100,000	30,200,000
1981	210,600,000	46,800,000
1982	169,400,000	105,200,000
1983	126,200,000	81,500,000
1984	120,300,000	82,800,000
1985	62,400,000	53,500,000
Total	$1,109,600,000	$600,600,000

Actual construction expenditures could vary from these estimates because of changes in the Company's plans and load forecasts, cost fluctuations, licensing delays, and other factors. The Company is continuing to experience increases in construction costs for the Seabrook nuclear plant as a result of escalating labor, material and equipment costs caused by delays in the regulatory proceedings relating to the plant. The Company estimates that the ultimate cost of its share of Seabrook would increase between $5,770,000 and $7,900,000 for a 28% ownership interest (and between $10,300,000 and $14,100,000 for a 50% ownership interest) for each month's delay in completion. Delays of more than one month may result in a higher per month cost; the increase in cost in each case depends upon the cause and length of the delay. It is also possible that additional expenditures may be required to meet regulatory and environmental requirements at the Seabrook nuclear plant and at the Company's other generating facilities. See "Industry Problems" and "Business — Environmental Matters."

The complexity of present-day electric utility technology and the time required for the construction of generating facilities and for the completion of the necessary licensing and regulatory proceedings, which have become increasingly extensive, have compelled the Company, as well as other electric utilities, to make substantial investments in the construction of such facilities before the licensing and regulatory proceedings are final. At April 30, 1979, the Company had invested approximately $348,800,000 (including allowance for funds used during construction of approximately $38,800,000) in the Seabrook nuclear plant. While it is possible that future developments could lead to cancellation of the project, the Company considers such a possibility unlikely not only because the necessary construction permits and approvals have been received (although certain of them are subject to further court appeal and administrative proceedings, see "Business — Seabrook Nuclear Project") and construction is proceeding but also because of the projected need for the plant's power in the Company's service area and in New England generally. However, if the Seabrook project were cancelled, the Company estimates that at the present time its share of the total costs would be substantially more than its investment; the precise amount would depend upon a number of factors, including the amount of termination charges and salvage and the results of negotiations in connection with contract terminations. The Company would apply to regulatory authorities for approval to amortize its share

302 136

of total costs over an appropriate future period and to recover such costs through the Company's retail and wholesale rates. While the Company cannot predict whether and to what extent regulatory authorities would permit such recovery, construction of the plant was authorized by the New Hampshire Public Utilities Commission based upon its finding that the plant was required to meet the demand for electric power. See "Business — Seabrook Nuclear Project — NHPUC".

FINANCING

Financing of the Company's 1979-1985 construction program estimated at $600,600,000 (assuming its construction program is reduced as described above), and the refinancing at maturity of certain long-term debt and required sinking fund payments together aggregating $114,942,000 during this period (see Notes 4 and 6 of Notes to Financial Statements), represent a major undertaking for the Company. Approximately $169,000,000 is expected to be generated from internal funds (principally after 1982) assuming CWIP is not included in rate base after June 30, 1979. The balance is expected to be financed from external sources.

During 1978, the Company raised approximately $83,900,000 from permanent financing, consisting of approximately $23,900,000 from the sale of 1,300,000 shares of Common Stock in May and $60,000,000 from the sale of General and Refunding Mortgage Bonds in September. The Company raised $39,640,000 from the sale of 2,000,000 shares of Common Stock in January, 1979, and $30,000,000 from the sale of Preferred Stock in May, 1979. The Company's financing plans for the 1979-1985 period include the issuance of common stock, preferred stock and long-term debt, nuclear fuel financing and intermediate-term debt financing.

The success of the Company's financing plan is dependent upon a number of factors, including the Company's ability to obtain adequate and timely rate increases, conditions in the securities markets, economic conditions and the Company's level of sales and particularly resolution of the matters discussed under "Problems Facing the Company".

Mortgage Bonds. Due to certain restrictions in the Company's First Mortgage Indenture, no significant amount of First Mortgage Bonds may be issued thereunder until an operating license is obtained for Seabrook Unit #1, now anticipated in late 1982. The Company is considering seeking the consent of the holders of its First Mortgage Bonds (75% in principal amount required) to amend that Indenture by modifying or eliminating these restrictions, but no assurance can be given that such consent will be sought or obtained. If these amendments are made, the Company is required to redeem all outstanding General and Refunding Mortgage Bonds described below by exchange for First Mortgage Bonds; until such time, such First Mortgage Bonds as may be issued will be pledged as additional security for the General and Refunding Mortgage Bonds.

Because of the restrictions in the Company's First Mortgage Indenture, the Company has entered into the General and Refunding Mortgage Indenture dated as of August 15, 1978, constituting a second mortgage on the Company's properties to secure General and Refunding Mortgage Bonds. The Company sold $60,000,000 of such Bonds to institutional investors in September, 1978. The terms of the General and Refunding Mortgage Indenture are generally similar to those of the First Mortgage Indenture except for elimination of the above-mentioned restrictions on issuance of bonds and the inclusion of a

limitation on the amount of other income (including AFUDC) includible in earnings coverage under the General and Refunding Mortgage Indenture. For the twelve months ended March 31, 1979, the earnings coverage of interest on bonds was approximately 3.46, as compared with the requirements for the issuance of additional bonds contained in the General and Refunding Mortgage Indenture of 2.0. At March 31, 1979 the earnings coverage test would have limited the principal amount of General and Refunding Mortgage Bonds (11¼% annual interest rate assumed) which could have been issued to \$142,600,000. Upon the exclusion of CWIP from rate base, the earnings coverage will be adversely affected and the amount of Bonds issuable under the General and Refunding Mortgage Indenture will be significantly reduced.

Bank Financing. The Company has a revolving credit agreement with a group of seven commercial banks under which the Company may borrow up to \$115,000,000 through June 29, 1979. Amounts outstanding under the credit are due and payable on July 2, 1979 but the banks have advised the Company that they are willing to extend the maturity date to October 15, 1979; there can be no assurance that the maturity will be extended beyond that date. The same group of commercial banks have extended to the Company a \$25,000,000 term credit due January 3, 1980. The Company has agreed to use its best efforts to make arrangements mutually satisfactory to the Company and the banks to issue General and Refunding Mortgage Bonds to secure all revolving credit advances exceeding \$95,000,000 and the term credit. The Company has additional lines of credit aggregating \$5,350,000 with New Hampshire banks. The Company is exploring the possibility of obtaining additional loans from other commercial banks.

As of March 31, 1979, the Company could have incurred approximately \$123,000,000 of short-term unsecured indebtedness under its Articles of Agreement without obtaining the approval of holders of the Preferred Stock. The NHPUC has approved up to \$121,700,000 of short-term borrowings.

Preferred Stock. Under the Company's Articles of Agreement additional Preferred Stock may be issued without the affirmative vote of the holders of a majority of either class of the Preferred Stock provided that the ratio of earnings to fixed charges and preferred dividends, including dividends on Preferred Stock to be issued, is at least 1.50. For the twelve months ended March 31, 1979, the ratio of earnings to fixed charges and preferred dividends computed under the method prescribed by the Company's Articles of Agreement was 2.10; as of that date, after giving effect to the issuance of 1,200,000 shares of the Sinking Fund Preferred Stock 11.24% Dividend Series, \$25 par value, on May 22, 1979, such ratio would have been 1.88, and the Company could have issued, without such vote of the holders of the Preferred Stock, approximately \$71,000,000 of additional Preferred Stock (11¼% annual dividend rate assumed).

COMMON STOCK DIVIDENDS AND PRICE RANGE

The Company has paid regular quarterly dividends on its Common Stock since 1946 when its Common Stock first became publicly held. The Company's annual dividend increased from \$1.64 to \$1.72 in 1975, to \$1.86 in 1976 and to \$1.88 in 1977. The quarterly dividend paid November 15, 1978 was increased to \$0.53 (\$2.12 annual rate). A quarterly dividend of 53¢ per share was declared by the Board of Directors at its June 21, 1979 meeting payable August 15, 1979 to holders of record of

Common Stock on July 31, 1979. The shares of the additional Common Stock offered hereby will be entitled to this dividend. It is the intention of the Board of Directors to continue to pay dividends quarterly on the Common Stock, but such dividends will be dependent on the future earnings and financial condition of the Company and other factors. See "Statement of Earnings" as to dividends paid on Common Stock.

The following table indicates the high and low sale prices of the Common Stock as reported in *The Wall Street Journal* as New York Stock Exchange transactions through January 23, 1976, and as composite transactions thereafter:

	High	Low
1974	19⅞	10
1975	19⅛	11½
1976	21¾	18⅝
1977		
First Quarter	21¾	19⅞
Second Quarter	22	19¾
Third Quarter	22½	20¾
Fourth Quarter	21¾	19¾
1978		
First Quarter	21⅛	19¼
Second Quarter	20⅝	18⅞
Third Quarter	22¼	19⅛
Fourth Quarter	22½	19¼
1979		
First Quarter	21⅛	19½
Second Quarter (through June 20, 1979)	19⅞	17⅛

The last reported sale price on the New York Stock Exchange on June 20, 1979 was $19.25. The book value of the Common Stock at March 31, 1979 was $23.09 per share.

The Company has a Dividend Reinvestment and Common Stock Purchase Plan under which holders of its Common Stock may automatically reinvest their dividends, make optional cash investments of an aggregate of from $25 to $5,000 per quarter, or both, in additional shares of Common Stock without payment of any brokerage commission or service charge. Participation in the Plan is offered only by means of a separate prospectus available upon request from the Company. The Plan was suspended before the May, 1979 dividend payment date pending revision of the offering prospectus to reflect the matters described under "Problems Facing the Company". It is expected that the Plan will be reinstituted before the August dividend date.

302 139

CAPITALIZATION

The capitalization and short-term debt of the Company as of March 31, 1979 was, and adjusted as of that date to reflect (a) the issuance of 1,200,000 shares of Sinking Fund Preferred Stock, $25 par value, on May 22, 1979, and (b) the issuance of 2,000,000 shares of Common Stock, $5 par value, offered hereby and the application of the combined proceeds thereof (assumed to aggregate $65,800,000) would have been, as follows:

	Amount Outstanding March 31, 1979		Adjusted	
	Amount	Percent	Amount	Percent
	(Thousands of Dollars)			
Long-Term Debt (including current maturities)				
First Mortgage Bonds (a)	$200,190		$200,190	
General and Refunding Mortgage Bonds (b)	60,000		60,000	
Promissory Note	25,000		25,000	
Pollution Control Revenue Bonds	7,200		7,200	
Total Long-Term Debt	292,390	45.1%	292,390	41.0%
Preferred Stock — Cumulative				
$100 Par Value, Authorized, 1,350,000 shares Outstanding, 681,527 shares (c)	68,153		68,153	
$25 Par Value, Authorized, 2,000,000 shares Outstanding, 600,000 shares; adjusted, 1,800,000 shares (c)	15,000		45,000	
Total Preferred Stock	83,153	12.8	113,153	15.9
Common Stock Equity				
Common Stock — $5 Par Value Authorized, 18,000,000 shares Outstanding, 11,822,056 shares; adjusted, 13,822,056 shares (d)	59,110		69,110	
Other Paid-In Capital	138,460		162,84[illegible] (e)	
Retained Earnings	75,512		75,512	
Total Common Stock Equity	273,082	42.1	307,466	43.1
Total Capitalization (f)	$648,625	100.0%	$713,009	100.0%
Short-Term Debt	$ 95,100		$ 29,300 (g)	

(a) Because of certain restrictions in the First Mortgage Indenture no significant amount of bonds may now be issued thereunder. See "Financing". For a description of the outstanding series, see Note 6 of Notes to Financial Statements.

(b) The amount of bonds issuable under the General and Refunding Mortgage Indenture is subject to certain restrictions. See "Financing". For a description of the outstanding series, see Note 6 of Notes to Financial Statements.

(c) For a description of the outstanding series, see Note 4 of Notes to Financial Statements.

(d) In addition as of March 31, 1979 there were reserved for issuance upon conversion of the 54,527 shares of Convertible Preferred Stock, 5.50% Dividend Series, 234,928 shares of Common Stock based upon the conversion price of $23.21 per share (the Convertible Preferred Stock being taken at its par value of $100 per share). The issuance of the 2,000,000 shares of additional Common Stock will result in adjustment of the conversion price to $ per share and an aggregate of shares of Common Stock will be reserved for issuance upon such conversion.

(e) The expenses of issuing the Common Stock offered hereby (estimated at $115,000) will be paid out of the general funds of the Company and, like the underwriting commissions and the expenses of issuing the Preferred Stock in May, 1979, charged to Other Paid-In Capital.

(f) See Note 7 of Notes to Financial Statements with respect to Commitments and Contingencies.

(g) On the date of the issue of the additional Common Stock, short-term bank borrowings are expected to be approximately $115,000,000. See "Use of Proceeds" and Note 3 of Notes to Financial Statements.

STATEMENT OF EARNINGS

The following Statement of Earnings, so far as it relates to the five years in the period ended December 31, 1978, has been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report thereon appears elsewhere in this Prospectus. The information for the twelve months ended March 31, 1979 is unaudited and, in the opinion of management, includes all adjustments (consisting only of normal recurring accruals) necessary to a fair statement of results of operations for such period. This statement should be read in conjunction with the other financial statements and the related notes appearing elsewhere in this Prospectus.

	Twelve Months Ended March 31, 1979	Year Ended December 31, 1978	1977	1976	1975	1974
	(Unaudited)	(Thousands of Dollars)				
Operating Revenues (A)(B)	$268,843	$260,751	$214,787	$196,674	$186,393	$155,930
Operating Expenses						
Operation						
Fuel (B)	81,837	71,996	70,500	54,881	58,511	43,161
Purchased and Interchanged Power	39,618	43,422	37,810	36,468	27,153	32,505
Other	32,894	31,490	27,641	25,058	22,048	19,283
Maintenance (A)	17,565	17,502	14,550	12,930	10,727	8,575
Depreciation (A)	14,924	14,752	14,117	13,791	13,522	11,624
Federal and State Taxes on Income (A)(C)	19,246	19,666	8,399	9,733	9,916	3,702
Other Taxes, Principally Property Taxes	13,858	13,585	12,596	11,860	10,018	9,756
Total Operating Expenses	219,942	212,413	185,613	164,721	151,895	128,606
Operating Income	48,901	48,338	29,174	31,953	34,498	27,324
Other Income and Deductions						
Allowance for Equity Funds Used During Construction (D)	8,930	7,828	6,093	3,205	1,573	1,785
Equity in Earnings of Affiliated Companies (A)	874	870	802	1,007	821	870
Other — Net	1,046	983	491	391	498	2,644
Total Other Income and Deductions	10,850	9,681	7,386	4,603	2,892	5,299
Income Before Interest Charges	59,751	58,019	36,560	36,556	37,390	32,623
Interest Charges						
Interest on Long-Term Debt	22,802	21,073	18,980	17,932	16,680	13,547
Other Interest	9,338	8,201	2,029	290	1,209	4,672
Allowance for Borrowed Funds Used During Construction (D)	(10,029)	(7,762)	(6,171)	(2,661)	(1,307)	(1,896)
Net Interest Charges	22,111	21,512	14,838	15,561	16,582	16,323
Net Income	37,640	36,507	21,722	20,995	20,808	16,300
Preferred Dividend Requirements	6,377	6,391	5,120	4,848	3,604	3,378
Earnings Available for Common Stock	$ 31,263	$ 30,116	$ 16,602	$ 16,147	$ 17,204	$ 12,922
Average Shares of Common Stock Outstanding (Thousands)	9,983	9,275	7,680	6,372	6,124	5,134
Earnings Per Share of Common Stock (E)	$3.13	$3.25	$2.16	$2.53	$2.81	$2.52
Dividends Per Share of Common Stock	$2.06*	$1.94	$1.88	$1.86	$1.72	$1.64

*Includes a dividend of 53¢ per share declared by the Board of Directors on April 26, 1979, paid on May 15, 1979.

(See "Management's Discussion and Analysis of the Statement of Earnings".)

(A) See the applicable portion of Note 1 of Notes to Financial Statements.

(B) Since December 3, 1977, the Company's New Hampshire retail rates have been based in part upon the inclusion in the Company's rate base of a portion of the costs of construction work in progress (CWIP) associated with major generating projects. The inclusion of CWIP in rate base increases

revenues from customers to cover the costs of financing such CWIP. See "Business — Rates — New Hampshire Retail" for information concerning the elimination of CWIP from the Company's rate base.

See "Rates — Other" for a discussion of increased rates to wholesale customers put into effect by the Company on July 29, 1978.

During 1977, the Federal Power Commission (FPC) affirmed an Administrative Law Judge's decision which resulted in the Company refunding in October, 1977 approximately $1,622,000 of 1975 wholesale fuel adjustment clause revenues. This decision was affirmed by the United States Court of Appeals for the District of Columbia Circuit on May 3, 1979. Pending a decision by the Company regarding a further court appeal of this matter, the Company has charged the refund with interest to deferred debits.

In August, 1976, the Company and a fuel supplier reached agreement on the amount of a fuel inventory adjustment. As a result of this settlement, operating revenues and fuel expense for 1976 are each approximately $4,598,000 less than they otherwise would have been.

(C) See Note 2 of Notes to Financial Statements for information regarding income taxes.

(D) AFUDC is the estimated cost, during the period of construction, of funds invested in the construction program which are not being recovered from customers through current revenues. Such allowance is not realized in cash currently but under the rate-making process the amount of the allowance will be recovered in cash over the service life of the plant in the form of increased revenue collected as a result of higher plant costs. The NHPUC, commencing on December 3, 1977, permitted the Company to include in rate base a portion of the costs of construction work in progress (CWIP) associated with major generating projects. Therefore, AFUDC for the year 1978 and the twelve months ended March 31, 1979 does not include the cost of funds invested in the construction program which are being currently provided for by revenues of the Company. To the extent CWIP is not included in the Company's rate base, the cost of funds invested in CWIP (interest on debt and return on equity, including dividends) will not be provided by revenues and larger amounts of AFUDC will be added to the cost of the plant being constructed with offsetting credits in the Statement of Earnings. Since the credits are not cash items, cash for interest and dividends may need to be provided in whole or in part by additional financing during the construction period.

AFUDC net of applicable deferred income tax provisions equalled 32.5% and 37.8% of net income for 1978 and the twelve months ended March 31, 1979, respectively. The Company capitalized AFUDC at a net-of-tax rate of 7½% for 1974. Effective January 1, 1975, the Company began using a pre-tax rate of 9½% (increased to 10% effective January 1, 1979) and began recognizing deferred income tax expense applicable to the current tax reduction resulting from interest expense associated with construction, but these changes had no significant effect on net income.

The Company began compounding AFUDC on February 1, 1977 resulting in an increase in the gross amount of AFUDC capitalized during 1977 and subsequent periods. This change increased 1977 net income and earnings per share of common stock by approximately $816,000 and $0.11, respectively.

(E) Earnings per share are based on the average number of common shares outstanding, after recognition of preferred dividend requirements.

(F) The following quarterly information is unaudited, and, in the opinion of management, is a fair summary of results of operations for such periods. Variations between quarters reflect the seasonal nature of the Company's business, and beginning with the fourth quarter of 1977, additionally includes the effect of rate increases. See — "Management's Discussion and Analysis of the Statement of Earnings." The fourth quarter of 1977 also includes an adjustment which decreased maintenance expenses recorded in the first three quarters of 1977 by approximately $1,000,000.

	Quarter Ended								
	Year 1979	Year 1978				Year 1977			
	March	Dec.	Sept.	June	March	Dec.	Sept.	June	March
	(Thousands except Per Share Amounts)								
Operating Revenues	$80,072	$69,346	$62,387	$57,038	$71,980	$57,091	$52,678	$47,491	$57,527
Operating Income	14,758	12,324	11,700	10,119	14,195	9,109	6,611	5,252	8,202
Net Income	12,217	9,359	8,872	7,192	11,084	7,390	5,098	3,244	5,990
Preferred Dividend Requirements	1,586	1,594	1,598	1,599	1,600	1,516	1,199	1,197	1,208
Earnings Available for Common Stock	10,631	7,765	7,274	5,593	9,484	5,874	3,899	2,047	4,782
Average Shares of Common Stock Outstanding	11,319	9,770	9,755	9,109	8,447	8,444	7,823	7,230	7,209
Earnings Per Share of Common Stock	$0.94	$0.79	$0.75	$0.61	$1.12	$0.70	$0.50	$0.28	$0.66

Recent Results of Operations

Information with respect to the results of operations for the twelve months and four months ended April 30, 1979 and 1978 is as follows:

	Twelve Months Ended April 30,		Four Months Ended April 30,	
	1979	1978	1979	1978
	(Thousands except Per Share Amounts)			
Operating Revenues	$272,132	$232,785	$103,334	$91,953
Operating Income	48,752	36,833	18,226	17,812
Net Income	37,662	28,192	14,893	13,738
Preferred Dividend Requirements	6,374	5,648	2,116	2,133
Earnings Available for Common Stock	31,288	22,544	12,777	11,605
Average Shares of Common Stock Outstanding	10,261	8,086	11,445	8,448
Earnings Per Share of Common Stock	$3.05	$2.79	$1.12	$1.37

The foregoing information is unaudited and, in the opinion of management, includes all adjustments (consisting only of normal recurring accruals) necessary to a fair statement of results of operations for such periods. Information for the twelve and four months ended April 30, 1979 may not be indicative of results for the full year ending December 31, 1979.

Management's Discussion and Analysis of the Four Months Ended April 30, 1979 as Compared with the Four Months Ended April 30, 1978

Operating Revenues increased $11,381,000 principally due to (1) the operation of the fuel adjustment clause ($4,823,000), (2) an increase in unit power sales ($1,797,000), (3) an increase in rates to New Hampshire retail customers of approximately $3,000,000 on an annual basis effective June 1, 1978, (4) an increase in rates to wholesale customers of approximately $2,400,000 on an annual basis effective July 29, 1978 and (5) an increase in prime energy sales.

Earnings per share declined principally due to the larger number of shares outstanding and because operating margins have declined due to higher operating expenses. The Company anticipates that margins will remain under pressure unless and until higher rates become effective.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENT OF EARNINGS

Twelve Months Ended March 31, 1979 as Compared with Calendar 1978:

"Operating Revenues" increased $8,092,000 principally due to (1) the operation of the fuel adjustment clause ($2,836,000), (2) an increase in unit power sales ($1,520,000), (3) an increase in rates to New Hampshire retail customers of approximately $3,000,000 on an annual basis effective June 1, 1978, (4) an increase in rates to wholesale customers of approximately $2,400,000 on an annual basis effective July 29, 1978 and (5) an increase in prime energy sales.

"Fuel Expense" increased $9,841,000 because a larger percentage of total power supply was generated by Company-owned fossil fuel plants.

"Purchased and Interchanged Power" decreased $3,804,000 due to the increased generation by Company-owned fossil fuel plants.

"Allowance for Equity Funds Used During Construction" and *"Allowance for Borrowed Funds Used During Construction"* increased due to an increase in the Company's construction program, primarily the Seabrook nuclear plant.

"Other Interest" increased $1,137,000 due to an increase in the rates and level of short-term borrowings from banks as an interim method of financing construction of new facilities.

1978 as Compared with 1977:

"Operating Revenues" increased $45,964,000 principally due to a rate increase to New Hampshire retail customers on December 3, 1977 ($27,000,000 on an annual basis), increased to $30,000,000 on an annual basis on June 1, 1978; a rate increase to wholesale customers on July 29, 1978 (approximately $2,400,000 on an annual basis); increased revenue associated with the operation of a fuel adjustment clause ($10,000,000), and an increase in prime energy sales.

"Purchased and Interchanged Power" increased $5,612,000 principally due to increases in capacity and energy purchases necessary to meet the Company's increased KWH sales and replacement power as required during the shutdown of Merrimack Station.

"Other Operating Expenses" increased principally because of the effect of inflation on wages, supplies and services and employee benefits, the exact amount of which cannot be determined individually.

302 144

"*Maintenance Expenses*" increased principally due to increased cost of maintenance at Merrimack Station (approximately 60% of the total increase) and because of the effect of inflation on wages and materials (approximately 34%) and on costs of annual maintenance at other generating stations (approximately 6%).

"*Federal and State Taxes on Income*" increased $11,267,000 principally due to an increase in current taxable income due to increased operating revenues, and an increase in deferred taxable income.

"*Other Taxes, Principally Property Taxes*" increased due primarily to higher real estate property assessments and tax rates.

"*Allowance for Equity Funds Used During Construction*" and "*Allowance for Borrowed Funds Used During Construction*" increased due to an increase in the Company's construction program, primarily the Seabrook nuclear plant.

"*Other Income and Deductions — Other — Net*" increased $560,000 primarily as a result of increased interest income from short-term investments.

"*Interest Charges*" increased principally due to (1) additional long-term debt outstanding (approximately 25% of the total increase) and (2) an increase in the rates and level of short-term borrowings from banks as an interim method of financing construction of new facilities (approximately 75%).

1977 as Compared with 1976:

"*Operating Revenues*" increased $18,113,000 in 1977 principally due to increased revenue associated with the operation of a fuel adjustment clause ($7,685,000), an increase in unit power sales ($3,268,000), a rate increase to New Hampshire retail customers on December 3, 1977 ($27,000,000 on an annual basis) and an increase in prime energy sales.

"*Fuel Expense*" increased $15,619,000 in 1977 because a larger percentage of total power supply was generated in Company-owned fossil fuel plants (approximately 49% of the total amount) and due to increases in the unit costs of coal and oil (approximately 21%), and also because of the inventory adjustment referred to in Note (B) to Statement of Earnings (approximately 30%).

"*Other Operating Expenses*" increased in 1977 principally because of the effect of inflation on wages, supplies and services, employee benefits, and additional cost for transmission services associated with additional power purchased.

"*Maintenance Expenses*" increased in 1977 principally due to increased costs of maintenance at Merrimack Station (approximately 12% of the total increase) and because of the effect of inflation on wages and materials (approximately 48%) and on costs of annual maintenance at all generating stations (approximately 40%).

"*Federal and State Taxes on Income*" decreased $1,334,000 in 1977 primarily due to a decrease in taxable income.

"*Other Taxes, Principally Property Taxes*" increased in 1977 due primarily to higher real estate property tax rates.

"*Allowance for Equity Funds Used During Construction*" and "*Allowance for Borrowed Funds Used During Construction*" increased substantially in 1977 due to (1) an increase in the Company's construction program, primarily the Seabrook nuclear plant and (2) the effect of compounding of AFUDC semi-annually, effective February 1, 1977 as permitted by Federal Power Commission Order No. 561. See Note (D) to Statement of Earnings.

302 145

OPERATING STATISTICS

	Twelve Months Ended March 31, 1979	Year Ended December 31, 1978	1977	1976	1975	1974
MWH Generated and Purchased — Net						
Generated by Water Power	270,055	291,972	332,523	328,701	335,521	347,129
Generated by Fuel	4,404,072	3,849,853	4,033,704	3,596,002	3,669,800	3,385,098
Total Generated	4,674,127	4,141,825	4,366,227	3,924,703	4,005,321	3,732,227
Power Purchased — Nuclear Affiliates	635,174	674,337	629,116	670,994	618,787	530,129
Other Power Purchased and Intercha	1,044,083	1,374,245	999,082	1,092,414	819,437	1,138,423
Total Generated and Purcha	6,353,384	6,190,407	5,994,425	5,688,111	5,443,545	5,400,779
Disposition of MWH Output						
Sold	5,910,662	5,752,784	5,586,378	5,286,507	5,055,673	5,054,271
Used by the Company	26,245	22,734	15,217	13,476	13,047	23,821
Absorbed in Delivery	416,477	414,889	392,830	388,128	374,825	322,687
Total Output	6,353,384	6,190,407	5,994,425	5,688,111	5,443,545	5,400,779
MWH Sold						
Residential	1,771,026	1,765,553	1,709,528	1,676,980	1,552,212	1,552,714
Industrial	1,789,161	1,743,131	1,568,068	1,539,489	1,396,957	1,470,307
Unit Power	444,803	368,785	545,755	372,321	524,831	502,715
Wholesale, Commercial and Other	1,905,672	1,875,315	1,763,027	1,697,717	1,581,673	1,528,535
Total MWH Sold	5,910,662	5,752,784	5,586,378	5,286,507	5,055,673	5,054,271
Sources of Electric Revenue (Thousands of Dollars)						
Residential Sales	$ 99,735	$ 98,331	$ 81,551	$ 77,153	$ 72,167	$ 57,866
Industrial Sales	66,083	63,565	48,878	45,361	42,049	34,807
Unit Power Sales	10,625	9,104	10,297	7,029	9,130	6,746
Wholesale, Commercial and Other	85,452	82,549	69,278	63,392	55,992	44,742
Miscellaneous Operating Revenue	6,948	7,202	4,783	3,739	7,055	11,769
Total Electric Revenues	$ 268,843	$ 260,751	$ 214,787	$ 196,674	$ 186,393	$ 155,930
Electric Customers (End of Period)						
Residential	244,222	244,008	238,830	232,358	226,215	221,737
Industrial	1,081	1,080	1,046	1,018	987	982
Unit Power	1	1	1	1	1	1
Wholesale, Commercial and Other	31,766	31,766	30,871	30,115	29,268	28,853
Total Electric Customers	277,070	276,855	270,748	263,492	256,471	251,573
Diversity of Industrial Revenues						
Textile Products	3.6%	3.7%	3.9%	4.1%	4.5%	5.6%
Paper Products	17.5	17.2	16.5	16.8	15.7	17.9
Leather Products	2.9	3.0	3.2	3.4	3.6	3.5
Chemicals	9.4	9.3	9.0	8.3	7.9	8.1
Other Non Durable Products	7.2	7.4	7.9	7.6	7.7	7.5
Total Non-Durable Products	40.6	40.6	40.5	40.2	39.4	42.6
Machinery	16.7	16.8	16.3	15.2	14.8	14.7
Other Durable Products	13.2	13.2	13.0	12.4	12.1	12.0
Total Durable Products	29.9	30.0	29.3	27.6	26.9	26.7
Total Manufacturing	70.5	70.6	69.8	67.8	66.3	69.3
Commercial and Service	29.5	29.4	30.2	32.2	33.7	30.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Customer Statistics (Annual)						
Average Customers — Residential	243,759	242,416	236,453	230,390	224,886	220,937
Average KWH Per Customer — Residential	7,265	7,283	7,230	7,279	6,902	7,028
Average Rate-Cents Per KWH — Residential	5.63	5.57	4.74	4.60	4.65	3.73
Average Rate-Cents Per KWH — Industrial	3.69	3.65	3.12	2.95	3.01	2.37
Average Rate-Cents Per KWH — Other Utilities	3.30	3.20	3.07	2.85	2.44	2.12
Average Annual Bill — Residential	$409.15	$405.63	$344.90	$334.88	$320.90	$261.91
Average Nuclear Fuel Cost per KWH Generated	0.3702¢	0.3638¢	0.3181¢	0.2859¢	0.3506¢	0.2248¢
Average Fossil Fuel Cost per KWH Generated	1.8582¢	1.8701¢	1.7575¢	1.6540¢	1.5944¢	1.2902¢

7902 146

BUSINESS

Power Supply and Properties.

The electric properties of the Company form a single integrated system including transmission facilities which are part of the New England-wide transmission grid. The maximum one-hour prime peak loan experienced to date by the Company's system was 1,173 net MW on February 14, 1979. At that time the Company had available to meet such load 1,154 MW of its own generating capacity, 97 MW from its participations in the four Yankee nuclear generating companies described below under "Joint Projects" and 217 MW of purchased capacity. Because the generation and transmission systems of the major New England utilities, including the Company, are operated as if they were a single system, the ability of the Company to meet its load is dependent on the ability of the New England utilities to meet the New England load. See "New England Power Pool" below.

The Company has one coal-fired 456 MW electric generating station (Merrimack Station), from which the Company has agreed to sell to another utility 100 MW on a single unit basis from Unit #2 through April, 1998, and four oil-fired electric generating stations with an aggregate effective capability of 641 MW, consisting of the Newington plant (420 MW), the Schiller plant (180 MW) and two smaller plants. See "Environmental Matters" below. The availability of the two units at Merrimack Station, the Company's largest fossil fuel station, has been less than desired due to forced outages caused by both the boilers and the turbines. However, the availability record of the Station is roughly comparable to that of other coal-fired generating plants of similar age and design.

The Company also has other generating facilities with an aggregate effective capability of 162 MW as follows: hydro-electric (48 MW), combustion turbine (111 MW) and diesel (3 MW). The Company has participations with other New England utilities in five generating units recently completed, under construction or in design stages, including the two Seabrook units. See "Construction Program", and see "Joint Projects" and "Seabrook Nuclear Project" below.

The Company purchases capacity and energy from other utilities as necessary, together with its own generating capacity, to meet its load growth and its reserve obligations under NEPOOL discussed below. These purchases are expected to increase from 217 MW to approximately 454 MW by April, 1983 when Seabrook Unit #1, in which the Company's reduced interest will be 322 MW, is currently scheduled to be completed and to reduce substantially the need for most of such purchases. See "Problems Facing the Company".

New England Power Pool.

A New England Power Pool Agreement ("NEPOOL") to which the major investor-owned utilities in New England, including the Company, and certain municipal and cooperative utilities are parties, has been in effect since 1971. This Agreement provides for joint planning and operation of generating and transmission facilities and also incorporates generating capacity reserve obligations and provisions regarding the use of major transmission lines and payment for such use.

Substantially all planning, operation and dispatching of electric generating capacity for New England is done on a regional basis under NEPOOL. At the time of the 1978-1979 NEPOOL winter peak, the New England utilities had about 21,500 MW of installed capacity to meet the New England peak load of about 14,956 MW.

The Company's capability responsibility under NEPOOL involves carrying an allocated share of a New England capacity requirement which is determined for each period based on certain regional

~~166~~

302 147

reliability criteria. It is expected that the Company's capacity will be sufficient through its own generating facilities, its participations and through purchases to meet its NEPOOL obligations in the foreseeable future.

Joint Projects.

The Company is a part owner with other New England electric utilities of four nuclear generating companies. The Company owns a 7% interest in Yankee Atomic Electric Company, a 5% interest in Connecticut Yankee Atomic Power Company, a 5% interest in Maine Yankee Atomic Power Company and a 4% interest in Vermont Yankee Nuclear Power Corporation, each of which owns an operating nuclear generating plant with present net capabilities of 175 MW, 575 MW, 781 MW and 528 MW, respectively. The stockholders of each of the four nuclear generating companies are entitled to the entire output of the plant in proportion to their respective ownerships, and are obligated to pay their proportionate shares of the generating company's operating expenses and return on invested capital.

The Company is participating on a tenancy-in-common basis with other New England utilities in the ownership of five generating units. One of these, Wyman Unit #4, a 600 MW oil-fired generating unit in Maine in which the Company has a 3.1433% interest, commenced operation at full capacity in February, 1979; the other units are planned or under construction as follows:

				Company Share			
						Estimated Construction Cost(3)	
	Type	Completion Date (1)	Capacity (MW)	Percent(2)	Capacity (MW)(2)	Total (Millions)(2)	Per KW
Seabrook #1 & #2 ... (New Hampshire)	Nuclear	1983 & 1985	2,300	28.0000	644.0	$ 863.1	$1,340
Pilgrim #2 .... (Massachusetts)	Nuclear	1985	1,150	3.4700	39.9	67.0	1,679
Millstone #3 .... (Connecticut)	Nuclear	1986	1,150	3.8910	44.7	102.2	2,286

(1) The completion dates of the four nuclear units have been deferred from time to time and additional deferrals may occur due to licensing delays, economic conditions and other factors.

Due to the time required for the construction of generating facilities and the completion of licensing and regulatory proceedings relating thereto, substantial investments in the above units will be required prior to the completion of licensing and regulatory proceedings. There is no assurance that all necessary approvals, permits or licenses will be obtained, or if obtained, will not be modified or revoked. See "Industry Problems".

(2) See "Problems Facing the Company" for information concerning the proposed reduction of the Company's interest in Seabrook to 28% and sale of the Company's interests in Pilgrim #2 and Millstone #3. In connection with such reduction, the Company may acquire up to a 5.2% interest in a 568 MW coal-fired unit planned for construction by Central Maine Power Company at Sears Island, Maine. If the Company's ownership interest in Seabrook should remain at 50%, the capacity would be 1,150 MW and the total cost, $1,431,722,000.

302 148

(3) Including the cost of the initial nuclear fuel and AFUDC on the estimated costs of unfinished construction not included in the Company's rate base. AFUDC was discontinued on December 3, 1977 on the portion of unfinished construction included in rate base. For purposes of this table such portion of unfinished construction has been excluded from rate base effective July 1, 1979 and it has been assumed that AFUDC will be capitalized thereafter on all unfinished construction. See Note (D) to the Statement of Earnings for a discussion of AFUDC.

Estimated construction expenditures for the jointly owned units used in calculating the estimated cost per KW are based upon information furnished by the utility responsible for the construction of such unit. The Company has been advised by each of the sponsoring utilities that construction budgets are continuously under review in light of increased costs due to deferrals, delays and other factors. The estimated expenditures and completion dates of the nuclear units may also be affected by the licensing and regulatory proceedings relating to each unit and to nuclear power generally and may also be affected by events and conditions which cannot now be predicted.

Seabrook Nuclear Project.

The Company is the lead owner of the Seabrook project now under construction in Seabrook, New Hampshire and has entered into contracts covering the purchase of equipment and services in connection with the project. The project is planned to consist of two Westinghouse pressurized water nuclear reactors utilizing ocean water for condenser cooling purposes. Other owners of the project presently include The United Illuminating Company ("UI") (20%), New England Power Company (10%) and a number of other utilities with smaller participations. UI has made available for sale to other utilities one-half of its 20% ownership interest in accordance with a recommendation of the Connecticut Department of Business Regulation — Division of Public Utility Control contained in a recent rate decision. See "Problems Facing the Company" for information concerning the proposed reduction of the Company's ownership interest in the project.

The project has required numerous approvals and permits from various state and federal regulatory bodies consisting principally of a certificate authorizing construction of the plant (which incorporates related state permits) from the New Hampshire Public Utilities Commission ("NHPUC") under New Hampshire's power plant siting law; approval of the once-through cooling system for the project by the Environmental Protection Agency ("EPA"); and construction permits from the Nuclear Regulatory Commission ("NRC"). All of these approvals and permits have been obtained and, except as described below, there are no appeals or proceedings relating thereto. Construction of the project is in progress.

The process of obtaining these approvals and permits has been long and complex, has been consistently opposed by a number of intervening groups, has included demonstrations at the Seabrook site, and has been plagued by lengthy delays which have resulted in greatly increased costs for the project. Court appeals from these federal regulatory approvals have been decided in the Company's favor, but one appeal described below is still pending and further appeals are possible. The Company is unable to predict what effect adverse legislative action, financing problems, work stoppages or further administrative or court decisions relating to NHPUC, NRC or EPA actions may have on the completion of the project, on the cost of the project or on the Company. See "Problems Facing the Company" and "Construction Program".

302 149

NHPUC. The state siting proceedings began in 1972, involved lengthy hearings during 1972 and 1973 and culminated in issuance of the requisite certificate on January 29, 1974. A subsequent appeal to the New Hampshire Supreme Court resulted in a remand for further findings but without in any way invalidating the certificate. The supplemental findings were issued on December 30, 1975; no further appeals were taken. Proceedings before the NHPUC and the New Hampshire Site Evaluation Committee are pending on the Company's petition seeking modification of the certificate to reflect the extension of the cooling water intake tunnel ordered by the EPA, transmission line relocations ordered by the NRC, and certain other transmission line relocations.

NRC. The NRC proceedings commenced with the docketing of the application for construction permits on July 9, 1973. The hearings before an Atomic Safety and Licensing Board (the "Licensing Board"), in which seven intervenors in opposition participated, consumed over sixty days during 1975 and 1976 and culminated on June 29, 1976 in the issuance by the Licensing Board of its Initial Decision (one member dissenting), approving the issuance of construction permits for the Seabrook project. The NRC issued the permits on July 7, 1976, and construction commenced shortly thereafter but was subsequently suspended in 1977 and 1978 for periods of seven months and three weeks, respectively, as a result of administrative proceedings and court appeals.

The Initial Decision was affirmed by an NRC Atomic Safety and Licensing Appeal Board (the "Appeal Board") (with one member dissenting) and by the NRC. The NRC has postponed a final decision on the seismic issue pending receipt of the opinion of the dissenting member of the Appeal Board on that issue.

On June 30, 1978, the NRC ordered the Appeal Board to conduct further hearings on whether cooling towers (rather than the once-through cooling system presently approved) would be environmentally acceptable at the Seabrook site and whether Seabrook with cooling towers is acceptable over alternate sites; those hearings were concluded in January, 1979, and the matter is pending decision before the Appeal Board. The Appeal Board has indicated that it will take no action on this matter unless the May 2, 1979 decision of the United States Court of Appeals for the First Circuit referred to below under "EPA" is reviewed by the United States Supreme Court. One aspect of the June 30, 1978 order was appealed by certain intervenors to the United States Court of Appeals for the First Circuit which dismissed the appeal on May 30, 1979.

There is presently pending before the United States Court of Appeals for the First Circuit an appeal by intervenors from a decision of the NRC challenging the NRC's refusal in 1976 to suspend the Seabrook construction permits despite a court decision in litigation not involving the Company which set aside the NRC's rule with respect to the environmental effects of reprocessing spent fuel and disposing of nuclear waste. (*Natural Resources Defense Council, Inc.* v. *NRC*, D. C. Cir. Nos. 74-1385 and 74-1586, which was reversed and remanded by the United States Supreme Court on April 3, 1978 in *Vermont Yankee Nuclear Power Corporation* v. *Natural Resources Defense Council, Inc.*, No. 76-419). In March, 1977, the NRC promulgated a new interim rule covering the environmental impact of reprocessing spent fuel and disposing of nuclear waste, which is applicable to Seabrook, requiring that such impact be considered in the licensing process, and the Appeal Board found that, under the interim rule, the fuel cycle impacts were too small to affect the environmental cost-benefit evaluation of the project. However, the interim rule is also being challenged on appeal in the District of Columbia Circuit (*Natural Resources Defense Council, Inc.* v. *NRC*, No. 77-1448).

In March, 1979, after the Company announced its decision to reduce its ownership interest in the Seabrook project, an intervenor filed a request with the NRC staff for issuance of a show cause

302 150

order as to why the construction permits should not be suspended or revoked because of the Company's alleged lack of financial qualifications and lack of review of financial qualifications of the participants whose ownership interests are proposed to be increased. The staff on April 6, 1979, gave public notice that it would take action on that request within a reasonable time. The staff had previously asked the Company to furnish further details of its financial plans, which were filed on April 23, 1979. On May 2, 1979 the same intervenor filed a further request with the NRC staff for issuance of a show cause order as to why the construction permits should not be suspended or revoked because of the NRC's failure to require development of evacuation plans beyond the low population zone and to evaluate the consequences of certain types of accidents including the possibility of such evacuation. The Company cannot predict when the staff will act on either request or what actions it will take.

EPA. Under the Federal Water Pollution Control Act, as amended, the EPA has jurisdiction over discharges from the cooling system of the Seabrook plant. In August, 1974, the Company applied to EPA for approval of the once-through cooling system utilizing ocean water and, in June and October, 1975, the regional administrator of Region I of EPA approved the concept subject to extending the intake tunnel further offshore. After a further hearing resulting from a court remand, the EPA Administrator on August 4, 1978 reaffirmed his previous approval of the once-through cooling system and that decision was affirmed by the United States Court of Appeals for the First Circuit on May 2, 1979.

Other. The Company is also involved in proceedings or disputes concerning title to a portion of the Seabrook site, the undergrounding of the Seabrook transmission lines and the use of the Company's water wells on the Seabrook site. The Company believes that none of these matters will have a material adverse effect upon the Seabrook project.

Insurance. The Federal Price-Anderson Act provides, among other things, that the maximum liability for damages resulting from a nuclear incident would be $560 million, to be provided by private insurance and governmental sources. As required by NRC regulations, prior to operation of the Seabrook project, the owners of the Seabrook project will insure against this exposure by purchasing the maximum available private insurance (presently $160 million), the remainder to be covered by the recently implemented retrospective premium insurance and by an indemnity agreement with the NRC. Under recent amendments to that Act, owners of operating nuclear facilities may be assessed a retrospective premium of up to $5 million for each reactor owned in the event of any one nuclear incident occurring at any reactor in the United States, with a maximum assessment of $10 million per year per reactor owned. As a part owner of other operating New England facilities (see "Joint Projects" above), the Company would be obligated to pay its proportionate share of any such assessments, which presently amounts to a maximum of $1,050,000 per incident. While it is not yet possible to evaluate the claims being asserted as a result of the TMI incident, the Company does not anticipate any assessments being levied under these provisions as a result of that incident.

Regulation.

The Company, as to retail rates, security issues, and various other matters, is subject to the regulatory authority of the NHPUC. A management audit report prepared by an independent management consulting firm at the direction of the NHPUC was released on October 11, 1978, and identifies both management strengths and opportunities for improvement and makes certain recommendations for action. Among the significant strengths identified are the following: tight control of

staff levels and employee compensation, sound financial planning, sound management of the Seabrook project, and a strong transmission and distribution system planning and engineering function. According to the report, the more significant opportunities for improvement are in the following areas: the overburdening of top management, correction of operating problems at Merrimack Station, fuel procurement and storage, and public relations. In addition to recommending expansion of the top management group by the creation of several new executive positions, the report recommends reorganization and strengthening of the fuel management function, strengthening of the public affairs function, and a comprehensive review of Merrimack Station operations. The NHPUC requested the Company to comment on the audit report and to state how it proposes to implement the report's recommendations, and the Company has filed a detailed response with the NHPUC.

As to properties and business in Maine and Vermont, the Company is subject to the regulatory authority of the Public Utilities Commission of Maine ("MPUC") and the Vermont Public Service Board, respectively. Additionally, both the Connecticut Department of Business Regulation — Division of Public Utility Control and the Massachusetts Department of Public Utilities have limited jurisdiction over the Company based on the Company's ownership as a tenant-in-common of portions of the Millstone #3 and Pilgrim #2 nuclear units. See "Joint Projects" above. The Company is also subject, as to some phases of its business, including accounts, certain rates, and licensing of its hydro-electric generating plants, to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") under the Federal Power Act. The various nuclear generating units in which the Company has an ownership interest are subject in their construction and operation to the broad regulatory jurisdiction of the NRC under the Atomic Energy Act of 1954, particularly in regard to public health, safety, environmental and antitrust matters. See also "Environmental Matters" below.

Rates — New Hampshire Retail.

On May 25, 1978, the NHPUC granted the Company an increase in its New Hampshire retail rates of $30,134,232 on an annual basis based on a test year ending in April, 1977. The order allowed the Company a return on common equity of 14%, an overall rate of return of 10.19%, and included in rate base CWIP associated with major generating facilities, which was substantially all of the rate relief to which Company witnesses testified it was entitled. The order of the NHPUC was affirmed by the New Hampshire Supreme Court on May 17, 1979. The rates filed with the NHPUC in April, 1977 were placed in effect on December 3, 1977 subject to refund; under the NHPUC's May 25, 1978 order, no refunds were necessary. On May 17, 1979 the New Hampshire Supreme Court decided that the Company had unlawfully applied the new higher rates to bills rendered after December 3, 1977 for service rendered before that date, and the Company has been ordered by the NHPUC to make refunds to its New Hampshire retail customers, estimated at approximately $1,000,000.

If, in the current NHPUC proceeding resulting from the New Hampshire statute effective May 7, 1979 which prohibits inclusion of CWIP in the Company's rate base, the NHPUC orders the Company to eliminate from its rates that portion based on CWIP, the Company's existing retail rates would be reduced approximately $17,500,000 to $18,000,000 on an annual basis. See "Problems Facing the Company". Although the elimination of CWIP would be largely offset by an increase in AFUDC, the Company's net income would be reduced approximately $3,000,000 on an annual basis. Apart from its effect on net income, the reduction in rates would also intensify the Company's cash stringency because AFUDC is a non-cash credit to income. See Note D to the Statement of Earnings. If

302 152

the NHPUC orders such elimination, the Company would take immediate action to preserve its present revenues, including an appeal of any such order to the New Hampshire Supreme Court or a request to the NHPUC for immediately effective new rates, or both. In addition, the Company intends to file by the end of the third quarter of 1979 a new tariff seeking increased retail rates which will be based on evidence demonstrating, the Company believes, that increases in expenses due to inflation and increases in rate base exclusive of CWIP justify revenues in excess of the present level of revenues which are based in part on the inclusion of existing CWIP in rate base. Under New Hampshire law, requested new rates could be placed in effect under bond six months after the proposed effective date of such rates or sooner with the consent of the NHPUC. The Company cannot predict the outcome of any such request for rate relief or any appeal by the Company of an NHPUC decision to eliminate CWIP now in rate base.

The Company has a fuel adjustment clause which is designed to recover, after a two months' lag, all fuel costs above base, including the energy portion of the cost of purchased power. A hearing and prior approval by the NHPUC is required with respect to each month's fuel adjustment rate.

The NHPUC, in September, 1976, ordered an investigation into the Company's fuel adjustment charges, and hearings commenced in March, 1977. All aspects of the Company's fuel adjustment charges are expected to be reviewed, including the Company's fuel procurement policies.

In January, 1975, the NHPUC ordered an investigation into the rate structures of the electric utilities under its jurisdiction. Hearings began in July, 1975 and continued from time to time through 1978. While the investigation has not been concluded, the proceeding has involved only the proper distribution of rates among the various customers and customer classes and not overall revenue requirements. Pursuant to an interim order of the NHPUC issued in March, 1977, the Company has implemented peak-load pricing rate experiments involving certain of its customers. Legislation was enacted in 1978 requiring the Company to offer time of day and seasonal rates on an optional basis, and such rates have been made available to its residential customers and have been filed for its other customers.

Rates — Other.

Rates to the Company's wholesale-for-resale customers increasing revenues from these customers by approximately $3,865,000 on an annual basis became effective as of April 11, 1976. On April 28, 1978, the Company filed new rates with FERC proposed by the Company to be effective on May 29, 1978 that would increase revenue from the Company's wholesale-for-resale customers by approximately $2,400,000 or 7.7% on an annual basis based on a 1978 test year; the new rates went into effect subject to refund on July 29, 1978. The Company has also filed with FERC a petition requesting the inclusion of CWIP in rate base. After trial of the CWIP issue, the Administrative Law Judge issued an initial decision on January 25, 1979, which authorized the Company to include in rate base CWIP associated with major generating facilities and which allowed the Company a return on common equity of 13%. The Judge's decision has been appealed to FERC. The Company cannot place wholesale rates based on CWIP into effect unless and until FERC issues a final favorable decision on the CWIP issue.

In another proceeding before FERC, the Company's right to collect through a surcharge approximately $1,850,000 of accrued but unbilled fuel clause revenue was contested by certain wholesale-for-

302 153

operating at full load. The two small plants have limited storage capacity. See "Environmental Matters" below.

Coal. Coal for the Company's only coal-burning unit, the 456 MW Merrimack plant, is presently being furnished from West Virginia sources under a contract which expires in April, 1983. The contract generally provides that a 45-day supply of coal is to be maintained for the Company, that the base price of the coal may be changed by the seller annually but the Company's disagreement with the change will result in termination of the contract at the end of the year, and that the price of the coal is subject to certain adjustments for changes in the seller's costs. The Company's policy is to maintain a 60-day supply of coal on hand for the Merrimack plant; at June 16, 1979, a 63-day supply was on hand. The plant, with 119 MW and 337 MW units, presently requires a total of approximately 1,000,000 tons of coal per year. Future annual tonnage requirements of the Company may be more or less than that figure depending upon a number of variables including particularly the relative cost and availability of coal and other fuels and possible conversion of units presently burning oil. See "Environmental Matters" below.

The Company's approximate average costs of oil and coal for 1973 through April 30, 1979 were as follows:

	Oil Per Barrel	Oil Per Million BTU	Coal Per Ton	Coal Per Million BTU	Coal Spot Price Per Ton
1973	$ 3.75	$0.61	$13.78	$0.51	*
1974	11.32	1.83	21.97	0.82	$40.67
1975	11.49	1.88	32.55	1.24	37.50
1976	10.95	1.77	34.33	1.25	35.27
1977	12.97	2.09	35.54	1.31	*
1978	12.13	1.95	39.09	1.47	38.54
1979 (through April 30)	12.31	1.98	40.62	1.50	*

*No spot purchases by the Company during the period.

Nuclear. The cycle of production of nuclear fuel consists of (1) the mining and milling of uranium ore, (2) the conversion of uranium concentrate to uranium hexafluoride, (3) the enrichment of the uranium hexafluoride, (4) the fabrication of fuel assemblies and (5) the reprocessing, storage, or disposal of spent fuel.

With respect to the Seabrook units, the Company has long-term contracts for enrichment. The Company also has contracts for conversion services and for the fabrication of the initial cores and six reload regions (each region consisting of one-third of a complete core). These contracts are expected to meet the Company's requirements for fuel cycle services as follows: enrichment through 2008, conversion through 1987, and fabrication through 1986.

The Company has contracted for all of the uranium concentrates required to commence operation of the Seabrook units and is actively seeking additional sources thereof, which it expects will be avail-

302 154

resale customers, and FERC ruled against the surcharge and ordered the Company to refund approximately $1,622,000 with interest, the balance not having been billed. FERC's decision has been affirmed by the United States Court of Appeals for the District of Columbia Circuit. See Note (B) to Statement of Earnings. In another phase of the same proceeding, FERC has ordered a refund of the higher cost of spot-market purchases of coal by the Company; the Company has applied for a rehearing on the order.

Rates essentially identical to those in effect in New Hampshire prior to December 3, 1977 were placed in effect in Vermont on May 1, 1975, and in Maine on March 2, 1976. On an annual basis, about $65,000 of additional revenues results from the Vermont increase and approximately $592,000 results from the Maine increase. In its decision allowing the increase to become effective in Maine, the MPUC commented on the disparity between the allowed rates of the Company and those of Central Maine Power Company (CMP), which serves adjacent territory at lower rates. The decision requested the managements of the two companies to discuss the possibility of a transfer of the Company's Maine business to CMP and stated that in the future the MPUC might use CMP's rates as a yardstick to determine the reasonableness of the Company's rates. While preliminary discussions have been held between the two managements, no conclusions have been reached concerning the desirability of such a transfer. In 1978 the Company obtained from its Maine customers approximately 1.4% of its operating revenues. The Company has recently solicited offers for the purchase from it of its business and properties in Vermont, its revenues from which in 1978 amounted to approximately $672,000, or about .25% of its operating revenues.

A complaint was filed with the MPUC in April, 1976, by two Maine municipalities and a number of their residents who are customers of the Company alleging that the Company's rates are unreasonable and discriminatory and requesting that the rates be reduced to a level no higher than the rates of CMP. Hearings began in December, 1976, and the proceeding is still pending.

Fuel Supply.

For 1978, the Company's firm net output was derived 53% from oil, 27% from coal, 15% from nuclear, and 5% from hydro. As indicated above under "Power Supply and Properties" and "New England Power Pool", substantially all of New England's generation and transmission systems, including those of the Company, are operated as if they were a single system.

Oil. The New England electric utilities, including the Company, make greater use of fuel oil for generation of power than those in any other region of the country. While fuel oil supplies of the New England utilities now appear to be adequate to meet their requirements, most of these supplies are derived from foreign sources and are subject to interference by foreign governments and price increases. A contingency procedure for action during, or in anticipation of, energy shortages in New England, adopted by the participants in NEPOOL in late 1973, remains available in the event of presently unforeseen energy shortages. This procedure provides for various energy conservation steps which can be implemented by the utilities if and to the extent required.

The Company has a contract expiring on December 31, 1979 with a supplier for fuel oil for the Company's oil-fired plants. The storage capacity for the Company's two large oil-burning plants is approximately 30 days operating at full load, and inventory varies substantially depending upon oil shipments. During 1979, the average inventory through June 9 was approximately 17 days

able when needed. The Company has no contractual arrangements for reprocessing of spent fuel and there are no reprocessing facilities currently operating in the United States; President Carter has stated the position of his Administration to be that the United States should defer indefinitely commercial reprocessing and the recycling of spent nuclear fuel. If such services are not available when required for the Seabrook units, the spent fuel can be stored pending reprocessing or disposal. Although the cost of such storage is not known at the present time, it is anticipated that such cost would be substantial. The Company cannot predict at this time what difficulties will be encountered regarding disposal of nuclear wastes. The NRC, along with other federal agencies, is in the process of developing regulations and guidelines in this area. The Company expects to develop plans for the disposal of its nuclear wastes after promulgation of these regulations and such plans will be subject to regulatory approvals.

The Company has been advised by the companies operating, planning or constructing the other nuclear generating stations in which the Company has an interest that they have contracted for certain segments of the nuclear fuel production cycle through various dates. The Company has further been advised by the sponsors of the four operating nuclear generating stations that they have or will have storage capacity to meet the spent fuel storage needs of the units through various dates ranging from 1985 to the late 1990's. Contracts for other segments of the fuel cycle will be required in the future, and their availability, prices and terms cannot now be predicted.

National Energy Policy.

A national energy act was recently enacted dealing with coal conversion, gas deregulation, energy conservation, energy taxes and utility rate regulation; the effect of this act on the Company, including its rates and fuel supply, cannot be predicted at this time.

Environmental Matters.

The Company is subject to regulation with regard to air and water quality, and may be subject to regulation with regard to other environmental considerations, by various federal, state and local authorities. The Company cannot forecast the effect of all such regulations upon its generating, transmission and other facilities, or its operations.

The application of federal, state and local standards to protect the environment, including but not limited to those hereinafter described, involves or may involve review, certification or issuance of permits by various federal, state and local authorities. Such standards, particularly in regard to emissions into the air and water, thermal mixing zones and water temperature variations, may halt, limit or prevent operations, or prevent or substantially increase the cost of construction and operation of installations and may require substantial investments in new equipment at existing installations. They may also require substantial investments above the figures stated under "Construction Program" for proposed new projects.

Air Quality Control. Pursuant to the Federal Clean Air Act of 1970, as amended, the State of New Hampshire acting through the New Hampshire Air Pollution Control Commission ("APCC") has adopted regulations containing standards limiting emissions of particulates, sulphur oxides and nitrogen oxides, which are generally designed to achieve and maintain Federal primary ambient air

02 156

quality standards. The Company's fossil fuel generating units are being operated in compliance with APCC's regulations.

Pursuant to the 1977 amendments to the Clean Air Act, the APCC has proposed lists showing those areas of New Hampshire which have attained or failed to attain national ambient air quality standards, has reviewed the State implementation plan, and has filed a revised State implementation plan with the EPA. It does not appear that any of the revisions in the State implementation plan will require the Company either to modify operations at any of its fossil fuel generating plants or expend funds for additional air pollution control equipment.

While coal now available and expected to be available in the future for the Company's Merrimack Station presently meets all applicable requirements, if more stringent requirements become effective which could not be met by such coal, the Company might have to install sulphur removal equipment at substantial capital cost or take such other actions as may be required by regulatory authorities. The installation of such equipment would increase operating costs and reduce the net capability of the units.

In August, 1976, a hearing by the Federal Energy Administration (now the Department of Energy) was held on the draft Environmental Impact Statement relative to a prohibition order issued by the FEA under the Energy Supply and Environmental Coordination Act of 1974 prohibiting two 50 MW units at the Company's Schiller Station from burning oil as their primary fuel. On May 7, 1979, the Department of Energy notified the Company that it was rescinding the prohibition order, which had never become effective; however, further action to require conversion to coal might be taken by the Department under the Fuel Use Act of 1978. A capital investment of about $6,000,000 would be required to convert the two units from the burning of oil to the burning of coal, which conversion would result in a loss of from 8% to 10% (8 MW to 10 MW) in the combined capability of the two units.

Water Quality Control. The Company has received from EPA, or from the Maine Department of Environmental Protection in the case of one generating station located in the State of Maine, all permits required under the Federal Water Pollution Control Act, as amended, for discharges of thermal and other effluents from its generating stations. Such permits have varying expiration dates and the Company has made and expects to make timely applications for renewal. The EPA issued effluent limitations guidelines for steam electric power plants based on application of the best practicable control technology (to be met by July 1, 1977) and of the best available technology economically achievable (to be met by July 1, 1984), and alternate effluent standards with respect to thermal discharges from steam electric power plants. The guidelines and standards impose rigorous limitations upon the industry. An industry group filed an appeal in a Federal Court of Appeals challenging the guidelines and standards, and the Court of Appeals remanded the guidelines and standards to the EPA for reconsideration of certain of them. The Company is in compliance with the July 1, 1977 guidelines.

The discharge permit for the Company's Newington plant contains conditions requiring installation of some type of closed-cycle condenser cooling system if an exemption is not obtained. The Company has been studying the effects of the plant's operation on the aquatic environment of the Piscataqua River and will apply to EPA for an exemption to permit continuation of the present once-

through cooling. While it cannot be known what action EPA will take on such application when filed, the Company believes that the results of its studies will support the granting of such exemption. If the Company should be unable to obtain such requested exemption, it would have to make substantial capital expenditures to install the closed-cycle condenser cooling system.

Pursuant to a requirement in its discharge permit for its Merrimack plant located on the Merrimack River, the Company is studying the effects of the plant's operation on the aquatic environment of the Merrimack River and expects to be able to show, as required by the permit, that discharges from the present once-through cooling system either are in compliance with the thermal limitations in the permit or will not interfere with the resident and migratory fish in the affected portion of the Merrimack River.

The Company's construction and operation of the Seabrook plant, including environmental considerations, is subject to regulation by the NRC and the EPA. See "Seabrook Nuclear Project" above.

Other Environmental Expenditures. The Company's capital expenditures for environmental protection facilities amounted to approximately $12,613,000 for 1978, the major portion of which was for facilities to reduce the thermal effect of the discharge of the Seabrook plant condenser cooling systems, with $250,000 for the control of water pollution at other Company facilities.

For the years 1979 and 1980 and for the years 1981-1982, there will be approximately $8,500,000, $7,500,000 and $7,500,000, respectively, of further expenditures for these pollution control facilities. The foregoing amounts are included in the construction expenditures set forth under the caption "Unadjusted 1979-1985" in the table under "Construction Program." Any expenditures associated with the conversion at the Schiller Station referred to above would be in addition to these amounts.

Employees, Salaries and Wages.

The Company has approximately 1,600 employees, of whom 35% are represented by unions with which the Company has contracts which expired on June 1, 1979 and have been extended to June 25 and June 27, 1979. Negotiations on new contracts are in progress.

Voluntary Wage and Price Guidelines.

The Company is subject to the voluntary Wage and Price Standards of the Federal Council on Wage and Price Stability, which provide basically that annual increases of wages and benefit payments should not exceed 7% and that prices should not be increased during 1979 more than .5 of 1% below the average annual rate of increase during 1976-1977. The regulatory agencies are asked to assure compliance to the fullest extent possible. The Company is unable to predict what effect these standards will have upon its operations in the future.

Municipalities and Cooperatives.

New Hampshire law permits municipalities to engage in the production and sale of electricity, including the power to condemn the plant and property of any existing public utility which is located in the municipality. Under legislation enacted in 1975, intended primarily to enable all electric sys-

302 158

tems (including municipalities) to participate in regional bulk power supply projects, New Hampshire municipalities now have broader powers with respect to contracting and extra-territorial activity, as well as the power to finance through the issuance of revenue bonds the ownership of new generating units of at least 25 MW and new transmission facilities of at least 69 KV. The City of Berlin took preliminary action in 1969 and 1970 authorizing the City to engage in the production, distribution and sale of electricity, but the matter has not been finally determined. The Company's revenues from sales in the City of Berlin in 1978 were about $6,220,000 including revenues of about $3,229,000 from a single large industrial customer. If the City of Berlin were to acquire ownership of the Company's property, the Company would be entitled to compensation for the fair value of its property and any severance damages. No other municipality served at retail by the Company is, so far as is known to the Company, taking steps to engage in such business.

New Hampshire Electric Cooperative, Inc., a cooperative association financed by the Rural Electrification Administration, as well as five small municipal electric utilities, operate in areas adjacent to areas served by the Company. The Cooperative purchases most of its electricity from the Company and is subject to regulation by the NHPUC as a public utility.

[redacted]

302 159

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Public Service Company of New Hampshire

We have examined the balance sheet of Public Service Company of New Hampshire as of December 31, 1978 and the related statements of earnings, retained earnings, other paid-in capital and changes in financial position for each of the five years in the period then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Public Service Company of New Hampshire at December 31, 1978 and the results of its operations and the changes in its financial position for each of the five years in the period then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Boston, Massachusetts
February 16, 1979, except as to Note 7,
which is as of March 5, 1979

302 160

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

BALANCE SHEET

ASSETS

	March 31, 1979	December 31, 1978
	(Unaudited)	
	(Thousands of Dollars)	
Utility Plant, at Original Cost (Note 1):		
Electric Plant	$510,001	$507,711
Less Accumulated Provision for Depreciation	137,923	134,373
	372,078	373,338
Unfinished Construction (Principally Nuclear Generating Projects) (Note 7)	377,441	346,382
Net Utility Plant	749,519	719,720
Investments (Note 1):		
Nuclear Generating Companies	9,664	9,529
Real Estate Subsidiary	3,956	4,472
Other, at Cost	184	184
Total Investments	13,804	14,185
Current Assets:		
Cash (Note 3)	1,617	1,879
Temporary Cash Investments	3,500	—
Accounts Receivable	25,678	27,588
Unbilled Revenue, Estimated (Note 1)	19,925	18,057
Fuel, Materials and Supplies, at Cost	17,914	20,743
Prepayments	336	3,330
Total Current Assets	68,970	71,597
Other Assets:		
Miscellaneous Properties	501	314
Deferred Debits	5,922	5,359
Unamortized Debt Expense	906	926
Total Other Assets	7,329	6,599
	$839,622	$812,101

See accompanying Notes to Financial Statements.

302 161

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

STATEMENT OF RETAINED EARNINGS

	Three Months Ended March 31, 1979	Year Ended December 31,				
		1978	1977	1976	1975	1974
	(Unaudited)	(Thousands of Dollars)				
Balance at Beginning of Period	$71,140	$58,725	$56,084	$51,936	$45,070	$40,613
Net Income	12,217	36,507	21,722	20,995	20,808	16,300
	83,357	95,232	77,806	72,931	65,878	56,913
Deduct:						
Dividends Declared:						
Preferred Stock, at Required Annual Rates	1,589	6,394	4,925	4,854	3,416	3,379
Common Stock	6,256	17,698	14,156	11,993	10,526	8,464
Total Dividends	7,845	24,092	19,081	16,847	13,942	11,843
Balance at End of Period (Note 5)	$75,512	$71,140	$58,725	$56,084	$51,936	$45,070

STATEMENT OF OTHER PAID-IN CAPITAL

	Three Months Ended March 31, 1979	Year Ended December 31,				
		1978	1977	1976	1975	1974
	(Unaudited)	(Thousands of Dollars)				
Balance at Beginning of Period	$108,232	$ 90,409	$70,821	$54,411	$53,102	$38,348
Excess of Proceeds over the Par Value on the Issuance of Common Stock:						
Sold — 1,650,000 Shares in 1974, 1,000,000 Shares in 1976, 1,200,000 Shares in 1977, 1,321,284 Shares in 1978 and 2,017,474 Shares in 1979	29,906	17,461	18,961	15,781	(24)	14,665
Conversions — 5.50% Convertible Preferred Stock, 3,632 Shares in 1974, 97,545 Shares in 1975, 35,000 Shares in 1976, 37,092 Shares in 1977, 21,171 Shares in 1978 and 17,613 Shares in 1979	322	407	751	739	2,061	89
Preferred Stock Issuance Expenses	—	(45)	(124)	(110)	(728)	—
Balance at End of Period	$138,460	$108,232	$90,409	$70,821	$54,411	$53,102

See accompanying Notes to Financial Statements.

302 162

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

BALANCE SHEET

CAPITALIZATION AND LIABILITIES

	March 31, 1979 (Unaudited)	December 31, 1978
	(Thousands of Dollars)	
Capitalization:		
Common Stock Equity:		
Common Stock — $5 Par Value (Note 4)		
Authorized: 18,000,000 Shares		
Outstanding: 11,822,056 Shares (1978 — 9,786,969)	$ 59,110	$ 48,935
Other Paid-In Capital	138,460	108,232
Retained Earnings (Note 5)	75,512	71,140
Total Common Stock Equity	273,082	228,307
Preferred Stock (Note 4)	83,153	83,562
Long-Term Debt — Net (Note 6)	262,241	287,252
Total Capitalization	618,476	599,121
Current Liabilities:		
Notes Payable — Banks (Note 3)	95,100	85,325
Long-Term Debt to be Retired Within One Year (Note 6)	30,149	5,231
Accounts Payable (Note 3)	33,353	68,035
Accrued Taxes	14,878	12,349
Accrued Interest	8,470	6,215
Other	1,227	1,145
Total Current Liabilities	183,177	178,300
Deferred Credits:		
Accumulated Deferred Investment Tax Credits (Note 1)	13,026	12,488
Accumulated Deferred Taxes on Income (Note 1)	24,467	21,716
Other	476	476
Total Deferred Credits	37,969	34,680
Commitments and Contingencies (Note 7)		
	$839,622	$812,101

See accompanying Notes to Financial Statements.

302 163

[redacted]

NOTES TO FINANCIAL STATEMENTS

(Information related to periods subsequent to December 31, 1978 is unaudited)

1. SUMMARY OF ACCOUNTING POLICIES

Regulations and Operations: The Company is subject, as to rates, accounting and other matters, to the regulatory authority of the New Hampshire Public Utilities Commission (NHPUC), the Federal Energy Regulatory Commission (FERC) and, to a lesser extent, the public utilities commissions in other New England states where the Company does business.

Investments: The Company follows the equity method of accounting for its investments in nuclear generating companies and in its wholly-owned real estate subsidiary. The Company's investment in this subsidiary is principally in the form of advances. The Company's investments in nuclear generating companies are:

Company	Ownership Percent	March 31, 1979	December 31, 1978
		(Thousands of Dollars)	
Yankee Atomic Electric Company	7%	$1,485	$1,443
Connecticut Yankee Atomic Power Company	5%	2,371	2,335
Maine Yankee Atomic Power Company	5%	3,426	3,427
Vermont Yankee Nuclear Power Corporation	4%	2,382	2,324
		$9,664	$9,529

In the case of each of the nuclear generating companies, pursuant to provisions of purchased power contracts which are regulated by the FERC, the Company is entitled to its ownership percent of total plant output and is obligated to pay a similar share of each company's operating expenses and return on invested capital. Approximately 10.9% and 10.5% of the Company's total energy requirements were furnished by these companies in 1978 and 1977, respectively.

Utility Plant: Provision for depreciation of utility plant is computed on a straight line method at rates based on estimated service lives and salvage values of the several classes of property. The depreciation provisions were equivalent to overall effective rates ranging from 3.11% to 3.19% of depreciable property for the five years ended December 31, 1978. The rate for 1978 was 3.19%.

Maintenance and repairs of property are charged to maintenance expense. Replacements and betterments are charged to utility plant. At the time properties are retired, the cost of property retired plus costs of removal less salvage are charged to the accumulated provision for depreciation.

Operating Revenues: Revenues are based on billing rates authorized by applicable federal and state regulatory commissions which are applied to customers' consumption of electricity. The Company records estimated unbilled revenue, including amounts to be billed under a retail fuel adjustment clause, at the end of accounting periods.

Income Taxes: The tax effect of differences between pretax income in the financial statements and income subject to tax, which are the result of timing differences, are accounted for as prescribed by and in accordance with the ratemaking policies of the NHPUC. Accordingly, provisions for deferred income taxes are recognized only for specified timing differences. Tax reductions attributable

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Twelve Months Ended March 31, 1979	Year Ended December 31, 1978	1977	1976	1975	1974
	(Unaud[illegible])	(Thousands of Dollars)				
Source of Funds:						
From Operations:						
Net Income	$ 37,640	$ 36,507	$ 21,722	$ 20,995	$ 20,808	$ 16,300
Principal Non-Cash Charges (Credits) to Income:						
Depreciation	14,924	14,752	14,117	13,791	13,522	11,624
Allowance for Equity Funds Used During Construction	(8,930)	(7,828)	(6,093)	(3,205)	(1,573)	(1,785)
Deferred Taxes and Investment Credit Adjustments	7,904	7,024	5,610	2,517	6,400	4,136
Total from Operations	51,538	50,455	35,356	34,098	39,157	30,275
From Outside Sources:						
Sale of Long-Term Bonds and Notes	[illegible]0,000	60,000	25,000	15,000	22,300	45,000
Sale of Preferred Stock	—	—	18,000	—	15,000	—
Sale of Common Stock	64,303	24,309	25,092	20,870	—	23,022
Change in Short-Term Borrowing	18,987	30,212	55,113	—	(28,400)	(20,880)
Total from Outside Sources	143,290	114,521	123,205	35,870	8,900	47,142
Decrease in Working Capital	—	33,510	—	44,939	5,100	—
Total	$194,828	$198,486	$158,561	$114,907	$ 53,157	$ 77,417
Application of Funds:						
Property Additions	$173,614	$173,539	$114,310	$ 70,252	$ [illegible]	$ 46,926
Allowance for Equity Funds Used During Construction	(8,930)	(7,828)	(6,093)	(3,205)	(1,573)	(1,785)
Dividends	20,795	24,092	19,081	16,847	13,942	11,843
Reduction of Long-Term Debt	5,767	5,947	9,271	29,517	947	882
Increase in Working Capital	792	—	20,378	—	—	19,528
Other Applications — Net	2,790	2,736	1,614	1,496	1,528	23
Total	$194,828	$198,486	$158,561	$114,907	$ 53,157	$ 77,417
Increase (Decrease) in Working Capital Other Than Short-Term Debt:						
Cash and Cash Investments	$ 2,471	$ (3,050)	$ (442)	$ (2,467)	$ 1,370	$ 1,625
Receivables	2,555	5,596	2,195	(1,157)	(3,414)	10,481
Inventories	7,412	3,707	(3,020)	2,564	3,696	6,814
Long-Term Debt to be Retired Within One Year	768	3,397	20,332	(28,911)	95	25
Accounts Payable	(10,024)	(33,125)	(1,520)	(13,338)	(6,344)	(5,053)
Dividends Payable	5,571	—	—	—	—	—
Accrued Taxes	(8,629)	(11,470)	3,090	(1,054)	(2,220)	(270)
Other	668	1,435	(257)	(576)	1,717	5,906
Total Increase (Decrease) In Working Capital Other Than Short-Term Debt	$ 792	$(33,510)	$ 20,378	$(44,939)	$ (5,100)	$ 19,528

See accompanying Notes to Financial Statements.

302 165

2. Income Taxes — Continued

In accordance with the requirements of the NHPUC, provisions for deferred income taxes are recognized only for the following timing differences:

	Twelve Months Ended March 31, 1979	Year Ended December 31, 1978	1977	1976	1975	1974
		(Thousands of Dollars)				
A portion of Depreciation and Amortization of Plant Facilities*	$ 829	$ 858	$ 895	$ 815	$ 948	$ 904
Accrued and Unbilled Fuel Adjustment Charges	992	1,049	36	(417)	669	3,128
The Interest Component of Allowance for Funds Used During Construction (See Note (D) to Statement of Earnings)	4,721	3,713	2,954	1,274	626	—
Other	1	(8)	—	6	2	79
	$6,543	$5,612	$3,885	$1,678	$2,245	$4,111

*Current income tax reductions attributable to (1) the tax depreciation permitted under the Class Life ADR System of the 1971 Revenue Act in excess of the tax depreciation permitted under the Guideline Lives provisions of the 1969 Revenue Act and (2) the amortization of certain pollution control facilities over five year periods.

The principal reasons for the difference between the total tax expense and the amount calculated by applying the Federal income tax rate to income before tax are as follows:

	Twelve Months Ended March 31, 1979	Year Ended December 31, 1978	1977	1976	1975	1974
		(Thousands of Dollars)				
Income Before Income Tax	$56,838	$56,119	$30,008	$30,638	$30,885	$17,748
Federal Statutory Rate (1979 Approx.)	47.33%	48%	48%	48%	48%	48%
Expected Tax Expense	26,902	26,937	14,404	14,706	14,825	8,519
Increases (Reductions) in Taxes Resulting from:						
Interest and Overhead Charged to Construction and Expensed for Tax Purposes	(5,092)	(4,544)	(3,377)	(1,859)	(979)	(2,109)
Excess of Tax Over Book Depreciation	(2,158)	(2,265)	(2,318)	(2,773)	(3,019)	(3,924)
State Taxes Net of Federal Income Tax Benefits	1,391	1,332	777	712	800	658
Unbilled Revenues	(586)	(629)	(200)	(181)	(457)	(501)
Other Deductions, each less than 5% of Expected Tax Expense	(1,259)	(1,219)	(1,000)	(962)	(1,093)	(1,195)
Total Income Taxes	$19,198	$19,612	$ 8,286	$ 9,643	$10,077	$ 1,448

The Company is considering making an election under certain provisions of the Internal Revenue Code which would result in a significant increase in the amount of the investment tax credit available for 1978.

POOR ORIGINAL

302 166

1. Summary of Accounting Policies — Continued

to other timing differences are flowed through to net income as reductions of income tax expense. See Note 2.

Investment tax credits earned are deferred and amortized to income over the lives of the related properties.

Allowance for Funds Used During Construction: Allowance for funds used during construction is the estimated cost, during the period of construction, of equity funds and borrowed funds used for construction purposes which are not being recovered from customers through revenues. See Note (D) to Statement of Earnings.

Pension Plan: The Company has a non-contributory pension plan covering all full-time employees who have met a minimum service requirement. The Company's policy is to fund current pension costs accrued. Pension plan costs were as follows: 1974 — $1,320,000, 1975 — $1,650,000, 1976 — $1,850,400, 1977 — $2,112,000, 1978 — $2,400,000 and the twelve months ended March 31, 1979 — $2,524,000. At December 31, 1978, vested benefits under the plan exceeded the market value of the plan's assets by approximately $5,296,000. At that date, the total unfunded past service liability was approximately $4,943,000.

Earnings Per Share: Earnings per share are based on the average number of common shares outstanding, after recognition of preferred dividend requirements.

2. Income Taxes

POOR ORIGINAL

The components of income tax expense are as follows:

	Twelve Months Ended March 31, 1979	Year Ended December 31, 1978	1977	1976	1975	1974
		(Thousands of Dollars)				
Federal:						
Operating Income	$ 8,796	$10,166	$ 1,297	$ 5,815	$ 2,038	$(1,342)
Other Income and Deductions	(47)	(46)	(113)	(96)	159	(2,333)
	8,749	10,120	1,184	5,719	2,197	(3,675)
State, Included in Operating Income	2,545	2,468	1,492	1,407	1,480	987
Total Current Income Taxes	11,294	12,588	2,676	7,126	3,677	(2,688)
Deferred Federal:						
Operating Income	6,450	5,527	3,882	1,709	2,183	3,754
Other Income and Deductions	(1)	(8)	—	6	2	79
	6,449	5,519	3,882	1,715	2,185	3,833
Deferred State:						
Operating Income	94	93	3	(37)	60	278
Total Deferred Income Taxes	6,543	5,612	3,885	1,678	2,245	4,111
Investment Tax Credit Adjustment	1,361	1,412	1,725	839	4,155	25
Total Income Taxes	$19,198	$19,612	$ 8,286	$ 9,643	$10,077	$ 1,448

302 167

3. COMPENSATING BALANCES AND SHORT-TERM BORROWINGS

The Company uses borrowings from banks as an interim method of financing construction of new facilities. At December 31, 1978, the Company had a revolving credit agreement which permitted the Company to borrow up to $95,000,000 through April 30, 1979 and also had line of credit agreements which aggregated $5,350,000. See "Problems Facing the Company — Immediate Financing Program" for information concerning an extension of and increase in the revolving credit agreement. The Company pays commitment fees on the revolving credit agreement and maintains compensating balances for certain line of credit agreements. Compensating balances amounted to $305,000 at December 31, 1978 and March 31, 1979.

The average interest rate on short-term borrowings at December 31, 1978 and March 31, 1979 was 12.64% and 12.65%, respectively. During 1978, maximum short-term borrowings were $88,112,500; the average amount outstanding (based on month end balances) was $66,911,458; and the weighted average interest rate was 11.36% computed with commitment fees included in interest expense. During the twelve months ended March 31, 1979, maximum short-term borrowings were $95,100,000; the average amount outstanding was $69,843,750; and the weighted average interest rate was 12.45%.

At December 31, 1978 the Company had deferred the payment to vendors of approximately $7,500,000 of construction costs. Such deferrals, with interest, were paid from the proceeds of the sale of additional Common Stock in January, 1979.

4. PREFERRED STOCK

Outstanding Preferred Stock is as follows:	Redemption Price	March 31, 1979	December 31, 1978
		(Thousands of Dollars)	
Cumulative, Par Value $100, Authorized 1,350,000 shares, Outstanding:			
3.35% Dividend Series, 102,000 shares	$100.00	$10,200	$10,200
4.50% Dividend Series, 75,000 shares	102.00	7,500	7,500
5.50% Dividend Series, (Convertible), 54,527 shares (1978 — 58,622 shares)	100.00	5,453	5,862
7.92% Dividend Series, 150,000 shares	105.94	15,000	15,000
7.64% Dividend Series, (Sinking Fund), 120,000 shares	106.37*	12,000	12,000
9.00% Dividend Series, (Sinking Fund) 180,000 shares	109.00*	18,000	18,000
		68,153	68,562
Cumulative, Par Value $25, Authorized 2,000,000 shares, Outstanding:			
11% Dividend Series, 600,000 shares	27.75*	15,000	15,000
		$83,153	$83,562

*Subject to certain refunding limitations.

The 7.64% and 9% Dividend Series contain sinking fund provisions requiring the Company to redeem all shares at par on the basis of 4,800 shares annually beginning in 1984 for the 7.64% series and 10,800 shares annually beginning in 1982 for the 9% series.

At March 31, 1979 there were 234,928 shares of Common Stock reserved for conversions of the 5.50% Dividend Series Convertible Preferred Stock based upon a conversion price of $23.21 per share.

302 168

NOTES TO FINANCIAL STATEMENTS — Continued

(Information related to periods subsequent to December 31, 1978 is unaudited)

On May 22, 1979, the Company sold 1,200,000 shares of Sinking Fund Preferred Stock 11.24% Dividend Series, $25 par value. Proceeds to the Company of $30,000,000 were used for the Company's construction program, including the reduction of short-term bank borrowings.

5. Dividend Restriction

Pursuant to terms of the General and Refunding Mortgage Indenture, dividends may not be paid on the Common Stock in excess of Net Income accumulated after January 1, 1978 less the aggregate amount of all dividends paid or declared on the Preferred Stock of the Company during such period plus $32,000,000. At December 31, 1978, and at March 31, 1979, Retained Earnings of $44,415,000 and $48,787,000, respectively, were not subject to dividend restriction.

6. Long-Term Debt

	March 31, 1979	December 31, 1978
	(Thousands of Dollars)	
First Mortgage Bonds:		
Series E — 3 %, Due 1979	$ 3,356	$ 3,356
Series H — 3¼%, Due 1984	10,483	10,483
Series I — 3⅞%, Due 1986	7,047	7,047
Series M — 4⅝%, Due 1992	22,039	22,149
Series N — [illegible]⅛%, Due 1996	15,910	15,910
Series O — 6[illegible]/4%, Due 1997	14,173	14,173
Series P — 7⅛%, Due 1998	14,272	14,277
Series Q — 9 %, Due 2000	19,206	19,206
Series R — 7⅝%, Due 2002	19,455	19,455
Series S — 9 %, Due 2004	19,778	19,778
Series T — 12¾%, Due 1981	25,000	25,000
Series U — 10¾%, Due 1985	15,000	15,000
Series V — 9⅛%, Due 2006	15,000	15,000
Series W — 10⅛%, Due 1993	10,000*	10,000*
	210,719	210,834
Less — Deposited with Trustee of the General and Refunding Mortgage Indenture as additional security for General and Refunding Bonds	10,000*	10,000*
Total First Mortgage Bonds	200,719	200,834
General and Refunding Mortgage Bonds:		
Series A — 10⅛%, Due 1993	60,000	60,000
Promissory Note, Due January 3, 1980 with interest at 116% of lending bank's prime rate plus 0.25%	25,000	25,000
Pollution Control Revenue Bonds:		
8¼%, Due December 1979	1,500	1,500
9 %, Due December 1984	5,800	5,800
Total Long-Term Debt	293,019	293,134
Less: Long-Term Debt To Be Retired Within One Year	30,149	5,231
Unamortized Premium and Discount	629	651
	30,778	5,882
Long-Term Debt — Net	$262,241	$287,252

NOTES TO FINANCIAL STATEMENTS — Continued

(Information related to periods subsequent to December 31, 1978 is unaudited)

6. LONG-TERM DEBT — Continued

The annual Sinking Fund requirements with respect to First Mortgage Bonds, which may be met by the payment of cash or bonds or, up to one-half of their amounts, by the certification of additional property, are as follows: 1979 — $2,213,241, 1980 — $2,463,241, 1981 — $2,636,318, 1982 — $2,052,984, 1983 — $2,052,984 and 1984 — $2,052,984. Annual Sinking Fund requirements with respect to the General and Refunding Mortgage Bonds are $5,460,000 payable in cash beginning in 1983.

Long-term debt maturities, excluding the aforementioned Sinking Fund requirements, are as follows: 1979 — $4,856,000, 1980 — $25,000,000, 1981 — $25,000,000, 1982 — None, 1983 — None and 1984 — $16,283,000.

Under the terms of the First Mortgage Indenture and the General and Refunding Mortgage Indenture, substantially all utility property of the Company is subject to the liens thereof.

7. COMMITMENTS AND CONTINGENCIES

The Company (both as sole and as joint owner of facilities) and the nuclear generating companies in which the Company has investments, in common with other electric utilities, are subject to present and developing regulations with regard to air and water quality, nuclear plant licensing and safety, land use and other environmental matters by various Federal, state and local authorities. It is possible that compliance with such regulations may require additional capital expenditures and increased operating costs not now determinable in amount.

Prior to the decision described in the next paragraph, the Company was forecasting construction program expenditures of $200,600,000 for 1979 and $909,000,000 for 1980 through 1985 (excluding allowance for funds used during construction). These estimates included $161,900,000 and $590,700,000, respectively, for the Company's interest in a nuclear generating station under construction in Seabrook, New Hampshire, and $7,000,000 and $68,200,000, respectively, for the Company's interests in other nuclear generating units owned on a tenancy-in-common basis with other New England utilities. The Company's ownership interests and its share of total expenditures included in Unfinished Construction for the jointly-owned nuclear facilities in which it is participating are as follows:

	Ownership Percent	March 31, 1979	December 31, 1978
		(Thousands of Dollars)	
Seabrook #1 and #2	50.0000%	$336,300	$307,800
Pilgrim #2	3.4700	10,100	9,600
Millstone #3	3.8910	22,000	21,200
		$368,400	$338,600

On March 3, 1979, the Company's Board of Directors directed management to proceed to sell all of the Company's Pilgrim #2 and Millstone #3 ownership interests and to reduce its ownership inter-

7. Commitments and Contingencies — Continued

est in the Seabrook nuclear plant by offering 22% to other Seabrook participants. See "Problems Facing the Company" for a description of the proposed arrangements for the reduction of the Company's interest and the effect of such agreements on the Company's financing plans for 1979 and subsequent years.

Construction of the Seabrook project has required numerous approvals and permits from various state and Federal regulatory agencies. The process of obtaining these approvals and permits has been long and complex, has been consistently opposed by a number of intervening groups, has included demonstrations at the Seabrook site and has been plagued by lengthy delays which have resulted in greatly increased costs for the project. Court appeals from Federal regulatory approvals are pending. The Company is unable to predict what effect financing problems or further administrative or court decisions relating to Nuclear Regulatory Commission or Environmental Protection Agency actions may have on the Company's ability to complete the project or on the cost of the project.

8. Unaudited Replacement Cost Information

The replacement cost data described in this note has been compiled in response to regulations promulgated by the Securities and Exchange Commission and represents, in the opinion of management, reasonable estimates of replacement costs given the guidelines of the regulations. However, imprecisions exist and subjective judgments have been made in the estimating process. Also, certain income effects which might result from the replacement of productive capacity are not required to be described by the regulations and have not been evaluated, including the impact of replacement on capital costs and taxes. Furthermore, the regulations do not call for a description of all factors which may result from inflation, including the impact of long-term debt outstanding in a time of inflation and these have not been evaluated or included in the replacement cost data presented. Consequently, in the opinion of management this note is of limited usefulness in the evaluation of the impact of inflation on the financial position or results of operations of the Company. Furthermore, the disclosure of this replacement cost data should not be construed as a plan to replace existing productive capacity, and the actual replacement of productive capacity may not take the form implied by the techniques used to develop the estimates. Finally, the replacement cost data presented in this note should not be taken to be management's estimate of the current value of existing property, plant and equipment.

The Company's operating costs and the recovery of its investment in utility property are significantly affected by inflation and the current and expected more stringent environmental regulations. Replacing existing utility property with equivalent productive capacity will require substantially greater dollars of capital investment than was required to construct or acquire the property originally; but replacement cost is not normally considered in the rate making process, since only the historical cost of utility property is normally included in the rate base upon which the Company is allowed to earn a fair rate of return. However, the cost of replacement property, when existing productive capacity is actually replaced, is expected to be included in the rate base.

8. Unaudited Replacement Cost Information — Continued

The computed replacement cost of the Company's productive capacity, depreciated replacement cost and related depreciation expense and corresponding historical cost data are presented below for December 31, 1978 and 1977:

	December 31, 1978		December 31, 1977	
	Historical Cost	Estimated Replacement Cost	Historical Cost	Estimated Replacement Cost
	(Thousands of Dollars)			
Utility Plant:				
Plant in Service Subject to Replacement Cost Disclosure	$493,080	$1,452,671	$472,510	$1,345,446
Construction Work in Progress	346,382	346,382	196,825	196,825
Other Property, at Historical Costs	14,631	14,631	14,558	14,558
Total	854,093	1,813,684	683,893	1,556,829
Accumulated Provision for Depreciation	134,373	435,985	122,364	381,292
Net Utility Plant	$719,720	$1,377,699	$561,529	$1,175,537
Depreciation Expense	$ 15,417	$ 45,479	$ 14,731	$ 42,163

Generating Plants: Fuel generation replacement costs were estimated on the basis of current construction cost per megawatt at December 31, 1978 and 1977 developed by engineering studies and applied to essentially the generation mix at the end of each year. Hydro generation replacement costs were calculated using the Handy-Whitman Index.

Transmission and Distribution Plant: High voltage transmission line replacement costs were computed based on engineering studies which determined the cost per mile of line at the end of each year. The replacement costs of certain transmission substations were computed based on costs and technology at the end of each year. The replacement costs of the remainder of transmission facilities along with the replacement costs of all distribution plant were calculated using the Handy-Whitman Index.

General Plant: Estimated replacement costs of buildings were developed by applying the estimated cost per square foot at the end of each year to the then present facilities. Estimated replacement costs for all other general plant were developed by applying unit prices or the appropriate Wholesale Price Index at the end of each year. Other property consists primarily of land and land rights.

Reserve For Depreciation: Related accumulated depreciation based on replacement costs was developed by applying the same percentage relationship that existed between depreciable plant and accumulated depreciation by functional groups on an historical cost basis at December 31, 1977 and 1978 to the current replacement costs of the same groups.

Depreciation Expense: Depreciation expense for the replacement costs of utility plant was developed by applying the actual average rates and methods by functional groups in use to the average of beginning and year end balances of depreciable replacement costs.

302 172

DESCRIPTION OF COMMON STOCK

The authorized capital stock of the Company consists of 18,000,000 shares of Common Stock, $5 par value (the "Common Stock"), and two classes of Preferred Stock consisting of 1,350,000 shares of Preferred Stock, $100 par value, and 2,000,000 shares of Preferred Stock, $25 par value. The Company is seeking stockholder approval of an increase of the number of authorized shares of Preferred Stock, $25 par value, to 5,000,000 shares. The two classes of Preferred Stock rank on a parity with each other and are hereinafter referred to collectively as the "Preferred Stock". The Company's Articles of Agreement are included as an exhibit to the Registration Statement. The following statements are subject to and are qualified by the provisions of the Articles of Agreement, particularly the parts thereof specifically referred to. The applicable sections of the Articles of Agreement follow the summary of the provisions of the Common Stock. Where no specific section reference is made, this description reflects applicable New Hampshire law.

Dividend Rights.

Subject to the prior rights of the Preferred Stock and to the limitations described below, the Common Stock is entitled to dividends when and as declared by the Board of Directors out of any remaining funds legally available therefor.

The Preferred Stock of each class may be issued in one or more series. Each series of the Preferred Stock is entitled, when and as declared by the Board of Directors, out of funds legally available therefor to quarterly dividends, cumulative from the date of issue, payable as to all series on the fifteenth day of February, May, August and November, at the annual rate per share designated in its title in preference to the Common Stock and any other junior stock. Sinking fund requirements on each of the three outstanding Series of the Sinking Fund Preferred Stock are on a parity with dividend requirements on the Preferred Stock. No dividends shall be declared on any series of the Preferred Stock unless like proportionate dividends, ratably, in proportion to the respective dividend rates, are declared on all shares of all series. (Art. V, Subdiv. 2; Art. V, Subdiv. 12B.)

The Articles of Agreement contain certain limitations, applicable so long as any shares of the Preferred Stock are outstanding, on the Company's right to declare dividends on the Common Stock out of net income (similar limitations are contained in certain indentures supplemental to the First Mortgage, applicable so long as any bonds of Series H through V are outstanding), or in the event Common Stock Equity (as defined) is less than 25% of Total Capitalization (as defined). (Art. V, Subdiv. 9; Art. V, Subdiv. 12I.) Pursuant to terms of the General and Refunding Mortgage Indenture under which the Company issued the first series of bonds in September, 1978, dividends may not be paid on the Common Stock in excess of the Company's Net Income accumulated after January 1, 1978 less the aggregate amount of all dividends paid or declared on the Preferred Stock of the Company during such period plus $32,000,000. At March 31, 1979 $48,787,000 of Retained Earnings was not subject to dividend restriction. At March 31, 1979 the Common Stock Equity was 42.1% of Total Capitalization and pro forma after giving effect to the issue of 1,200,000 shares of Sinking Fund Preferred Stock 11.24% Dividend Series on May 22, 1979 and the additional Common Stock would have been approximately %.

Voting Rights.

Each share of Common Stock is entitled to one vote (Art. V, Sec. 6) and this class of capital stock has general voting rights. Under New Hampshire law and the Company's Articles of Agreement, the amendment to the Articles of Agreement containing the terms of any new series of the Preferred Stock must be approved by the favorable vote of the holders of at least two-thirds (⅔) of the shares of Common Stock voting at the meeting called for the purpose of considering such an amendment.

If and when dividends payable on any class of the Preferred Stock are in arrears in an amount equal to four or more quarterly dividends on all series of the class, the holders of the Preferred Stock of all series of such class voting as a single class or voting with holders of one or more other classes of the Preferred Stock, as a single class, if such holders have the right to participate in such election, have the right to elect a majority of the Board of Directors. If both the $100 Preferred Stock and the $25 Preferred Stock are entitled to participate in such election, the $100 Preferred Stock shall have one vote per share and the $25 Preferred Stock shall have one-quarter vote per share. (Art. V, Subdiv. 6; Art. V, Subdiv. 12F.)

So long as any shares of Preferred Stock are outstanding, the Company shall not, except upon the affirmative vote of two-thirds (⅔) of each class of the Preferred Stock then outstanding, (1) authorize any prior or parity preferred stock in addition to the currently authorized Preferred Stock, or securities convertible into such stock, except to refund all of the Preferred Stock or (2) issue stock having a preference as to dividends or assets over the Preferred Stock, or securities convertible into such stock, except to refund funded indebtedness; and the Company shall not, except upon the affirmative vote of two-thirds (⅔) of the class of the Preferred Stock affected, change the provisions of such class in a manner substantially prejudicial to the holders. (Art. V, Subdiv. 7; Art. V, Subdiv. 12G.)

So long as any shares of Preferred Stock are outstanding, the Company shall not, except upon the affirmative vote of a majority of each class of the Preferred Stock then outstanding, (1) issue any shares of Preferred Stock, or other preferred stocks ranking on a parity as to dividends or assets with the Preferred Stock, or securities convertible into shares of such preferred stocks, unless (a) for the purpose of refunding preferred stocks or funded indebtedness or (b) the amount of Common Stock and other stock junior to the Preferred Stock, plus premiums on Common Stock and earned and capital surplus, after deducting the amount, if any, by which Electric Plant Adjustments exceed reserves therefor, shall be equal to the par value of preferred stocks to be outstanding, and net income before fixed charges (as defined) but after federal taxes, for 12 consecutive months within the 15 immediately preceding months, is 1½ times an amount equal to such fixed charges and the annual dividend requirements on the preferred stocks to be outstanding; (2) issue or assume any unsecured obligations in excess of 20% of the aggregate of secured indebtedness, capital stock and surplus, after the deduction referred to in (b) above; provided, however, that without such affirmative vote and in addition to securities otherwise permitted by this clause (2), term indebtedness (defined as unsecured indebtedness having original maturities of more than one year issued under this proviso) may be issued or assumed after June 30, 1972, if the sum of any term indebtedness and any secured indebtedness issued after that date (other than for refunding) does not exceed 60% of the sum of $20,000,000 plus the amount by which gross utility plant at a date not more than 30 days prior to such issuance or assumption exceeds gross utility plant at June 30, 1972, and any such indebtedness issued may be refunded with other term indebtedness; or (3) merge or consolidate the Company with or into another corporation unless such merger or consolidation, or the issuance

302 174

or assumption of all securities to be issued or assumed in connection therewith, is ordered, approved or permitted by any federal regulatory authority having jurisdiction. (Art. V, Subdiv. 8; Art. V, Subdiv. 12H.)

Liquidation Rights.

Upon any liquidation, dissolution or winding up, after payment of the Company's obligations and after payment in full to holders of the Preferred Stock, the remaining net assets of the Company shall be distributed ratably to the holders of the Common Stock. In case of involuntary liquidation the \$25 Preferred Stock is entitled to \$25 per share and the \$100 Preferred Stock to \$100 per share, in each case plus accrued dividends, or in case of voluntary liquidation, to the redemption price applicable to the particular series, and no more, in preference to the Common Stock. (Art. V, Subdiv. 5; Art. V, Subdiv. 12E). See Note 4 of Notes to Financial Statements for redemption prices of Preferred Stock.

Other Rights.

Holders of the Common Stock have preemptive rights to purchase each future issue of Common Stock, warrants carrying rights to Common Stock or securities convertible into Common Stock which is offered for sale for cash other than (i) by a public offering or (ii) to or through underwriters or investment bankers who shall have agreed promptly to make a public offering thereof (as in the case of this offering of the additional Common Stock) or (iii) to employees of the Company or (iv) to holders of the Common Stock under a dividend reinvestment and common stock purchase plan. (Art. V, Subdiv. 10.)

The Common Stock is not liable for further calls or to assessment.

Each share of the Convertible Preferred Stock, 5.50% Dividend Series, is convertible into fully paid and non-assessable shares of Common Stock subject to termination of the conversion privilege at the close of business on the second full business day prior to any redemption date. In certain events the conversion price is subject to adjustment designed in general to preserve and protect the value of the conversion privilege (Art. V, Subdiv. 11). See Note (d) under the caption "Capitalization" for the conversion price.

Except for the shares of the Convertible Preferred Stock, 5.50% Dividend Series, no outstanding stock of the Company has any conversion rights.

Transfer Agents and Registrars.

The transfer agents for the Company's Common Stock are The First National Bank of Boston and Manufacturers Hanover Trust Company, New York, New York, and the registrars are The First National Bank of Boston and Morgan Guaranty Trust Company of New York.

LEGAL OPINIONS

The validity of the additional Common Stock will be passed upon for the Company by Ralph H. Wood, Esquire, Vice President and General Counsel of the Company, and by Messrs. Ropes & Gray, Boston, Massachusetts, and for the Underwriters by Messrs. Choate, Hall & Stewart, Boston, Massachusetts, both of which firms, as to the organization and existence of the Company, approvals of state

UNDERWRITING

The names of the several Underwriters and the respective numbers of shares of the additional Common Stock which they have severally agreed to purchase from the Company, subject to the terms and conditions specified in the Underwriting Agreement filed as an exhibit to the Registration Statement, are as follows:

Name	Number of Shares of Stock
Kidder, Peabody & Co. Incorporated	
Blyth Eastman Dillon & Co. Incorporated	

302 17

commissions and legal conclusions affected by the laws of New Hampshire, Vermont, Maine and Connecticut, may rely upon Ralph H. Wood. Ralph H. Wood owns, jointly with his wife, 300 shares of the Company's Common Stock.

EXPERTS

The financial statements included herein so far as they pertain to each of the five years in the period ended December 31, 1978 have been so included in reliance upon the report of Peat, Marwick, Mitchell & Co., independent certified public accountants, and upon the authority of said firm as experts in accounting and auditing.

Ralph H. Wood, Esquire, Vice President and General Counsel of the Company, has reviewed the statements made herein as to matters of law and legal conclusions under the subcaptions "Joint Projects", "Seabrook Nuclear Project", "Regulation", "Rates — New Hampshire Retail", "Rates — Other ", "Fuel Supply", "Environmental Matters", "Employees, Salaries and Wages" and "Municipalities and Cooperatives" under the caption "Business", and under the caption "Description of Common Stock". Messrs. Ropes & Gray have reviewed the statements made herein as to matters of law and legal conclusions under the subcaptions "Mortgage Bonds" and "Preferred Stock" under the caption "Financing", under the subcaptions "New England Power Pool" and "Seabrook Nuclear Project" under the caption "Business", under the caption "Description of Common Stock" and concerning the jurisdiction of FERC, the NRC and the Massachusetts Department of Public Utilities under the caption "Business — Regulation." Such statements are included on the authority of such person and firm as experts.