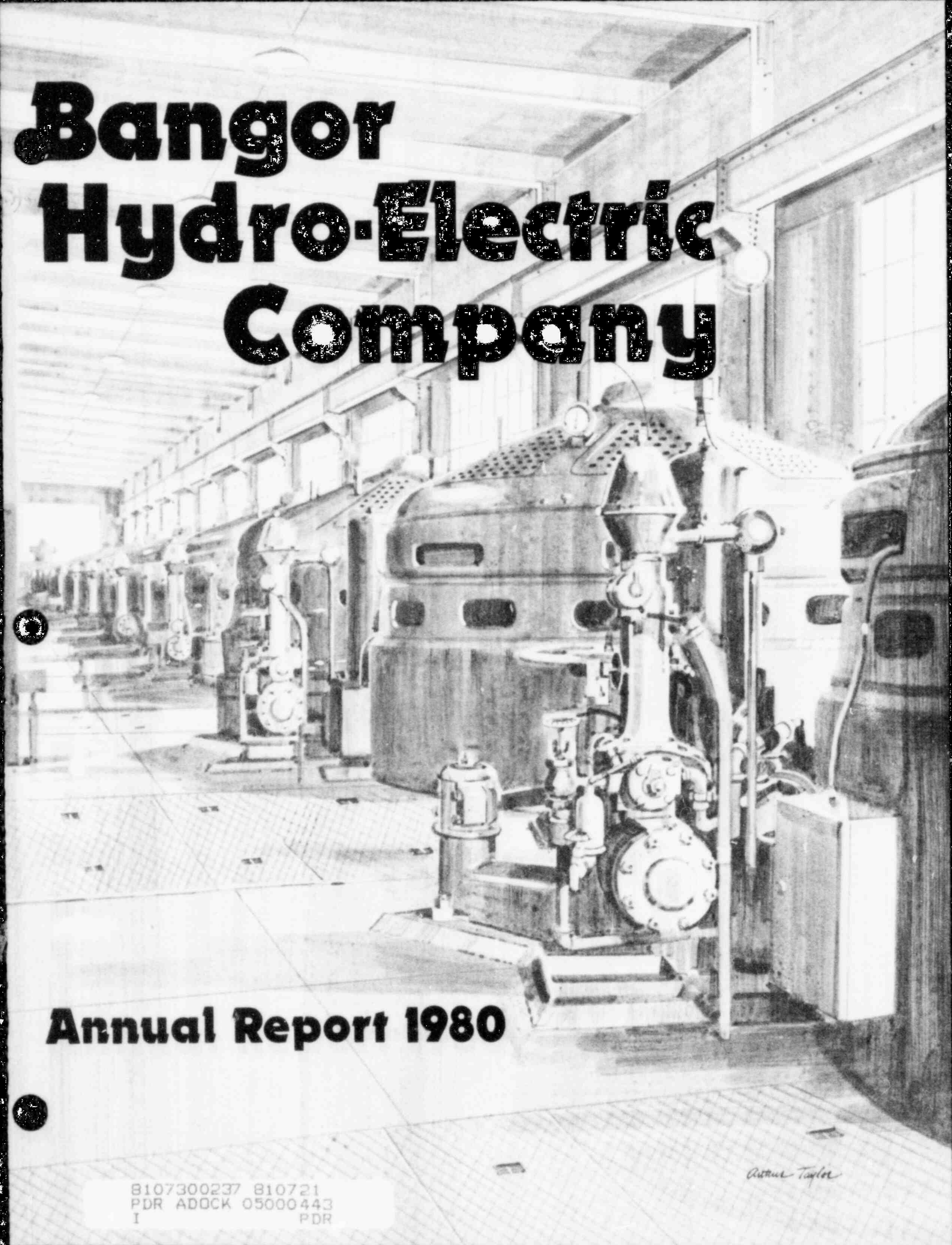
Bangor Hydro-Electric Company



Annual Report 1980

Board of Directors

George D. Carlisle
Bangor, Maine - President, Prentiss & Carlisle Company, Inc. (timberland management)

John F. Grant
Bangor, Maine - Chairman of the Board, Merrill Bankshares Company and The Merrill Trust Company (commercial banking)

Thomas A. Greenquist
Brewer, Maine - President of the Company

Robert N. Haskell
Bangor, Maine - Chairman of the Board of the Company

John T. Maines
Holden, Maine - Timberland Consultant

James G. Sargent
Hampden, Maine - President of H. E. Sargent, Inc. (construction)

Earle R. Webster
Bangor, Maine - Retired executive of the Company

Officers

Robert N. Haskell 77
Chairman of the Board since 1976; President from 1956 to 1976

Thomas A. Greenquist 52
President since 1976; Vice President and Treasurer from 1972 to 1976

Gerald F. Hart 64
Vice President-Engineering since 1976; Chief Engineer from 1971 to 1976

John P. O'Sullivan 38
Vice President & Treasurer since 1979; State of Maine Commissioner of Finance and Administration from 1975 to 1979

Paul A. LeBlanc 35
Vice President-Administration since 1978; various positions within the Company from 1973 to 1978

Robert S. Briggs 37
Vice President and General Counsel since 1979; Clerk of the Company since 1975; private practice of law from 1973 to 1979

William H. Beardsley 37
Vice President-Rates and Research effective January 1, 1981; Assistant to the President from 1976 to 1981

Carroll R. Lee 31
Assistant Vice President-Engineering since April 1980; Assistant to the President from 1979 to 1980; planning engineer from 1970 to 1979

Carroll A. Brooks 48
Assistant Treasurer since 1976

Division Managers

Robert G. Thomas
Bangor

Barrett O. Young
Bar Harbor

Edward L. Cameron
Ellsworth

Charles T. Dolan
Lincoln

James W. Logan
Machias

Gary W. Bramlett
Millinocket

Merle O. Boyer
Milo

The Annual Meeting: The annual meeting of stockholders of the Company will be held on Tuesday, April 28, 1981 at 10:00 A.M. at the Bangor Civic Center, 100 Dutton Street, Bangor, Maine.

Stock Transfer Agents: Northeast Bank and Trust Company, 2 State Street, Bangor, Maine 04401; Morgan Guaranty Trust Company, 30 West Broadway, New York, New York 10015 (common stock only)

Registrars of Stock: The Merrill Trust Company, Exchange Street, Bangor, Maine 04401; Bradford Trust Company, 67 Broadway, New York, New York 10004 (common stock only)

Form 10-K: The Company will provide without charge to any stockholder a copy of Form 10-K for the year 1980 as filed with the Securities and Exchange Commission. However, with the exception of certain additional information about the directors and executive officers of the Company and management remuneration, which is contained in the proxy statement distributed in connection with the annual meeting, and certain financial statements schedules relating to Maine Yankee Atomic Power Company and Maine Electric Power Company, Inc., the information required in the Form 10-K has been integrated into this Annual Report. Requests for copies of the Form 10-K should be directed to Bangor Hydro-Electric Company, Attention: Assistant Treasurer, 33 State Street, Bangor, Maine 04401.

Contents

1980 Year at a Glance

	1980	1979	% Increase (Decrease)
Operating Revenue (000)	$ 66,694	$ 51,748	28.9%
Operating and Maintenance Expenses (000)	$ 54,108	$ 41,399	30.7%
Earnings Applicable to Common Stock (000)	$ 1,950	$ 2,941*	(33.7%)
Common Stock Equity (000)	$ 27,317	$ 25,695	6.3%
Construction Expenditures, excluding AFDC	$ 5,762	$ 7,766	(25.8%)
Plant Investment (Net of accumulated depreciation) (000)	$ 63,610	$ 62,559	1.7%
Sales (000 kwh)	1,305,625	1,331,750	(2.0%)
Customers - year end	74,061	73,872	.3%
Residential Customers - average	65,768	64,958	1.2%
Number of Common Stockholders - year end	7,653	7,535	1.6%
Number of Common Shares outstanding - year end	2,083,680	1,812,023	15.0%
Number of Common Shares outstanding - average	1,833,979	1,801,906	1.8%
Dividends per Share Declared on Common Stock	$ 1.52	$ 1.52	-
Earnings per Share of Common Stock	$ 1.06	$ 1.63*	(35.0%)

*Includes cumulative effect of a change in accounting principle of $1,043,000 ($.58 per share) and $658,729 ($.36 per share) attributable to the amount of fuel that would have been deferred at December 31, 1978 had the new fuel regulations been effective at that date. See note 1 to the financial statements.

To the Stockholders of Bangor Hydro-Electric Company

Financially, 1980 was another difficult year for Bangor Hydro-Electric Company. Earnings per common share in 1980 of $1.06 results in a 7.6% return on common shareholder's equity, significantly less than the 14% return allowed by the Maine Public Utilities Commission in the Company's latest rate order.

It was clear in the latter part of 1979 that the Company was in need of rate relief. The rates established in 1976 and based on 1975 operating results could no longer support the higher operating and capital costs we were experiencing. Accordingly, after the completion of a seven month cost-of-service study, the Company filed for both permanent and emergency rate relief in February 1980.

With the promise of expedited proceedings in the permanent rate request, the Company withdrew its emergency rate filing in June, and on August 8, the Commission granted a $4.7 million rate increase. Operating profits have shown marked improvement since the new rates became effective. However, the operations of the last five months were not able to turn the depressed results of the first seven months into satisfactory earnings for the entire year.

Another reason for the low earnings in 1980 was interest expense on short-term debt. Increases in both the rate of interest and the amounts of the borrowings resulted in short-term interest expense being some $1 million higher in 1980 than in 1979. The amount of this increase not recovered in earnings through AFDC or from the resultant reduction in income tax expense decreased earnings by $.28 per common share. Even the August 8 rate increase did not allow for the unprecedented high level of short-term debt costs experienced throughout 1980.

We are committed to an aggressive and timely pursuit of adequate electric rates in order to avoid a repeat of the unsatisfactory results of 1979 and 1980. Our current financial projections indicate that another rate filing will be necessary in 1981.

The Company sold 250,000 shares of common stock on December 10, 1980 at $10.125 per share, raising, after expenses, $2,286,000 of new equity capital. The proceeds were used to reduce short-term borrowings incurred in connection with the construction program.

In September 1980 a referendum question calling for the termination of current and future nuclear power generation in Maine, and the consequent shutdown of Maine Yankee, was defeated by the voters of Maine. Efforts have begun by certain individuals and groups to initiate another referendum vote on the same or a similar proposal. We continue to believe that Maine Yankee is a safe and economic source of base load power, and that nuclear power in general is a safe and economic method of generating electricity. We also believe that those involved in the nuclear industry and the electric utility industry must continue the effort begun in the 1980 campaign of informing the public about nuclear power.

In 1981, it appears that another referendum will confront the voters. A petition drive was successful in placing before the legislature and the voters a proposal calling for combining the Office of Energy Resources and the Public Utilities Commission, and providing for the election of the Commissioners. Presently the Public Utilities Commission members are appointed by the Governor and confirmed by the Maine Senate. Because of the quasi-judicial nature of the office and the need for expertise and experience, in our opinion this proposal would not be in the best interests of good regulation.

This year we have attempted to integrate into this report most of the requirements of Form 10-K filed with the Securities and Exchange Commission in order to provide you with more comprehensive information. We encourage you to carefully review it, and we invite your comments.

The directors and officers of the Company gratefully acknowledge and appreciate the continued support of you the stockholders.

Respectfully submitted,

R N Haskell

R. N. Haskell
Chairman of the Board

T A Greenquist

T. A. Greenquist
President

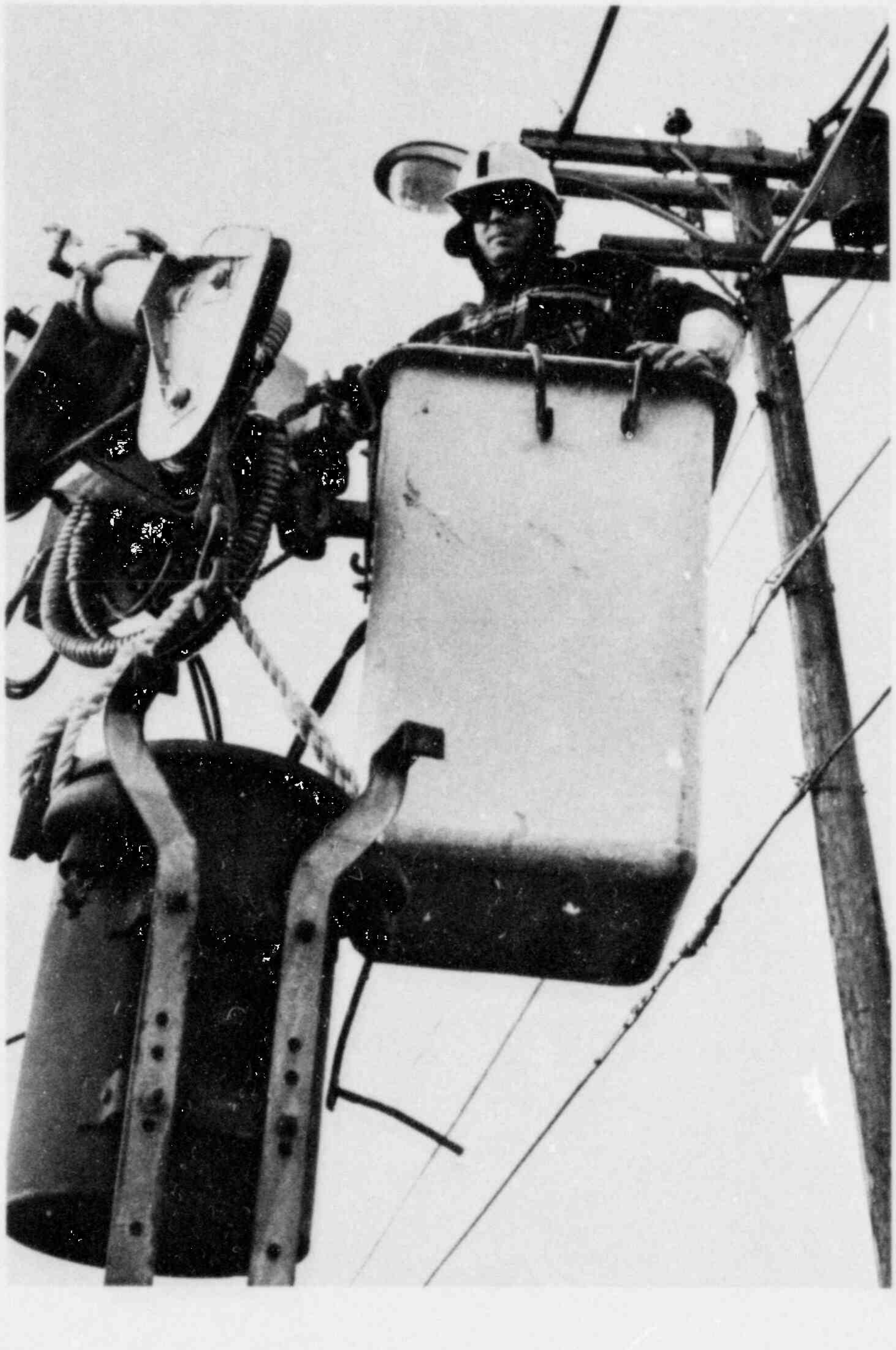
February 2, 1981

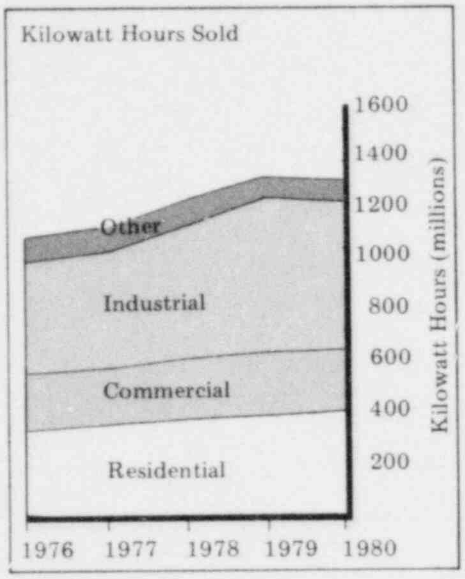
The Company's Business

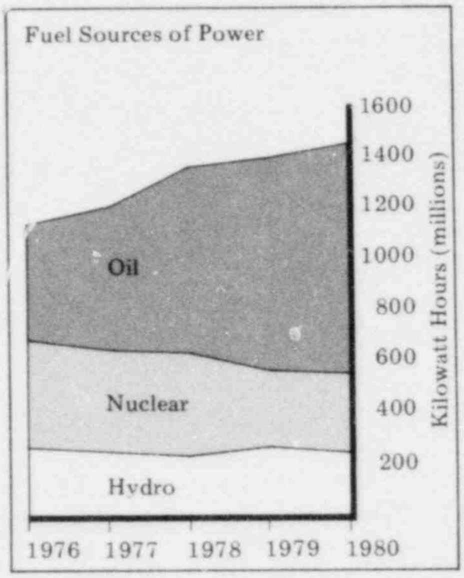
The Company is a public utility engaged in the generation, purchase, and transmission of electric energy for distribution and sale to its 76,000 customers, including approximately 2,000 summer seasonal customers. The Company's service area covers about 4,850 square miles having a population of approximately 190,000 persons and covering portions of six counties in Eastern Maine. In 1980, 30% of the Company's kilowatt-hour ("KWH") sales were to residential customers, 17% were to commercial customers, 44% were to industrial customers, 6% were to governmental agencies, 1% were to street and area lighting customers, and 2% were to other utilities for resale. Some of the more important industries served are those engaged in the manufacture of pulp and paper products, chemicals, lumber and woodworking, and footwear. Of the industrial sales, 42% went to the Company's largest single customer, IMC Chemical Group, Inc. ("IMC"), which is served on an interruptible basis. In 1980, IMC accounted for 6% of general rate revenues, 13% of electric operating revenues and 19% of the Company's KWH sales. In 1975 IMC instituted proceedings which are still pending before the Maine Public Utilities Commission requesting that it be served by another utility; a more complete discussion of this matter is set forth in note 10 to the financial statements.

The Company's KWH sales are generally higher during the winter months. The winter peak electric demand is usually about 20% higher than the summer peak. The maximum peak electric demand upon the Company's system experienced during 1980 was 219.5 megawatts ("MW") on December 15, 1980. At that time the Company had 279 MW of generating capacity, including 118 MW from Company-operated generating units, 50 MW from the Company's 8.3% ownership interest in the William F. Wyman Unit No. 4 located on Cousin's Island in Yarmouth, Maine, 61 MW from the Company's entitlement in Maine Yankee Atomic Power Company's nuclear generating facility, and 50 MW of capacity purchased from other utilities.

Over the last five years, the Company's general rate revenues have increased from $23.8 million in 1976 to $29.5 million in 1980. Fuel charge revenues, which represent a cost pass-through to customers and do not contribute to the Company's earnings, are accounting







for an increasingly significant portion of total electric operating revenues - from 24% in 1976 to 56% in 1980 - reflecting the escalating cost of fuel oil used in the generation of electricity.

During the period 1976 through 1979, the Company's KWH sales grew at an average annual compound growth rate of approximately 7%. Total KWH sales were approximately 1.3% lower in 1980 than in 1979 due to substantially lower interruptible sales (primarily to IMC) during the year. "Firm" (that is, non-interruptible) KWH sales were approximately 5.3% higher in 1980 than in 1979, but much if not all of this increase was attributable to substantially higher sales to certain industrial customers whose own hydro-electric generation was reduced in 1980 due to low water conditions.

Properties and Power Supply

The Company owns eight hydro-electric generating facilities with a total capacity of 34 MW. Seven are "run of the river" units located along the Penobscot River system, and one is on the Union River and utilizes water storage. The Company also has one oil-fired steam-electric generating station in Veazie, consisting of three units with a combined capacity of about 60 MW, and fourteen internal combustion generating units located at five stations having a total capacity of 24 MW. Other properties consist of about 560 miles of transmission lines, 2500 miles of distribution lines, substations, offices, garages, warehouses, vehicles, tools and equipment.

In addition, the Company has an 8.3% ownership interest in William F. Wyman Unit No. 4 ("Wyman 4"), a 600 MW oil-fired generating unit in Yarmouth, Maine, constructed and operated by Central Maine Power Company. This source provides the Company with another 50 MW of generating capacity.

The Company owns 7% of the common stock of Maine Yankee Atomic Power Company, which owns and operates an 830 MW steam-electric generating facility ("Maine Yankee") that uses nuclear energy from a pressurized light water reactor as a source of heat to provide the steam. This ownership interest entitles the Company to purchase approximately 6.9% of Maine Yankee's output and, along with the assignment of about 0.4% from another of Maine Yankee's sponsors, provides the Company with about 61 MW.

The Company also owns 14.2% of the common stock of Maine Electric Power Company, Inc. ("MEPCO"), which owns and operates a 345 kilovolt ("KV") transmission line running from Maine Yankee's location in Wiscasset, Maine, to the Maine-New Brunswick, Canada border where it interconnects with the New Brunswick Electric Power Commission's facilities.

In addition to the facilities it operates and the generating units in which it has ownership interests, the Company's current power supply includes generating capacity purchased from other utilities. The largest purchase is from Boston Edison Company's Mystic Unit No. 7, an oil-fired plant, under a ten year contract which began in 1975. The amount of capacity purchased varies during the term of the contract; it is currently at 40 MW, and will rise to as much as 95 MW in the last years (late 1982 to late 1984). The Company also is entitled to 2.7 MW from the New Brunswick Electric Power Commission's Coleson Cove oil-fired units pursuant to a contract which will terminate in 1985.

The Company and most of the other electric utilities in New England belong to the New England Power Pool ("NEPOOL"), which provides substantially all of the coordination and dispatching of electric generating capacity for New England. Each member is responsible for providing its own generating capacity requirements, but NEPOOL dispatches the generating units on an economic and reliability basis, as if New England were one large electric system. The Company interconnects with the New England and New Brunswick

systems at the 345 KV substation in Orrington, where the Company's system connects with MEPCO's transmission line. Through this interconnection the Company receives its entitlements from generating units outside the Company's service territory, and is able to purchase energy through NEPOOL or directly from other utilities from time to time on a short-term basis. In this manner, the Company is able to obtain the least expensive energy available at any given time.

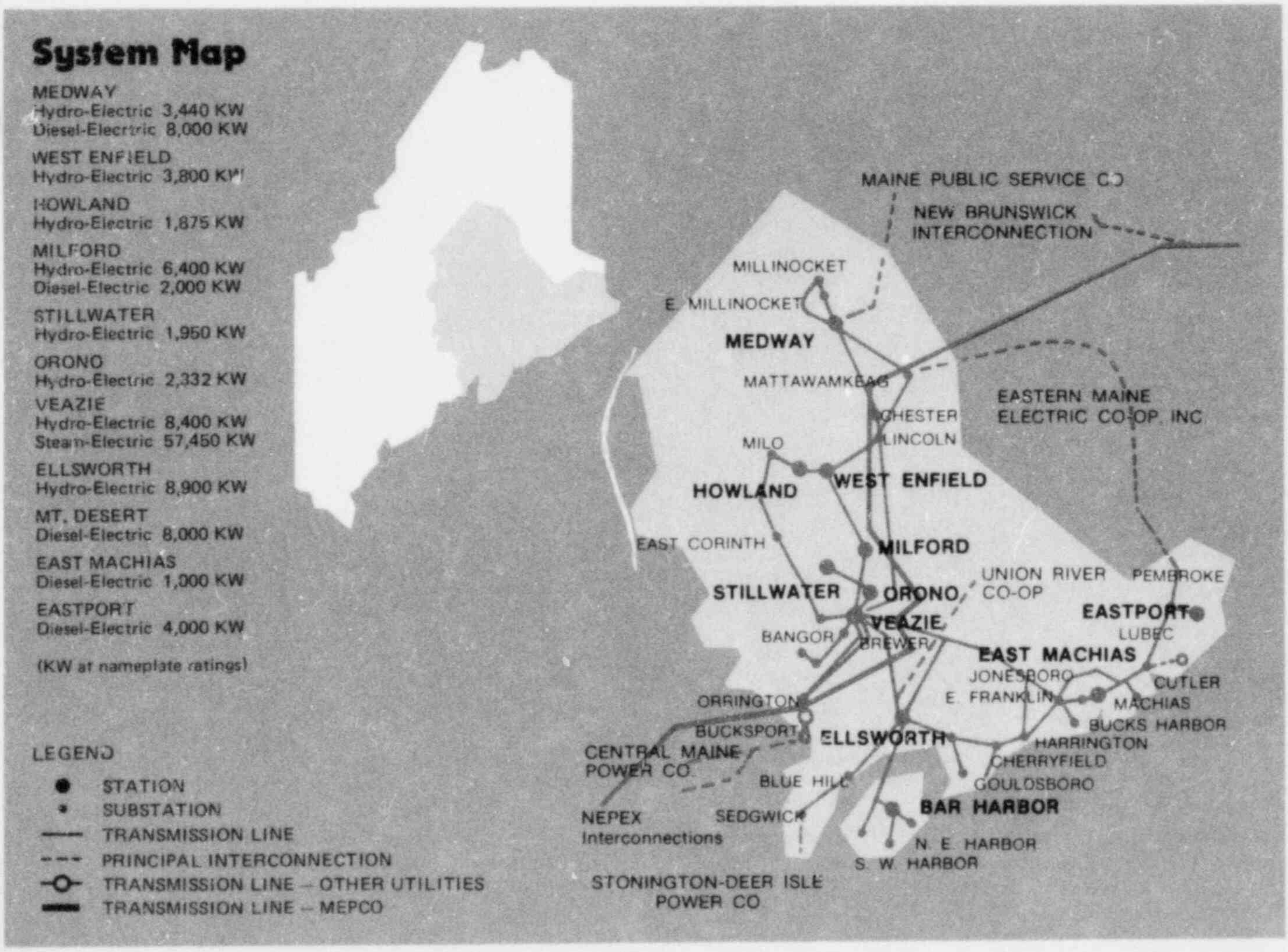
Power Supply Planning

The Company has two principal and related goals in its power supply planning program. The first is to meet its customers' needs for energy on a reliable basis by providing a sufficient amount of generating capacity to avoid power curtailments or interruptions. The second is to supply these needs on the most economical basis possible. The Company's long-range energy forecast is currently being re-evaluated and is expected to result in a forecast in the range of a 2% to 3% annual increase in firm energy demand during the 1980's. In order to satisfy this rate of growth and to replace existing sources which will expire, the Company's need for new capacity is expected to be 110 to 150 MW by 1990.

The current mix of electric energy supply is approximately 17% hydro, 28% nuclear and 55% oil. The recent rise in the price of residual oil to more than $34 per barrel and anticipated future increases make it imperative that the Company reduce its dependence upon oil for generation.

In order to meet the anticipated increased demand for electric energy and reduce the Company's dependence upon oil for generation, current power supply plans include promotion of a sound conservation program, joint ownership in the Seabrook nuclear units, a long term purchase from a nuclear plant in New Brunswick and development and redevelopment of hydro-electric resources.

The Company will have a 2.17% ownership interest in the Seabrook



nuclear units being built by Public Service Company of New Hampshire, currently scheduled for operation in the mid-1980's. This will provide the Company with 50 megawatts of non-oil fired capacity. Currently under negotiation is a purchase of 30 MW of capacity from the Point LePreau nuclear generating plant owned by the New Brunswick Electric Power Commission. This purchase would be from late 1981 through late 1990. The Company has just completed a comprehensive evaluation of the potential for hydro-electric development within its service territory and the results indicate that it is possible to expand the hydro-electric energy production of the Company. The Company is increasing its efforts in promotion of energy conservation through a Residential Conservation Program. If the energy load growth of the Company is contained to the 2% annual increase through its conservation program, and the Company is successful in implementing its current power supply expansion plan, the expected mix of generation in 1990 would be approximately 24% hydro, 53% nuclear (owned and purchased), and 23% oil. This would accomplish the Company's power supply goals of reliable and economical electric service and result in a significant step in reducing its dependence upon oil for generation.

The Seabrook Project

The only generating facility under construction in which the Company is currently involved is the Seabrook nuclear project consisting of two 1150 MW generating units. Although still officially scheduled for completion in 1983 and 1985, this schedule is being revised as discussed in note 10 to the financial statements.

In 1978 the Company purchased a .37% interest in the project, which will entitle the Company to 8.6 MW, or 4.3 MW per unit. In 1979, Public Service Company of New Hampshire, the lead owner of the project with a 50% interest, determined that due to difficulties experienced in financing its share of the project it should reduce its ownership interest. The Company and other utilities agreed to purchase approximately 15% of the project from PSNH, over a buy-in period more particularly described in note 10 to the financial statements. The Company's share of this purchase is about 1.8% or 41.4 MW. The buy-in period commenced January 31, 1981 and is estimated to continue for approximately 13 months.

The cost of the project is currently estimated to be $2.4 billion. This estimate includes the initial nuclear fuel but does not include the allowance for funds used during construction ("AFDC"). The Company's share of this cost is estimated at $52.2 million, to which will be added an estimated $30 million of AFDC. The Company's investment in the project at December 31, 1980 was $4.3 million, excluding AFDC of $1.1 million.

Reference should be made to note 10 to the financial statements for a discussion of regulatory and licensing activities and other matters concerning the project.

Passive solar design. One of several examples of this type of energy saving residential construction in the Company's service territory.

Rates, Research & Conservation

In 1980 the rate department was reorganized into a division of rates and research and a division of conservation and consumer services. The rate division has developed in-house capabilities to consider declining block rates, cost based rates, seasonal and time-of-day rates as vehicles for achieving conservation and the efficient use of facilities and capital. The information developed by this group is the basis of the Company's presentation in the rate design proceedings currently before the Maine Public Utilities Commission. This division has also initiated a load study by installing recording demand meters on all wholesale customers and all industrial customers with loads of one megawatt or more, as a first step in meeting the requirements of the Public Utilities Regulatory Policies Act of 1978.

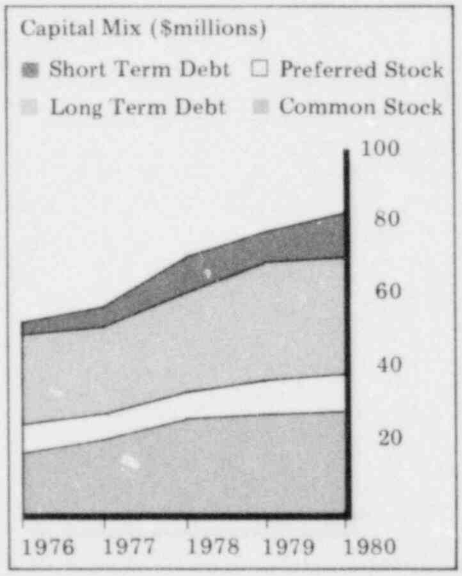
The division of conservation and consumer services has as its goal the promotion of conservation and wise use of electricity. Included in its efforts are the implementation of a residential conservation service home audit and alternate energy evaluation program and the development and implementation of a corporate conservation plan. This division also works with customers on solar and wind energy applications.

Regulatory Activity

The Company is regulated by several State and Federal agencies, most notably the Maine Public Utilities Commission ("MPUC"), the Department of Energy and the Federal Energy Regulatory Commission ("FERC").

In early 1980, the Company filed for a rate increase with the MPUC. This proceeding was divided into a revenue determination portion and a rate design portion. The processing of the revenue portion was expedited and agreement was reached on the amount of additional revenue required. Accordingly, on August 8, 1980, several months ahead of the statutory deadline, the Company was permitted to increase its basic rates by 18%, or about $4.7 million annually. The agreement approved by the MPUC is based on a 14% return on common equity, an overall rate of return of 10.65%, and an attrition allowance of 0.38%. The rate design portion is continuing, and the MPUC will take up as a part of this portion of the proceedings several issues which must be considered under the Public Utility Regulatory Policies Act of 1978.

As of January 1, 1980, the Company began to operate under the MPUC's new fuel clause regulations,



which provide for the estimation of fuel costs over a forward-looking twelve month period to derive a uniform fuel adjustment factor for customer billing. During the year, the Company applied for and received three upward adjustments to the factor from the MPUC, in response principally to larger than expected increases in the cost of oil. The current fuel cost adjustment factor was applied for in late October 1980 and became effective January 1, 1981.

On December 22, 1980 the Company filed with FERC for an increase in its wholesale rates of about $194,000 annually, or about 16%. Sales to other utilities account for about 2% of the Company's revenues.

In July 1980 the Company filed with FERC for a preliminary permit to study a proposed 30 MW water power project known as the Basin Mills Project, on the Penobscot River in Orono. This application conflicts with an application filed by non-utility developers with respect to a smaller project upstream from the Basin Mills site in that the Basin Mills Project would inundate the upstream site. A preliminary permit would assure priority to the site in the event the studies conclude that the project should be built. No indication has been received as yet as to when FERC will act upon these conflicting applications.

During 1980 the Company received the last of the licenses required from FERC on its eight hydro-electric projects. As water power project licenses expire, the Federal government has the right to take over and maintain the project upon payment to the Company of the lesser of its "net investment" or the fair value of the property taken, and any severance damages, less certain amounts earned by the Company in excess of specified rates of return. If the Federal government does not exercise its right, FERC may issue a new license to the Company or to a new licensee if the Company is compensated as if the Federal government had taken over the project. The Company's water power licenses will expire at various times during the period 1987 to 2000.

Employees and Management Changes

At December 31, 1980 the Company had 367 employees. Of these 185 are represented by the International Brotherhood of Electrical Workers, including linemen, electricians, meter department personnel, warehouse personnel, garage mechanics and station operators. A new two year contract with the union employees took effect January 1, 1981. This contract calls for an 8 1/2% wage increase in the first year and an 8% wage increase in the second year, and some increases in fringe benefits.

One of the Company's most important assets is its people, and through the years the Company has recognized that this asset requires continuous renewal through careful selection and development of personnel. It was attention to the "people asset" which resulted in the internal development of and, in 1980, the promotion of, three individuals to key positions.

In April 1980 Carroll R. Lee was elected to the position of Assistant Vice President-Engineering. Mr. Lee began with the Company in 1970 as an assistant engineer. In 1979 he became Assistant to the President with the responsibility for the Company's planning and power supply. He is a graduate of the University of Maine, with bachelors and masters degrees in electrical engineering and a masters degree in business administration.

Effective January 1, 1981, William H. Beardsley was named Vice President in charge of the newly created Department of Rates and Research. Mr. Beardsley came to the Company in 1976 from Green Mountain Power Company. He is a graduate of Earlham College and earned his doctorate in environmental engineering at Johns Hopkins University.

David R. Black was named Controller on November 12, 1980. Mr. Black has had nine years of experience with the Company in various accounting assignments. He is a graduate of Husson College and is currently a candidate for a masters degree in business administration.

Stockholders

As of December 31, 1980, the total number of outstanding shares of common stock was 2,083,600. This represents an increase of 271,577 over year-end 1979. There are 7,653 common shareholders, residing in each of the fifty states as well as some foreign countries. Residents of Maine account for 60% of the Company's shareholders and own 53% of the outstanding shares.

Approximately 625 shareholders are participating in the Company's Dividend Reinvestment and Common Stock Purchase Plan. Under the Plan, common dividends may be automatically reinvested and/or optional cash payments of between \$25 and \$5000 may be made for the purchase of additional common stock without brokerage commissions or service charges. For information and authorization forms, contact Carroll A. Brochu, Assistant Treasurer, 33 State Street, Bangor, Maine 04401.

Area Economy

The economy of the Company's service territory is based upon diverse activities. Paper and paper products industries, lumber and wood products, and footwear and textile manufacturers have been the basic employers. More recently, light industry such as research and development firms and electronic components manufacturers have contributed to the economy. The area is also fortunate to have many major educational centers such as the University of Maine with its main campus at Orono and smaller facilities in Bangor and Machias, and other business, vocational and environmentally oriented post-secondary schools. Fish, fish by-products and marine resources play an important role in the coastal areas, and recreation and tourism is a major industry year-round.

Recent advancements within the Company. (l to r) Carroll R. Lee, Assistant VP-Engineering; David R. Black, Controller; William H. Beardsley, VP-Rates and Research.

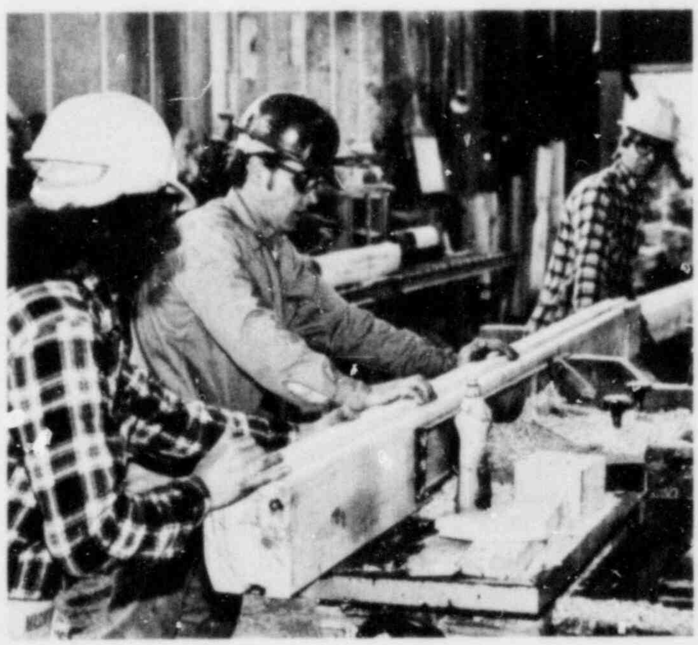
Matters of General Concern to the Company and the Industry

The electric utility industry is experiencing problems in a number of areas, including inflation and its effects upon construction and operating costs, obtaining adequate and timely rate increases, compliance with environmental and nuclear regulations, the availability and cost of fuel oil, and uncertainties due to increased political involvement in the industry. These problems are being experienced in varying degrees by different companies within the industry. In addition, most of the industry, including the Company, must finance large construction programs to meet customer demand, and is attempting to do so at reasonable costs during this period of inflation and unsettled capital markets.

In the nuclear power area, the Three Mile Island incident in March 1979 prompted a rigorous reexamination of safety related equipment and operating procedures in all nuclear facilities. In response to various studies, the Nuclear Regulatory Commission ("NRC") required that certain modifications be made to operating nuclear plants and those under construction. Maine Yankee Atomic Power Company has advised the Company that the near-term modifications required by the NRC have been made or are being met on schedule, and PSNH has advised the Company that these near-term modifications have already been incorporated into the design of the Seabrook Project. The impact of the long-term modifications upon these plants is still being evaluated. These modifications, other possible

Maine's largest college campus. The University of Maine at Orono has a student enrollment of approximately 11,000 and a faculty of about 600. (UMO Photo)

Pleasure craft abound in Northeast Harbor on Maine's Mount Desert Island.



Manufactured housing is big business in the Company's service area. Here, logs are pre-cut at a log home plant in Bangor.

Sandra Colbert, Consumer Relations Specialist, helps a customer.

reexaminations, or legislative and regulatory proposals arising out of this incident could require costly modifications to nuclear plants including Maine Yankee and Seabrook, or could interfere with their operations or cause delays in construction.

The method of disposal of spent nuclear fuel is another uncertainty. Under the Carter Administration, the Federal government suspended indefinitely the reprocessing of spent fuel. Without reprocessing and absent approval from the Federal government to permanently dispose of spent fuel, or of the method to be utilized, commercial nuclear power facilities must continue to temporarily store the fuel on site. The spent fuel pool at Maine Yankee will be filled in 1987, and after 1984 will not accommodate a full core removal. Maine Yankee has filed with the NRC for permission to increase the storage capacity by providing more compact fuel storage. The Attorney General of the State of Maine and a citizens' group have intervened in opposition, and no prediction can currently be given as to the outcome of Maine Yankee's request.

In the environmental area, the Company, like other industries, is subject to regulation at the Federal, State and local level. Present and developing standards, particularly with regard to emissions and discharges into the air and water and the disposal of all types of waste materials, could increase the cost of construction and operation of new facilities and could require substantial investments in new equipment at existing facilities. We are not currently aware of any such operational or financial impact upon the facilities which the Company owns or in which it has interests, but developments in this evolving area must be monitored continually.

The Company and most other utilities in the northeastern United States are heavily dependent upon fuel oil from foreign sources for generation of electricity, supplies of which are subject to interruption and unpredictable price increases. This dependence will continue until alternative sources of energy have been implemented. To date the Company has experienced no difficulty in maintaining an adequate supply of fuel oil for generation, and we are not aware of any such supply problems at other facilities from which the Company receives energy.

Federal legislation and regulations enacted in response to the policy of reducing dependence on foreign oil affects the use of oil for the generation of electricity, despite the adequacy of supply. Under the Powerplant and Industrial Fuel Use Act of 1978, new generating facilities cannot use oil as a fuel, and existing oil-fired facilities may be required to convert to coal. It does not appear that coal conversion would be required at any Company-operated facility or at Wyman 4. However, no assurance can be given that conversion will not be required at some time in the future.

The satisfactory resolution of these and other issues concerning the Company and the electric utility industry depends in large part upon the direction in which political and regulatory involvement in energy matters proceeds. Assuming that a reasonable energy policy for the United States is eventually settled upon, we believe that the problems facing the industry and the Company are manageable and can be overcome.

Management's Discussion and Analysis of Financial Statements

Results of Operations - 1978-1980

Electric operating revenues over this three year period have shown significant increases as a result of higher fuel costs incurred by the Company and then billed to customers through the fuel clause. The price of a barrel of oil delivered to the Company has increased from $13.21 at January 1, 1978 to $24.86 at January 1, 1980 and to $34.20 at January 1, 1981.

As explained in note 1 to the financial statements, deferred fuel accounting was adopted in December 1979 at the inception of the new fuel clause. The $3,806,901 of unbilled fuel which was deferred in 1979 will be billed over the three year period ending December 31, 1982. As also explained in note 1 to the financial statements the fuel clause in effect prior to 1980 was calculated using fuel costs which, on the average, were three months old. Thus the fuel charge revenues in 1978 and 1979 do not fully reflect the impact of the increases in oil prices in those years.

The increase in general rate revenues in 1980 has been largely due to the 18% increase in the basic rates effective August 8, 1980.

Operating expenses during this period have been impacted by a number of factors in addition to fuel costs. Purchased power expense reflects a 30 MW reduction in a purchased power contract with Boston Edison Company effective November 1, 1979. On November 1, 1980, the contract was increased 10 MW to a level of 40 MW. Increases in the operation and maintenance expenses are due primarily to inflation and wage increases. Other factors increasing operation and maintenance expenses include costs attributable to the Company's interest in Wyman 4 which became operational in December 1978 ($473,000 in 1979 and $263,000 in 1980) and an Internal Revenue Service adjustment, recorded in 1978 but attributable to a prior period, which reduced 1978 other operation expense by $300,000. Expenses were higher than normal at Wyman 4 in 1979 due to start-up problems.

Interest expense and dividends on preferred stock have increased sharply over the 1978-1980 period, due to the requirement for additional funds for the Company's construction program and for working capital, as well as the significant increase in the cost of those funds. Average short-term borrowings were $2,500,000 in 1978, $9,300,000 in 1979 and $13,100,000 in 1980, at average short-term interest rates of 9.8%, 13.2%, and 17.1% respectively. On August 31, 1979 the Company issued $7,000,000 of 10 1/4% First Mortgage Bonds, and on May 1, 1980 the company repaid $2,000,000 of 2 3/4% First Mortgage Bonds which matured. Also on August 31, 1979 the Company sold 30,000 shares of 9 1/2% Preferred Stock.

The amount of AFDC accrued during 1980 and 1979 is below that recorded in 1978, due to the commencement of the commercial operation of Wyman 4 in December 1978.

Earnings of $1.06 per common share for the twelve months ended December 31, 1980 is comparable to 1979 earnings per share of $1.05 before the addition of $.58 per share from a change in an accounting principle, both of which are below 1978 earnings of $1.77 per common share. Aside from the effects of the revenue and expense items discussed above, the decline in net income and earnings per common share during this period is attributable in large part to the fact that the Company's investment in Wyman 4 was not included in its rate base, from which the Company's general rate revenue is derived, until August 1980. After the accrual of AFDC ceased in December 1978, the Company recorded no return on this $15 million investment until it was included in rate base.

Operations have shown a marked improvement as a result of the basic rate increase effective August 8, 1980. In spite of the fact that earnings are traditionally higher in the fourth quarter as a result of higher sales, the August 8 basic rate increase played an important part in the improvement in earnings during the latter part of 1980. During 1980, earnings of $.51 per common share for the fourth quarter compares with earnings of $.29 per common share in the first quarter, a loss of $.02 per common share in the second quarter, and earnings of $.28 per common share in the third quarter.

Impact of Inflation

As noted above, inflation has increased the Company's operating expenses and costs of capital. Inflation also increases costs of the Company's construction program and the replacement of its plant and equipment. Under the rate-making practices prescribed by the regulatory commissions to which the Company is subject, only the allocation of the Company's historical costs is included in the cost of service and rate base used to establish the

Company's rates and hence its earnings. While the rate-making process gives no recognition t the current impact of inflation on the Company's rate base, it does allow the Company to earn on and recover the increased cost of net investment when the replacement of property, plant and equipment actually occurs.

Liquidity and Capital Resources

The Statement of Sources of Funds for Plant Additions reflects the Company's liquidity position.

In 1980, funds available from internal sources totaled $1,469,336. This was an improvement over 1979 when the internal uses of funds exceeded the internal generation of funds by $2,246,345. Both 1980 and 1979 were less satisfactory than 1978 when $2,060,816 of funds were available from internal sources.

These significant variations in liquidity occurred largely because fuel costs of $5.5 million and $1.6 million in 1979 and 1980 respectively were not recovered through the fuel adjustment clause in those years. In addition, liquidity has been adversely effected by the increasing level of accounts receivable also resulting from increases in the fuel adjustment clause. The Company's fuel adjustment rate is designed to collect previously unbilled fuel costs as well as to recover current fuel costs over a projected twelve month period. However, while the Company utilizes (subject to approval by the Maine Public Utilities Commission) what it considers realistic estimates of future increases in the cost of fuel, in fact the estimates were below the increases the Company has experienced. The Company expects to be able to recover these unbilled fuel costs through the fuel adjustment clause.

Also contributing to the Company's adverse liquidity position were the lower earnings in 1979 and 1980 as outlined in the Results of Operations section. Timely and adequate rate increases will be important to improving the Company's cash flow in future years.

A major factor which will affect the Company's cash position over the next few years is the financing of the construction program. Construction expenditures over the next five years are estimated at $75,600,000, consisting of $47,600,000 for the Company's commitment in the Seabrook nuclear units and $28,000,000 of as yet uncommitted generation, transmission and distribution expenditures.

With the increasing amounts of construction expenditures and with the current policy of the Maine Public Utilities Commission of excluding construction work in progress from rate base, the Company expects that allowance for funds used during construction ("AFDC") (see note 1 to the financial statements) will become an increasing portion of net income during the coming five year period. Since AFDC is not a cash income item this will result in an increasing reliance on external financing.

In order to assist in the financing of this construction program, in August 1980 the Company entered into a $30,000,000 five year revolving credit facility with a group of seven banks. The agreement establishing the revolving credit also gives the Company the option to convert any unpaid balance at the end of the five years into a three year term loan. This financing arrangement doubles the amount of short-term funds previously available to the Company, assures the availability of these funds through 1988, and provides the Company with some flexibility in the long-term capital markets. Borrowings under the revolving credit will be converted into long-term financing through issuances of additional long-term debt, preferred stock and common equity.

Statement of Income

For the Years Ended December 31,	1980	1979	1978
Electric Operating Revenues (Note 1):			
General rate revenue	$29,548,586	$27,340,857	$26,252,939
Fuel charge revenue	37,145,346	24,407,471	16,373,857
	$66,693,932	$51,748,328	$42,626,796
Operating Expenses:			
Fuel for generation (Note 1)	$37,234,901	$23,365,489	$17,568,718
Purchased power (Note 8)	7,858,714	9,689,425	9,194,030
Other operation	7,114,714	6,266,570	5,156,183
Maintenance	1,899,836	2,077,141	1,456,350
Depreciation and amortization (Notes 1 and 9)	3,111,302	2,814,541	2,200,513
Taxes-			
Local property and other	1,857,820	1,822,225	1,514,646
Income (Note 2)	938,426	722,874	1,128,430
	$60,015,913	$46,758,265	$38,218,870
Operating Income	$ 6,678,019	$ 4,990,063	$ 4,407,926
Other Income and (Deductions):			
Allowance for other funds used during construction (Note 1)	—	—	531,293
Other, net of applicable income taxes	(10,819)	(5,886)	(14,117)
Income Before Interest Expense	$ 6,667,200	$ 4,984,177	$ 4,925,102
Interest Expense:			
First mortgage bonds (Note 5)	$ 2,513,642	$ 2,088,957	$ 1,872,034
Other (Note 6)	2,265,632	1,243,365	304,734
Allowance for borrowed funds used during construction (Note 1)	(797,989)	(792,693)	(643,149)
	$ 3,981,285	$ 2,539,629	$ 1,533,619
Income Before Cumulative Effect of a Change in Accounting Principle	$ 2,685,915	$ 2,444,548	$ 3,391,483
Cumulative effect on prior periods (to December 31, 1978) of changing to a different method of recording revenue net of related income taxes of $1,034,000 (Note 1)	—	1,043,000	—
Net Income	$ 2,685,915	$ 3,487,548	$ 3,391,483
Dividends on Preferred Stock	735,570	546,420	450,570
Earnings Applicable to Common Stock	$ 1,950,345	$ 2,941,128	$ 2,940,913
Earnings Per Common Share, based on weighted average number of shares outstanding of 1,833,979 in 1980, 1,801,906 in 1979 and 1,658,985 in 1978:			
Before cumulative effect of a change in accounting principle	$ 1.06	$ 1.05	$ 1.77
Cumulative effect on prior periods (to December 31, 1978) of changing to a different method of recording revenue (Note 1)	—	.58	—
Net	$ 1.06	$ 1.63	$ 1.77
Pro forma earnings assuming the new method of recording revenue were applied retroactively:			
Applicable to common stock	$ 1,950,345	$ 1,898,128	$ 3,045,475
Per share	$ 1.06	$ 1.05	$ 1.83

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

Balance Sheet

December 31,	1980	1979
Assets		
Investment in Utility Plant:		
Electric plant in service, at original cost (Notes 8 and 12)	$97,539,504	$95,017,710
Less-Accumulated depreciation (Notes 8 and 12)	33,929,098	32,459,170
	$63,610,406	$62,558,540
Construction in progress, including $5,424,864 in 1980 and $3,697,502 in 1979 for construction of jointly-owned generating unit (Notes 9, 10 and 12)	6,295,839	3,824,265
	$69,906,245	$66,382,805
Investments in corporate joint ventures (Notes 1 and 8) -		
Maine Yankee Atomic Power Company	4,689,372	4,683,022
Maine Electric Power Company, Inc.	171,790	178,898
	$74,767,407	$71,244,725
Other Investments, principally at cost	$ 503,894	$ 520,395
Current Assets:		
Cash	$ 1,051,461	$ 1,122,801
Accounts receivable -		
Customers, net of reserve	6,871,234	5,098,511
Income tax refund	—	563,287
Unbilled revenue receivable (Note 1)	3,377,336	2,549,199
Inventories, at average cost -		
Material and supplies	2,127,271	1,840,857
Fuel oil	1,332,387	1,286,905
Prepaid expenses	394,108	359,103
Deferred fuel costs (Note 1)	7,057,135	5,484,688
	$22,210,932	$18,305,351
Deferred Charges:		
Cost of cancelled NEPCO nuclear units (Note 9)	$ 1,793,896	$ 2,015,306
Other	566,628	424,054
	$ 2,360,524	2,439,360
	$99,842,757	$92,509,831

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

December 31,	1980	1979
Stockholders' Investment and Liabilities		
Capitalization (see accompanying statement):		
Common stock investment (Note 3)	$27,517,185	$25,694,645
Preferred stock (Note 4)	4,734,000	4,734,000
Redeemable preferred stock (Note 4)	5,000,000	5,000,000
First mortgage bonds, exclusive of a current maturity in 1979 and sinking fund requirements (Note 5)	32,175,000	32,345,000
Total capitalization	$69,226,185	$67,773,645
Current Liabilities:		
Current maturity of long-term debt (Note 5)	$ —	$ 2,000,000
Notes payable to banks (Note 6)	12,100,000	7,550,000
	$12,100,000	$ 9,550,000
Other current liabilities -		
Current sinking fund requirements	$ 170,000	$ 170,000
Accounts payable	7,395,901	5,116,931
Dividends payable	904,447	856,598
Accrued interest	676,735	664,954
Accrued current and short-term deferred taxes (Note 2)	59,621	152,347
Customers' deposits	63,967	73,859
Accrued pension plan contribution (Note 7)	445,000	410,000
	$ 9,715,671	$ 7,444,689
	$21,815,671	$16,994,689
Commitments and Contingencies (Notes 8, 9, and 10)		
Deferred Credits and Reserves (Note 2):		
Accumulated deferred income taxes	$ 4,868,905	$ 4,227,113
Unamortized investment tax credits	3,728,976	3,418,326
Other	203,020	96,058
	$ 8,800,901	$ 7,741,497
	$99,84[illegible],757	$92,509,831

Statement of Retained Earnings

For the Years Ended December 31,	1980	1979	1978
Balance at Beginning of Year	$ 8,798,703	$ 8,599,913	$ 8,026,517
Add:			
Net income	2,885,915	3,487,548	3,391,483
Equity reserve for licensed hydro projects (Note 1)	—	—	136,262
	$11,484,618	$12,087,461	$11,554,262
Deduct:			
Cash dividends declared on-			
Preferred stock	$ 735,570	$ 546,420	$ 450,570
Common stock - $1.52 per share in 1980 and 1979 and $1.46 per share in 1978	2,868,816	2,742,338	2,503,779
	$ 3,604,386	$ 3,288,758	$ 2,954,349
Balance at end of Year	$ 7,880,232	$ 8,798,703	$ 8,599,913

Statement of Capitalization

December 31,	1980	1979
Common Stock Investment:		
Common stock, par value $5 per share -		
Authorized--5,000,000 shares in 1980, 2,500,000 shares in 1979		
Outstanding--2,083,600 shares in 1980, 1,812,023 shares in 1979	$10,418,000	$ 9,060,115
Amounts paid in excess of par value	9,018,953	7,835,827
Retained earnings	7,880,232	8,798,703
	$27,317,185	$25,694,645
Preferred Stock, non-participating, cumulative, par value $100 per share, authorized 250,000 shares in 1980 and 100,000 shares in 1979 (Note 4):		
Subject to mandatory redemption requirements -		
9 1/2%, Callable at $109.00 in 1980 and $109.50 in 1979, 30,000 shares authorized and outstanding	$ 3,000,000	$ 3,000,000
9 1/4%, Callable at $106.15 in 1980 and $106.77 in 1979, 20,000 shares authorized and outstanding	2,000,000	2,000,000
	$ 5,000,000	$ 5,000,000
Not redeemable or redeemable solely at the option of the issuer -		
7%, Noncallable, 25,000 shares authorized and outstanding	$ 2,500,000	$ 2,500,000
4 1/4%, Callable at $100, 4,840 shares authorized and outstanding	484,000	484,000
4%, Series A, Callable at $110, 17,500 shares authorized and outstanding	1,750,000	1,750,000
	$ 4,734,000	$ 4,734,000
First Mortgage Bonds (Note 5):		
2 3/4% Series due 1980	$ —	$ 2,000,000
3 1/4% Series due 1982	1,000,000	1,000,000
3 1/8% Series due 1984	1,000,000	1,000,000
3 1/4% Series due 1985	1,500,000	1,500,000
4% Series due 1988	2,500,000	2,500,000
4% Series due 1993	3,500,000	3,500,000
6 3/4% Series due 1998	2,500,000	2,500,000
8 1/4% Series due 1999	3,500,000	3,500,000
10 1/2% Series due 2000	4,750,000	4,800,000
9 1/4% Series due 2001	2,820,000	2,865,000
8 3/5% Series due 2003	2,275,000	2,350,000
10 1/4% Series due 2004	7,000,000	7,000,000
	$32,345,000	$34,515,000
Less - Sinking fund requirements and a current maturity in 1979	170,000	2,170,000
	$32,175,000	$32,345,000
Total capitalization	$69,226,185	$67,773,645

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

Statement of Sources of Funds for Plant Additions

For the Years Ended December 31,	1980	1979	1978
Sources of Funds:			
Internal sources -			
Operations -			
Net income before cumulative effect of a change in accounting principle	$ 2,685,915	$ 2,444,548	$ 3,391,483
Items not currently requiring or (providing) funds-			
Depreciation and amortization	3,111,502	2,814,541	2,200,513
Deferred income taxes	641,791	1,480,932	470,488
Investment tax credit, net	310,650	980,478	923,637
Allowance for other funds used during construction	—	—	(531,293)
Funds provided from operations	$ 6,749,858	$ 7,720,499	$ 6,454,828
Cumulative effect on prior years (to December 31, 1978) of a change to a different method of recording revenue (Note 1)	—	1,043,000	—
	$ 6,749,858	$ 8,763,499	$ 6,454,828
Other sources (uses) of funds-			
Sinking fund requirements	$ (170,000)	$ (170,000)	$ (170,000)
Dividends declared	(3,604,386)	(3,288,758)	(2,954,349)
Other, net	128,463	89,687	74,206
	$ (3,645,923)	$ (3,369,071)	$ (3,050,143)
Change in net current assets, exclusive of interim financing -			
Cash, receivables and unbilled revenue	$ (1,966,233)	$ (2,363,720)	$ (3,122,661)
Deferred fuel costs	(1,572,447)	(5,484,688)	—
Other current assets	(366,901)	(1,084,148)	(83,265)
Accounts payable	2,278,970	982,261	1,807,113
Other current liabilities	(7,988)	309,522	54,944
	$ (1,634,599)	$ (7,640,773)	$ (1,343,869)
Funds available from (required for) internal sources	$ 1,469,336	$ (2,246,345)	$ 2,060,816
External sources -			
Notes payable to banks	$ 4,550,000	$ 500,000	$ 2,750,000
Retirement of first mortgage bonds	(2,000,000)	—	—
Proceeds from issuance of -			
First mortgage bonds	—	7,000,000	2,500,000
Preferred stock (30,000 shares in 1979)	—	3,000,000	—
Common stock -			
Public offering (250,000 shares in 1980 and 300,000 shares in 1978)	2,[illegible],000	—	4,288,010
Dividend reinvestment plan (21,577 shares in 1980 and 14,145 shares in 1979)	255,011	194,626	—
Employee stock ownership plan (8,051 shares in 1979 and 3,800 in 1978)	—	110,547	56,696
Funds from external sources	$ 5,091,011	$10,805,173	$ 9,594,706
Funds Available For Plant Additions	$ 6,560,347	$ 8,558,828	$11,655,522
Funds Used For:			
Wyman Unit #4	$ 323,498	$ 1,313,818	$ 3,157,502
NEPCO Nuclear Units (Note 10)	—	379,991	1,227,495
Seabrook Nuclear Units (Note 10)	1,727,362	1,504,070	2,196,333
Other plant additions	4,509,487	5,360,949	5,074,192
Funds Used For Plant Additions	$ 6,560,347	$ 8,558,828	$11,655,522

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Electric Operating Revenues Prior to 1979, Electric Operating Revenues were recorded when billings, based on cycle meter readings for either a one or two month period of consumption, were rendered to customers. Due to the cycle billing process, a portion of the electricity used by the Company's customers during a fiscal period remains unbilled at the end of that period. In general, this "unbilled" amount of revenue was not recorded as revenue prior to 1979.

In the first quarter of 1979, the method of recording Electric Operating Revenues was changed to recognize revenues as electricity is used by the Company's customers, including electricity delivered but not yet billed at the end of the accounting period. This accounting change was made in order to better match the recognition of electric revenues with the recognition of the costs of providing the electric service.

The cumulative effect of this accounting change on prior years (to December 31, 1978) amounts to $1,043,000 (after reduction for income taxes of $1,034,000) and was included in income in 1979. The pro forma amounts shown in the Statement of Income reflect the effect of retroactive application of the new method of recording revenue as if the new method had been followed throughout the periods.

Deferred Fuel Accounting Under the fuel clause which became effective for the Company on January 1, 1980, the Company is allowed to recover its fuel costs on a current basis. The fuel charge is based on the Company's projected cost of fuel for a twelve month forward-looking period. Over- or under-collections resulting from differences between estimated and actual fuel costs for a period are included in the computation of the estimated fuel costs of the succeeding fuel adjustment period. As a result of these provisions in the existing fuel clause, the Company adopted deferred fuel accounting in December of 1979. Under this accounting method, fuel costs are expensed when they are billed. Unbilled retail fuel costs are classified on the balance sheet as deferred fuel costs.

Under the fuel adjustment clause in operation prior to 1980, Fuel Charge Revenue was generally recorded when the cost of fuel was billed to customers. Operating Expenses were charged for the cost of fuel as incurred, which preceded the billing of fuel adjustment revenues by an average of three months. Consequently, in periods of rising fuel costs the Company's earnings were adversely affected by the amount of fuel costs incurred in excess of fuel billings.

As part of its order implementing the new fuel regulations, the Maine Public Utilities Commission ("MPUC") authorized the Company to collect, over a three-year period beginning January 1980, the fuel costs incurred which were unrecovered at December 31, 1979 due to the operation of the previous fuel clause. Accordingly, in December 1979 the company deferred $3,806,901 of fuel expenses, which amount represents the balance of unrecovered fuel costs which will be collected over the period January 1, 1980 through December 31, 1982. The after tax effect of this deferral was to increase 1979 earnings by $1.06 per common share.

Equity Method of Accounting The Company accounts for its investments in the common stock of Maine Yankee and MEPCO on the equity method of accounting and records its proportionate share of the net earnings of these companies (substantially all of these earnings are paid out in dividends) as a reduction of purchased power costs. See note 8 for additional information with respect to these investments.

Depreciation of Electric Plant and Maintenance Policy Depreciation of electric plant is provided using the straight-line method at rates designed to allocate the original cost of the properties over their estimated service lives. The composite depreciation rate, expressed as a percentage of average depreciable plant in service, was approximately 3.2% during the periods presented.

The Company follows the practice of charging to maintenance the cost of repairs, replacements and renewals of minor items considered to be less than units of property. Costs of additions, replacements and renewals of items considered to be units of property are charged to the utility plant accounts and any items removed are retired from such accounts. The original costs of units of property retired and removal costs, less salvage, are charged to the reserve for depreciation.

Equity Reserve for Licensed Hydro Projects The Federal Energy Regulatory Commission ("FERC") requires that a reserve be maintained equal to one-half of earnings in excess of a prescribed rate of return on the Company's investment in licensed hydro property beginning with the twenty-first year of project operation under license. As required by an order of the FERC, which was effective January 1, 1978, the Equity Reserve provided for licensed hydro projects was reclassified from Other Deferred Credits and Reserves to Retained Earnings.

Allowance for Funds Used During Construction The Company reflects as an element of the cost of construction of major units of depreciable property an allowance for funds (including common equity funds) employed during

the construction period ("AFDC"). Under the rate-making processes of applicable regulatory agencies the Company is permitted to recover these amounts, not currently, but over the useful life of the constructed property. Further, the unrecovered cost of constructed property, including the allowance, is an element of rate base on which the Company is permitted to earn a return.

The amount of the allowance recorded is determined by multiplying the portion of the average monthly dollar balance of construction in progress financed by short-term borrowings by the weighted average interest rate applicable to short-term borrowings for the month and multiplying any remainder of the monthly dollar balance of construction in progress by the weighted average cost of debt and equity as of the beginning of the year. For 1980 and 1979, the average monthly short-term borrowings exceeded the average monthly balance of construction in progress and, as a result, the allowance rate for these two periods is the average interest rate of short-term borrowings during these periods.

The average rate produced by the Company's computations was 17.1% for 1980, 13.2% in 1979 and 8.4% in 1978.

Note 2. Income Taxes

In 1980 and 1979, the Company experienced net losses for tax purposes. These losses resulted principally from three significant transactions which increased income for accounting purposes but not for tax purposes. The tax provisions related to two of these items which have been classified as short-term deferred taxes to correspond to the accounting for the related assets are as follows:

	1980		1979	
	Federal	State	Federal	State
Deferred fuel costs	$ 672,693	$110,071	$2,346,349	$383,928
Unbilled revenues	354,277	57,970	1,090,547	178,444
	$1,026,970	$168,041	$3,436,896	$562,372

The provision related to the third timing difference which has been classified as deferred income taxes pursuant to an order from the FERC is as follows:

	1980		1979	
	Federal	State	Federal	State
Costs (amortization) of cancelled NEPCO Nuclear Units (Note 9)	$ (55,205)	$ (1,229)	$ 681,548	$103,717

The losses for tax purposes have resulted in net operating loss and investment tax credit carrybacks, and carryovers which, subject to review by the Internal Revenue Service, will be used to reduce income taxes otherwise payable in future years. The carryovers and the periods in which they may be utilized are as follows:

	1980	
	Federal	State
Net operating loss carry forward		
Through 1986	$1,778,604	$265,850
Through 1987	795,496	121,054
	$2,574,100	$386,904
Investment tax credit carry forward		
Through 1985	1,187,814	—
Through 1986	942,583	—
Through 1987	505,589	—
	$2,635,986	—

The rate-making practice followed by the MPUC in the Company's most recent (August 1980) rate order permitted the Company to recover as a part of the cost of service deferred Federal income tax arising from the use, for income tax purposes, of accelerated depreciation of certain property added subsequent to 1969. The income tax effects of other property related timing differences between pretax accounting income and taxable income generally are, in effect, flowed through to the Company's customers. Although this accounting differs from generally accepted accounting principles followed by non-rate-regulated companies, which are required to record deferred taxes related to all timing differences, the Company expects that deferred taxes not recorded will be collected through customer rates in the future when such taxes become payable.

The individual components of Federal and State income taxes reflected in the Statement of Income for 1980, 1979 and 1978 are as follows:

	Year Ended December 31, 1980	1979	1978
Tax benefits carried back and forward:			
Federal	$(1,106,737)	$(4,283,431)	$ (453,080)
State	(118,869)	(500,387)	102,120
	$(1,225,606)	$(4,783,818)	$ (350,960)
Deferred - Short Term			
Federal	$ 1,026 970	$ 3,436,896	$ —
State	168,041	562,372	—
	$ 1,195,011	$ 3,999,268	$ —
Deferred - Other			
Federal	$ 643,020	$ 1,377,215	$ 467,928
State	(1,229)	103,717	2,560
	$ 641,791	$ 1,480,932	$ 470,488
Investment tax credits, net	$ 310,650	$ 980,478	$ 923,637
Employee stock ownership plan investment tax credit	40,664	106,165	95,964
Total Provision	$ 962,510	$ 1,783,025	$ 1,139,129
Charged to other income	(24,084)	(26,198)	(10,699)
Allocated to the cumulative change in accounting principle (Note 1)	—	(1,033,953)	—
Charged to operating expense	$ 938,426	$ 722,874	$ 1,128,430

The table below reconciles a provision calculated by multiplying income before Federal income taxes by the statutory Federal income tax rate to the total provision for Federal income tax:

	1980 Amount	%	1979 Amount	%	1978 Amount	%
Federal income tax provision at statutory rate	$1,656	46%	$2,348	46%	$2,110	48%
Less permanent reductions in tax expense resulting from statutory exclusions from taxable income:						
Dividend received deduction related to earnings of associated companies	198	5	207	4	208	4
Equity component of AFDC	—	—	—	—	255	6
Preferred dividends paid deduction	34	1	34	1	34	1
Amortization of investment tax credit	96	3	80	1	36	1
Federal income tax provision before effect of timing differences	$1,328	37%	$2,027	40%	$1,577	36%
Less timing differences that are flowed through for ratemaking and accounting purposes:						
Interest component of AFDC	367	10	365	7	309	7
Deduction of certain costs (primarily pension costs and payroll taxes) for tax purposes that are included in the cost of electric property	58	2	29	1	2[illegible]	1
One-half year depreciation convention	—	—	—	—	216	5
Other	(12)	—	16	—	(9)	—
Federal income tax provision	$ 915	25%	$1,617	32%	$1,034	23%

Under the Federal income tax laws, the Company receives investment tax credits at a rate of 10% on qualified property additions. Investment credits received are deferred and amortized over the life of the related property. Due to the adoption of a Tax Reduction Act Stock Ownership Plan (see note 3), the Company receives an additional 1% investment tax credit which is used to fund the Plan.

Note 3. Capital Stock

The Company issued and sold for cash (approximately $2,286,000) 250,000 common shares in December 1980.

The Company has an employee stock ownership plan which qualifies as a Tax Reduction Act Stock Ownership Plan. Annual contributions to the Plan by the Company are in the form of common stock of the Company having a market value equal to an additional 1% investment tax credit allowed by Federal tax law, less adminis-

trative expenses. The Company also has a Dividend Reinvestment and Common Stock Purchase Plan through which shareholders may purchase common stock without payment of brokerage commissions or service charges. In connection with these plans, the Company has reserved 130,000 shares of common stock.

Note 4. Preferred Stock

General Authorized preferred stock consists of 250,000 shares, par value $100 per share, of which there are outstanding 97,340 shares. The remaining 152,660 authorized but unissued shares (plus additional shares equal in number to such presently outstanding shares as may be retired) may be issued with such preferences, restrictions or qualifications as the Board of Directors may determine. The callable preferred stock may be called in whole or in part upon any dividend date by appropriate resolution of the Board of Directors.

With the exception of the 20,000 shares of 9 1/4% Preferred Stock and the 30,000 shares of 9 1/2% Preferred Stock, the outstanding preferred stock has general voting rights of one vote per share.

Redeemable Preferred Shares The 9 1/4% Preferred Stock and the 9 1/2% Preferred Stock are subject to mandatory redemption through the operation of sinking funds at the redemption price of $100 per share plus dividends accrued. The Company will set aside in cash annually (1) on December 1 in each year commencing with December 1, 1982, an amount sufficient to redeem 1,000 shares of the 9 1/4% Preferred Stock and (2) on August 1 in each year commencing with August 1, 1985, an amount sufficient to redeem 2,000 shares of the 9 1/2% Preferred Stock.

The aggregate annual amounts of preferred stock redemption requirements for each of the five years following 1980 are as follows: 1982-1984, $100,000; and 1985, $300,000.

Note 5. First Mortgage Bonds

Under the provisions of the indenture, substantially all of the Company's plant and property has been mortgaged to secure the First Mortgage Bonds. Additional bonds may be issued under the First Mortgage Bond Indenture, subject to certain restrictions and provisions specified in the indenture and supplements thereto.

Sinking fund requirements and current maturities of long-term debt for the five years subsequent to December 31, 1980 aggregate $4,630,000 as follows:

	Sinking Fund Requirements	Current Maturities	Total
1981	$ 170,000	$ —	$ 170,000
1982	170,000	1,000,000	1,170,000
1983	170,000	—	170,000
1984	170,000	1,000,000	1,170,000
1985	450,000	1,500,000	1,950,000
			$ 4,630,000

Note 6. Notes Payable to Banks

On August 22, 1980, the Company entered into a $30 million Revolving Credit and Term Loan Agreement with a syndicate of seven banks. Under the Agreement, the Company may borrow up to $17.4 million until the start of the Company's commitment to purchase an additional 41.4 megawatts of the Seabrook nuclear units (January 31, 1981 - see Notes 9 and 10). At that time, the credit available to the Company under this Agreement increases to $30 million. The revolving credit portion of this facility terminates on June 30, 1985, at which time the indebtedness may be converted to a term loan to be paid down by the Company over a three year period ending June 30, 1988.

The interest rate on the revolving credit is tied to the prime rate. For the periods ending June 28, 1981, June 28, 1983 and June 29, 1985, the interest rates are 106%, 108% and 110% of the prime rate respectively. In addition, the Company is obligated to pay a commitment fee of one-half of one percent on the unused portion of the commitment and an additional fee of 4% of the prime rate applied to the available credit. The interest rate under the term loan portion of the facility is 115% of the prime rate. Under both the revolving credit portion and the term loan portion, there is an additional interest charge of one-quarter of one percent on amounts outstanding in excess of $20 million.

The Company plans to use the borrowings under this Agreement to initially finance construction and for other corporate purposes. The Company intends to refinance such borrowings with the proceeds from sales of long-term debt and equity securities.

Under the terms of this Agreement, the Company is prohibited from incurring over $1 million of other unsecured borrowings.

Prior to August 22, 1980 the Company arranged for its short-term borrowings under separate lines of credit with individual banks.

Certain information related to short-term borrowings is as follows:

	1980	1979
Total credit available at end of period	$17,400,000	$15,300,000
Unused credit at end of period	$ 5,300,000	$ 8,050,000
Borrowings outstanding at end of period	$12,100,000	$ 7,250,000
Effective interest rate (exclusive of fees) on borrowings outstanding at end of period	22.8%	15.5%
Average daily outstanding borrowings for the period	$13,129,000	$ 9,291,000
Weighted daily average annual interest rate	17.1%	13.2%
Highest level of borrowings outstanding at any month-end during the period	$16,050,000	$14,250,000

Note 7. Supplementary Income Statement Information

The Company has a noncontributory pension plan covering substantially all of its employees. The Company funds pension costs accrued. Pension cost was $445,000 in 1980, $410,000 in 1979 and $408,600 in 1978, including amortization of unfunded prior service costs (approximately $1,076,800 as of January 1, 1980) over a twenty year period.

As of January 1, 1980, the date of the latest actuarial review, pertinent pension plan information was as follows:

The actuarial present value of vested accumulated plan benefits	$5,952,800
The actuarial present value of nonvested accumulated plan benefits	152,000
	$6,104,800
Net assets available for benefits	$7,977,989
Assumed rate of return on plan investments	5 1/2%

Maintenance expense, depreciation, and local property and other taxes not based on income which were charged to operating expenses are stated separately in the income statement. Rents and advertising costs are not significant. No royalty or research and development expenses were incurred.

Note 8. Capacity

The Company owns 7% of the common stock of Maine Yankee and 14.2% of the common stock of MEPCO. Under purchased power arrangements, the Company is entitled to purchase 7.3% of the output of Maine Yankee, and is obligated to pay a like percentage of Maine Yankee's costs regardless of the level of electrical output. The Company is also entitled to approximately 2% of a purchased power contract between MEPCO and the New Brunswick Electric Power Commission. To the extent that MEPCO's revenues from transmission services are insufficient to meet its expenses, the Company and the other participants pay MEPCO's costs based upon their relative system peaks. Information relating to the above purchased power arrangements and the operations of Maine Yankee and MEPCO is as follows:

	MAINE YANKEE			MEPCO		
Power Sales Contract Term	1973-2003			1976-1985		
Capacity Entitlement	61 MW			2.7 MW		
	1980	1979	1978	1980	1979	1978
Operations:	(Dollars in Thousands)					
As reported by investee-						
Operating revenues	$ 84,245	$ 68,867	$ 70,373	$111,604	$ 98,122	$ 59,860
Depreciation	$ 8,319	$ 8,279	$ 8,173	$ 735	$ 735	$ 736
Interest and Preferred Dividends	16,585	14,458	12,550	1,270	1,238	1,201
Other, net	52,767	39,480	42,948	109,453	95,994	57,760
	$ 77,671	$ 62,217	$ 63,671	$111,458	$ 97,967	$ 59,697
Earnings applicable to common stock	$ 6,574	$ 6,650	$ 6,702	$ 146	$ 155	$ 163
Amounts reported by the Company-						
Purchased power costs	$ 4,556	$ 4,199	$ 4,217	$ 590	$ 587	$ 551
Equity in net income	(468)	(468)	(479)	(24)	(24)	(39)
	$ 4,088	$ 3,731	$ 3,738	$ 566	$ 563	$ 512

Financial Position:

As reported by investee-						
Plant in service	$246,921	$240,061	$237,884	$ 18,588	$ 18,617	$ 18,617
Accumulated depreciation	(61,803)	(54,105)	(46,449)	(7,207)	(6,482)	(5,746)
Other	111,606	101,149	74,520	19,719	10,669	7,941
Total Assets	$296,724	$287,105	$265,955	$ 31,100	$ 22,804	$ 20,812
Less-						
Preferred stock	11,980	13,070	13,696	—	—	—
Long-term debt	134,823	139,373	128,818	9,900	10,560	11,220
Other liabilities and deferred credits	82,869	67,805	56,657	20,027	10,997	8,267
Net assets	$ 67,052	$ 66,857	$ 66,784	$ 1,173	$ 1,247	$ 1,325
Company's reported equity-						
Equity in net assets	$ 4,694	$ 4,680	$ 4,675	$ 167	$ 177	$ 188
Adjust Company's estimate to actual	(5)	3	4	5	2	—
	$ 4,689	$ 4,683	$ 4,679	$ 172	$ 179	$ 188

The Company owns 8.333% (50 MW) of the 600 MW Wyman 4 unit. The Company's proportionate share of the direct expenses of this unit is included in the corresponding operating expenses in the Statement of Income for the years 1978 (from December 1), 1979 and 1980. Included in the Company's utility plant are the following amounts with respect to this unit:

	December 31, 1980	December 31, 1979
Electric plant in service	$16,530,858	$16,207,360
Accumulated depreciation	(1,025,456)	(523,008)
	$15,505,402	$15,684,352

Note 9. Construction

The Company is engaged in an ongoing construction program including an investment in the Seabrook Nuclear Units ("Seabrook"), a jointly-owned electric generating facility being built by the Public Service Company of New Hampshire ("PSNH"). At December 31, 1980, the Company owned .37% (8.6 megawatts) of Seabrook and had contracted to purchase another 1.8% (41.4 megawatts) of that plant. The Company's participation in the .37% interest and in the 1.8% interest are summarized below:

	Existing	Under Contract	Total
		(Dollars in Thousands)	
Company's Ownership Percentage	.37%	1.8%	2.17%
Utility plant under construction at December 31, 1980:			
Construction and nuclear fuel costs exclusive of allowance for funds	$4,295	$20,896	$25,191
Estimated for completion:			
Construction and nuclear fuel costs exclusive of allowance for funds	4,679	22,308	26,987
Total	$8,974	$43,204	$52,178

The above estimates for completion are based on the latest estimates of the project's cost furnished by PSNH. See also note 10, "Contingencies - Seabrook" for a further discussion of this project.

One of the projects in which the Company had an ownership interest was the New England Power Company nuclear units originally planned for Charlestown, Rhode Island, at the site of an abandoned naval base. Efforts to obtain the site were unsuccessful, and the lead owner's parent company determined that the capacity from the units was not required to meet its system's fifteen year corporate plan. Accordingly, on December 17, 1979, the lead owner announced the cancellation of the project. In its most recent rate order, the Company has received approval from the MPUC to recover over a five year period its investment in the project, less any salvage credits.

Note 10. Contingencies

Seabrook As disclosed in note 9 above, the Company is participating as a joint owner in the nuclear generating plant being constructed in Seabrook, New Hampshire, by PSNH as the lead owner.

PSNH has for some time been experiencing difficulties in obtaining external financing for its construction program, including its 50% ownership in the Seabrook project. Consequently in March 1979 PSNH began efforts to reduce its ownership interest to 28%. These efforts have resulted in commitments only sufficient to reduce PSNH's interest to approximately 35%. The additional 1.8% interest which the Company has contracted to purchase is a part of this transaction.

The purchase is to be accomplished over an Adjustment Period during which the purchasing utilities pay the costs of the project otherwise attributable to PSNH until each purchaser's investment in the project equals the percentage for which it has committed. The Adjustment Period did not commence as soon as anticipated due to the inability of some of the purchasers to obtain timely regulatory approvals. In December 1980 the participants agreed that the Adjustment Period should begin on January 31, 1981 for those purchasers, including the Company, which had the requisite regulatory approvals. Completion of the transaction with respect to these purchasers would reduce PSNH's ownership interest to 44%, and during the Adjustment Period these purchasers are paying about one-half of the costs of the project otherwise attributable to PSNH. The Adjustment Period for the rest of the purchasers will commence when necessary regulatory approvals and financing have been obtained.

The Company estimates that the Adjustment Period which began on January 31, 1981 will continue for approximately thirteen months, during which time the Company will pay approximately $27 million in construction costs over and above the costs for its existing .37% interest.

In March 1980, PSNH reduced the level of construction at the project due to the delay in the commencement of the Adjustment Period and the unsettled capital markets. It is anticipated that construction will continue at the reduced level at least until the Adjustment Period for all purchasers has commenced, and possibly longer. As a result of this and other factors, the scheduled completion dates of the two units of 1983 and 1985 have been affected. As yet no new completion dates have been determined, but pending such determination the Company, for its planning purposes, is estimating the completion dates to be 1984 and 1986.

Construction of the Seabrook units 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 and has been opposed consistently by a number of intervening groups. Opposition to the project has included demonstrations at the Seabrook site. The project also has been plagued by lengthy delays which have resulted in greatly increased costs. Court appeals and administrative proceedings are continuing, and further appeals and proceedings are possible.

PSNH has indicated that the reduction of its ownership interest to 35% and adequate and timely rate increases (including favorable action upon a January 1981 request for emergency rate relief, which request was denied on February 20, 1981) are necessary in order to maintain the ability to obtain the external funds necessary to finance its share of the project, and to avoid suspension of construction or other measures which might adversely affect the completion and cost of the project. The Company cannot predict what action will be taken if emergency rate relief for PSNH is not forthcoming or whether PSNH's financing problems will be resolved, nor can it predict what effect those financing problems or further regulatory, administrative or court proceedings will have upon the completion of the project or upon its cost.

Indian Cases The Company is a defendant in a class action brought on July 17, 1972, in the United States District Court, District of Maine, Northern Division, by the Penobscot Nation of Indians seeking $5 million in compensatory damages and a like amount in punitive damages for loss of lands taken by flowage resulting from the damming of the Penobscot River by the Company's predecessors in title, allegedly in violation of the Indian Trade and Intercourse Act of 1790. The Company is also the defendant in an action brought simultaneously in that court based upon the same 1790 law by an individual alleging that he is a Penobscot Indian seeking $200,000 in damages for trespassing and requesting removal of existing transmission lines.

Proceedings in both cases were stayed pending the outcome of certain Indian land claim cases against the State of Maine. During 1980, ongoing negotiations between the Indians, representatives of the State and Federal governments, and the large landowners culminated in a settlement of the Indian land claims under the terms of which the claims are extinguished in return for monetary compensation and options for the purchase of land.

Counsel for the Indians and for the Company are currently examining the effect of the land claims settlement upon the cases against the Company. In the opinion of management, the outcome of these cases will not have a materially adverse effect on the financial condition of the Company.

IMC On August 11, 1975, IMC, the Company's largest single customer, located within the Company's service territory in Orrington, brought a complant before the MPUC requesting that the MPUC order Central Maine Power Company to provide electric service to IMC. After court resolution of certain preliminary issues, the matter is now in order for further proceedings at the MPUC. If the MPUC were to grant the request, the Company would apply for rate relief to make up for the loss of revenue from the basic rates applicable to this customer. However, the loss of this customer would reduce the Company's cost of fuel and purchased energy which is passed on to all customers including IMC. In the opinion of management, the magnitude of this reduction in fuel and purchased energy costs would offset substantially all of any base rate increase to other customers.

Note 11. Unaudited Quarterly Financial Data

Unaudited quarterly financial data pertaining to the results of operations are shown below:

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Dollars in thousands except per share amounts)			
1980				
Electric Operating Revenues	$16,165	$14,630	$16,896	$19,003
Operating Income	1,585	1,196	1,675	2,222
Net Income	715	140	685	1,146
Earnings (Loss) Per Share of Common Stock*	.29	(.02)	.28	.51
1979				
Electric Operating Revenues	$12,436	$11,845	$12,509	$14,958
Operating Income	395	1,439	543	2,613
Net Income (Loss) (Note 1)	873	817	(95)	1,893
Earnings (Loss) Per Share of Common Stock* (Note 1)	.42**	.39	(.13)	.95**

* Individual quarters recomputed based on weighted average of common shares outstanding during the year.

** See note 1 to the financial statements.

Note 12. Supplementary Balance Sheet Information

The activity in the plant accounts, accumulated depreciation and certain reserve accounts is presented below:

	Property, Plant and Equipment and Construction in Progress				
	Balance Beginning of Year	Additions at Cost	Retirements Charged to Reserve for Depreciation	Transfers	Balance End of Year
1980					
Plant in Service -					
Intangibles-organization expense	$ 30,570	$ —	$ —	$ —	$ 30,570
Production plant					
Steam	24,705,850	—	34,953	424,609	25,095,506
Hydro-Electric	11,010,287	—	25,194	704,351	11,689,444
Internal Combustion	4,461,307	—	1,036,071	2,804	3,428,040
Transmission property	15,166,573	—	13,329	201,333	15,354,577
Distribution property	34,667,432	—	220,068	2,146,690	36,594,054
General property	4,975,691	—	237,364	608,986	5,347,313
Total Plant in Service	$95,017,710	$ —	$1,566,979	$ 4,088,773	$ 97,539,504
Construction in Progress	3,824,265	6,560,347	—	(4,088,773)	6,295,839
	$98,841,975	$6,560,347	$1,566,979	$ —	$103,835,343
1979					
Plant in Service -					
Intangibles-organization expense	$ 30,570	$ —	$ —	$ —	$ 30,570
Production plant					
Steam	22,433,809	—	932	2,243,907	24,705,850
Hydro-Electric	10,648,614	—	32,676	394,349	11,010,287
Internal Combustion	4,490,141	—	3,214	10,654	4,461,307
Transmission property	12,826,773	—	13,853	2,346,447	15,166,573
Distribution property	32,413,218	—	214,914	2,469,125	34,667,432
General property	4,553,742	—	286,033	707,983	4,975,691
Total Plant in Service	$87,396,867	$ —	$ 551,622	$ 8,172,465	$ 95,017,710
Construction in Progress	5,453,208	8,558,828	—	(10,187,771)	3,824,265
	$92,850,075	$8,558,828	$ 551,622	$ (2,015,306)*	$ 98,841,975

*Cancellation of NEPCO Nuclear Units (Note 9).

Note 12. Continued

Accumulated Depreciation of Property Plant and Equipment

	1980	1979
Balance beginning of period	$ 32,459,170	$ 30,065,676
Additions:		
Provisions charged to income	2,963,832	2,814,541
Salvage	112,670	161,586
Other	40,983	35,088
	$ 35,576,655	$ 33,076,891
Deductions:		
Property retirements	1,566,942	551,162
Removal costs	80,615	66,559
Balance end of period	$ 33,929,098	$ 32,459,170

Reserves For Doubtful Accounts and Insurance

		Additions			
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
1980					
Reserve for doubtful accounts	$ 44,000	$313,935	$116,139	$369,074	$105,000
Reserve for insurance	$ 96,058	$ 22,000	$ —	$ 25,621	$ 92,437
1979					
Reserve for doubtful accounts	$ 85,000	$187,920	$ 40,894	$269,814	$ 44,000
Reserve for insurance	$ 80,503	$ 42,000	$ —	$ 26,445	$ 96,058

Auditors' Report

To the Stockholders and Board of Directors of Bangor Hydro-Electric Company:

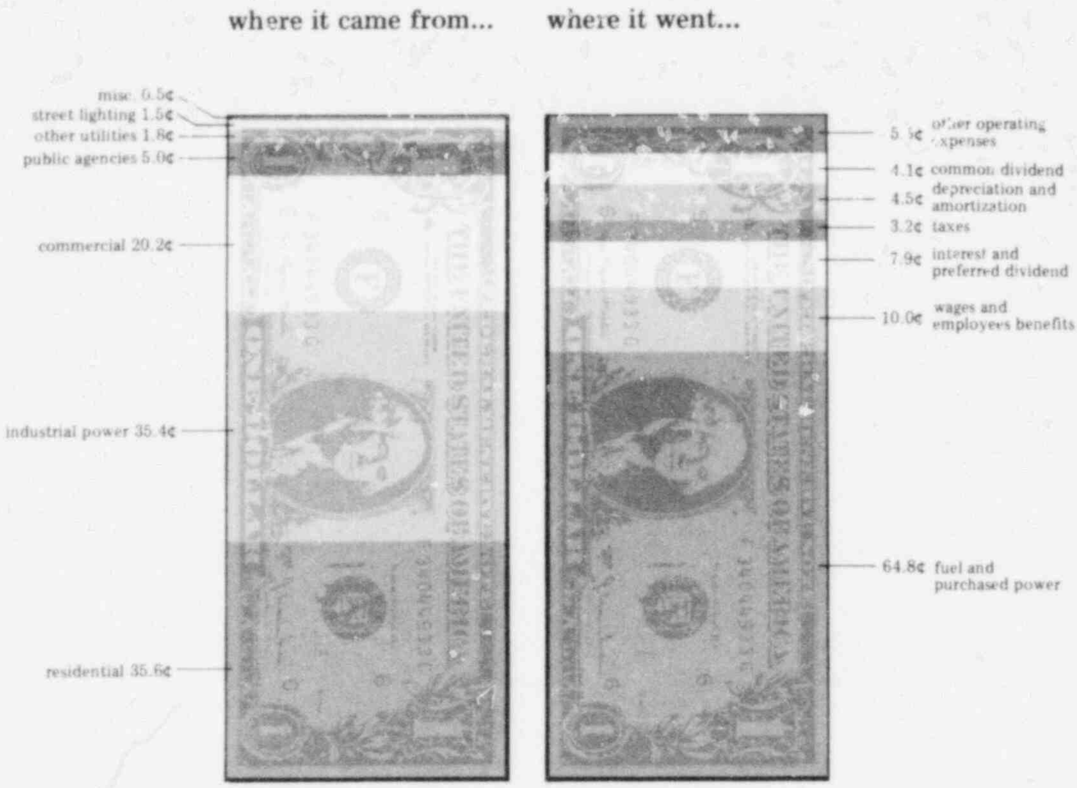
We have examined the balance sheet of BANGOR HYDRO-ELECTRIC COMPANY (a Maine corporation) and statement of capitalization as of December 31, 1980 and 1979, and the statements of income, retained earnings and sources of funds for plant additions for the three years ended December 31, 1980. Our examinations 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 financial statements referred to above present fairly the financial position of Bangor Hydro-Electric Company as of December 31, 1980 and 1979, and the results of its operations and its sources of funds for plant additions for the three years ended December 31, 1980, in conformity with generally accepted accounting principles, which, except for the change (with which we concur) in the method of recording Electric Operating Revenues as indicated in Note 1 to the financial statements, have been applied on a consistent basis.

Boston, Massachusetts,
January 23, 1981

ARTHUR ANDERSEN & CO.

The Revenue Dollar



Two Year Stock Prices and Dividends by Quarters

The Company's common stock is traded over-the-counter and is quoted on National Association of Securities Dealers Automatic Quotation System ("NASDAQ") under the symbol BANG. The table below sets forth the high and low bid prices for the common stock as reported by the National Quotation Bureau, Inc. The prices shown represent prices between dealers and do not include retail markup, markdown or commission.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1980	12.750	9.250	12.750	9.750	12.750	11.000	11.000	9.500
1979	14.875	13.875	14.750	13.125	14.750	12.625	12.625	11.250

Cash dividends of $.38 per share on common stock were declared in each quarter of 1980 and 1979.

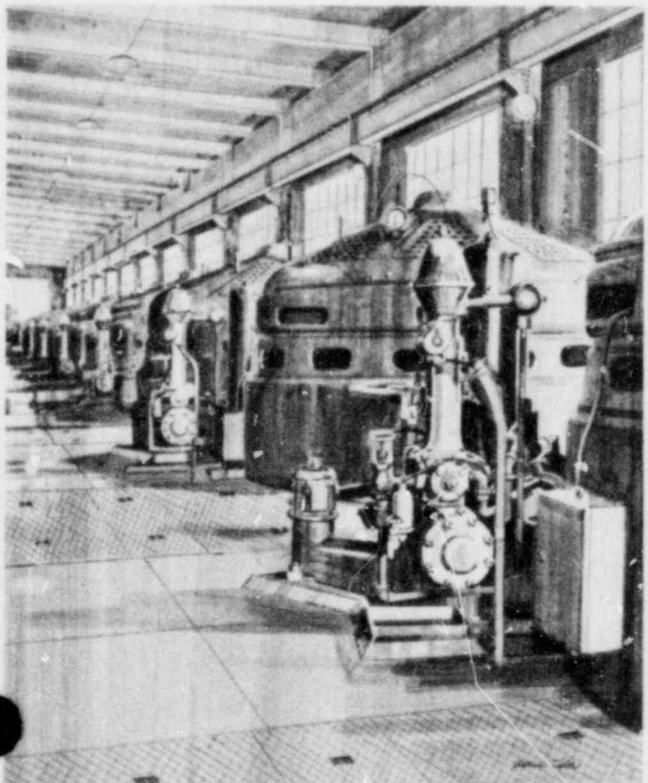
Taxability of Dividends

The Company estimates that 100 percent of the dividends on both common and preferred stock paid in 1980 will be considered nontaxable for Federal income tax purposes. The primary reason that this has occurred is the difference between the tax return and financial statement treatment accorded certain 1980 transactions. These dividend distributions should be used to reduce the tax cost basis of the shares upon which the dividends were paid.

Six Year Statistical Summary FROM 1975 THROUGH 1980

	1980	1979	1978	1977	1976	1975
Electric Plant (000)						
Total Electric Plant	$ 108,696	$ 103,704	$ 97,717	$ 86,026	$ 79,018	$ 72,4[illegible]
Depreciation Reserve	33,929	32,459	30,066	28,239	26,588	24,99[illegible]
Net Electric Plant	$ 74,767	$ 71,245	$ 67,651	$ 57,787	$ 52,430	$ 47,497
Capital Structure (000)						
Bonds	$ 32,345	$ 34,515	$ 27,685	$ 25,355	$ 27,950	$ 25,000
Redeemable Preferred Stock	5,000	5,000	2,000	2,000	2,000	—
Preferred Stock	4,734	4,734	4,734	4,734	4,734	4,734
Common Stock	10,418	9,060	8,949	7,430	6,169	6,168
Premium on Common Stock	9,019	7,836	7,668	4,843	2,388	2,405
Retained Earnings	7,880	8,799	8,600	8,027	7,637	8,250
Total Capitalization	$ 69,396	$ 69,944	$ 59,636	$ 52,389	$ 50,878	$ 46,557
Capital Structure Ratios						
Bonds	46.6	49.4	46.4	48.4	54.9	53.7
Preferred Stock	14.0	13.9	11.3	12.8	13.2	10.2
Common Stock Equity	39.4	36.7	42.3	38.8	31.9	36.1
Summary of Operations (000)						
Operating Revenue	$ 66,694	$ 51,748	$ 42,627	$ 38,294	$ 31,336	$ 32,314
Fuel & Purchased Power	45,094	33,055	26,763	22,548	18,143	17,974
Operation & Maintenance	9,015	8,344	6,612	6,687	6,334	6,067
Depreciation & Amortization	3,111	2,814	2,201	2,095	2,029	1,962
Taxes	2,796	2,545	2,643	2,894	1,819	2,952
Other Income (expenses)	1,478	(456)	855	407	167	(140)
Bond Interest	2,514	2,089	1,872	1,718	1,633	1,132
Net Income	$ 2,688	$ 3,438*	$ 3,391	$ 2,759	$ 1,545	$ 2,087
Common Stock						
Number of Stockholders-End of Year	7,653	7,535	7,479	6,841	6,184	6,1[illegible]
Shares outstanding-End of Year	2,083,600	1,812,023	1,789,827	1,486,027	1,233,710	1,233,710
Shares outstanding-Average	1,833,979	1,801,906	1,658,985	1,317,816	1,233,710	1,139,960
Earnings per Common Share-Average	$ 1.06	$ 1.63*	$ 1.77	$ 1.75	$ .95	$ 1.60
Dividends Declared per Common Share	$ 1.52	$ 1.52	$ 1.46	$ 1.41	$ 1.34	$ 1.29
Production Sources in KWH (000)						
Hydro Generation	228,038	246,052	213,195	245,821	254,813	232,341
Fuel Generation	184,186	77,209	15,910	11,498	113,119	118,386
Purchased Power	1,010,481	1,112,676	1,108,416	977,400	818,361	717,162
Total generated & purchased	1,422,705	1,435,937	1,337,521	1,234,719	1,186,293	1,067,889
Sales In KWH (000)						
Residential	394,472	383,945	369,989	349,869	335,692	308,253
Commercial	226,433	219,196	213,777	198,384	186,271	170,291
Other	688,690	723,252	646,765	580,679	557,167	501,045
Total	1,309,595	1,326,393	1,230,531	1,128,932	1,079,130	979,589
Revenue from Electric Energy Sales (000)						
Residential	$ 23,817	$ 18,698	$ 16,171	$ 14,994	$ 12,306	$ 12,618
Commercial	13,490	10,433	9,013	8,207	6,649	6,705
Other	29,015	22,328	17,152	14,764	12,222	12,830
Total	$ 66,322	$ 51,459	$ 42,336	$ 37,965	31,177	$ 32,153
Residential Customer Use						
Average number of customers	65,768	64,958	64,666	62,371	60,975	59,131
Kilowatt hours per customer	5,932	5,952	5,721	5,609	5,505	5,213
Revenue per customer	$ 353.88	$ 286.75	$ 250.07	$ 240.40	$ 201.82	$ 213.4[illegible]
Revenue per kilowatt-hour	5.97¢	4.82¢	4.37¢	4.29¢	3.67¢	4.09[illegible]

*Includes cumulative effect of a change in accounting principle of $1,043,000 ($.58 per share) and $658,729 ($.36 per share) attributable to the amount of fuel that would have been deferred at December 31, 1978 had the new fuel regulations been effective at that date. See note 1 to the financial statements.



About the Cover

A line of generating units at the Company's 8.4 MW hydro station on the Penobscot River at Veazie, rendered in acrylics by Arthur Taylor of Lee, Maine. Hydro-electric generation comprises an important part of the Company's generation mix.

BANGOR HYDRO-ELECTRIC COMPANY
33 STATE STREET
BANGOR, MAINE 04401

BULK RATE
U. S. POSTAGE
PAID
Bangor, Main
Permit No. 65

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports appearing, or incorporated by reference, in the Annual Report on Form 10-K for the year ended December 31, 1980, of Bangor Hydro-Electric Company in its Registration Statement on Form S-16 (File No. 2-62910).

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Boston, Massachusetts

March 23, 1981

SIGNATURES

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

March 23, 1981

/s/ T.A. Greenquist
Thomas A. Greenquist
President and Director

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

/s/ George D. Carlisle
George D. Carlisle
Director

/s/ John T. Maines
John T. Maines
Director

/s/ John F. Grant
John F. Grant
Director

/s/ James G. Sargent
James G. Sargent
Director

/s/ R.N. Haskell
Robert N. Haskell
Chairman of the Board of Directors
(Principal Executive Officer)

/s/ Earle R. Webster
Earle R. Webster
Director

/s/ John P. O'Sullivan
John P. O'Sullivan
Vice President & Treasurer
(Chief Financial Officer)

/s/ David R. Black
David R. Black
Controller
(Chief Accounting Officer)

Each of the above signatures is affixed as of March 23, 1981

MAINE YANKEE ATOMIC POWER COMPANY

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

All other schedules are omitted as the required information is inapplicable or the information is presented in the Financial Statements or related notes.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Maine Yankee Atomic Power Company:

We have examined the balance sheet and statement of capitalization of Maine Yankee Atomic Power Company (a Maine corporation) as of December 31, 1980 and 1979, and the related statements of income, changes in common stock investment and sources of funds for acquisition of nuclear fuel and construction of electric property for the three years ended December 31, 1980, and the supporting schedules as listed on the accompanying index. 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 financial statements referred to above present fairly the financial position of Maine Yankee Atomic Power Company as of December 31, 1980 and 1979, and the results of its operations and its sources of funds for acquisition of nuclear fuel and construction of electric property for the three years ended December 31, 1980, and the supporting schedules present fairly the information required to be set forth therein, all in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.
ARTHUR ANDERSEN & CO.

Boston, Massachusetts,

February 6, 1981.

Maine Yankee Atomic Power Company

STATEMENT OF INCOME
(Dollars in Thousands Except Per Share Amounts)

	Year Ended December 31, 1980	1979	1978
ELECTRIC OPERATING REVENUES	$84,245	$68,867	$70,373
OPERATING EXPENSES			
Fuel (Notes 1 and 10)	24,024	15,319	17,411
Operation	18,370	14,193	10,684
Maintenance (Note 1)	4,392	2,544	4,496
Depreciation and Amortization (Notes 1 and 10)	8,319	8,279	8,173
Taxes			
Federal and State Income (Note 2)	7,305	7,864	8,703
Local Property	3,801	3,750	4,094
Total Operating Expenses	66,211	51,949	53,561
OPERATING INCOME	18,034	16,918	16,812
OTHER INCOME (EXPENSES)			
Allowance for Other Funds Used:			
During Construction (Note 1)	253	76	50
For Nuclear Fuel (Note 1)	1,118	1,547	1,341
Other	(145)	(113)	(6)
INCOME BEFORE INTEREST CHARGES	19,260	18,428	18,197
INTEREST CHARGES			
Long-Term Debt (Notes 4 and 5)	14,171	13,307	11,534
Other	1,480	205	49
Allowance for Borrowed Funds Used:			
During Construction (Note 1)	(409)	(133)	(90)
For Nuclear Fuel (Note 1)	(3,490)	(2,602)	(1,023)
Total Interest Charges	11,752	10,777	10,470
NET INCOME	7,508	7,651	7,727
Dividends on Preferred Stock	934	1,001	1,025
EARNINGS APPLICABLE TO COMMON STOCK	$ 6,574	$ 6,650	$ 6,702
SHARES OF COMMON STOCK OUTSTANDING	500,000	500,000	500,000
EARNINGS PER SHARE OF COMMON STOCK	$13.15	$13.30	$13.40
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$13.19	$13.25	$13.40

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

Maine Yankee Atomic Power Company

BALANCE SHEET
(Dollars in Thousands)

ASSETS

	December 31, 1980	December 31, 1979
ELECTRIC PROPERTY, at Original Cost (Notes 4 and 10) (Sch. V)	$246,921	$240,061
Less: Accumulated Depreciation and Amortization (Note 1) (Sch. VI)	61,803	54,105
	185,118	185,956
Construction Work in Progress	9,124	8,951
Net Electric Property	194,242	194,907
NUCLEAR FUEL, at Original Cost (Notes 1 and 10) (Sch. V)		
Nuclear Fuel in Reactor	74,346	52,564
Nuclear Fuel-Spent	51,814	42,557
Nuclear Fuel-Stock	4,895	35,679
	131,055	130,800
Less: Accumulated Amortization (Note 1) (Sch. VI)		
Original Cost	91,023	76,443
Permanent Disposal, Net	24,845	15,401
	15,187	38,956
Nuclear Fuel in Process	70,240	40,394
Net Nuclear Fuel	85,427	79,350
Net Electric Property and Nuclear Fuel	279,669	274,257
CURRENT ASSETS		
Cash (Note 3)	62	139
Accounts Receivable	9,544	6,474
Materials and Supplies, at Average Cost	3,746	3,503
Prepayments	1,042	949
Total Current Assets	14,394	11,065
DEFERRED CHARGES AND OTHER ASSETS	3,001	1,783
	$297,064	$287,105

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

Maine Yankee Atomic Power Company

BALANCE SHEET
(Dollars in Thousands)

STOCKHOLDERS' INVESTMENT AND LIABILITIES

	December 31, 1980	1979
CAPITALIZATION (See Separate Statement)		
Common Stock Investment	$ 67,052	$ 66,857
Redeemable Preferred Stock	11,980	13,070
Long-Term Debt	101,598	105,923
Total Capitalization	180,630	185,850
NOTES PAYABLE TO MYA FUEL COMPANY (Note 5)	33,225	33,450
CURRENT LIABILITIES		
Notes Payable to Banks (Note 3) (Sch. IX)	16,000	3,925
Current Sinking Fund Requirements (Note 4)	1,084	1,822
Accounts Payable	2,600	3,412
Bank Checks Outstanding	671	-
Dividends Payable	2,000	1,919
Accrued Interest and Taxes	2,877	2,739
Other Current Liabilities	53	47
Total Current Liabilities	25,285	13,864
COMMITMENTS AND CONTINGENCIES (Note 8)		
DEFERRED CREDITS		
Accumulated Deferred Income Taxes (Note 2)	47,004	45,224
Unamortized Investment Tax Credits (Note 2)	8,166	7,346
Unamortized Gains on Reacquired Debt (Note 1)	2,754	1,371
Total Deferred Credits	57,924	53,941
	$297,064	$287,105

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

Maine Yankee Atomic Power Company

STATEMENT OF CAPITALIZATION
(Dollars in Thousands)

	December 31, 1980	December 31, 1979
COMMON STOCK INVESTMENT		
Common Stock, $100 Par Value, Authorized and Outstanding 500,000 Shares	$ 50,000	$ 50,000
Other Paid-in Capital	16,805	16,805
Capital Stock Expense	(255)	(231)
Gain on Cancellation of Preferred Stock	316	110
Premiums on Preferred Stock	180	196
Retained Earnings	6	27
	67,052	66,857
REDEEMABLE PREFERRED STOCK - 7.48% Series, $100 Par Value, Authorized 170,000 Shares, Outstanding 119,805 at December 31, 1980 and 130,700 at December 31, 1979 (Note 19)	11,980	13,070
LONG-TERM DEBT (Note 17)		
First and General Mortgage Bonds		
Series A - 9.10 % due May 1, 2002	55,050	58,161
Series B - 8 1/2% due May 1, 2002	37,034	38,911
Series C - 7 5/8% due May 1, 2002	10,752	10,842
Less: Current Sinking Fund Requirements	(1,084)	(1,822)
Unamortized Debt Discount, Net of Premium	(154)	(169)
	101,598	105,923
Total Capitalization	$180,630	$185,850

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

Maine Yankee Atomic Power Company

STATEMENT OF CHANGES IN COMMON STOCK INVESTMENT
For the Three Years Ended December 31, 1980
(Dollars in Thousands)

	Shares	Amount at Par Value	Other, Net	Retained Earnings	Total
Balance December 31, 1977	500,000	$50,000	$16,769	$ -	$66,769
Add (Deduct)					
Net Income	-	-	-	7,727	7,727
Cash Dividends					
Declared on -					
Common Stock	-	-	-	(6,700)	(6,700)
Preferred Stock	-	-	-	(1,025)	(1,025)
Capital Stock Expense	-	-	13	-	13
Balance December 31, 1978	500,000	50,000	16,782	2	66,784
Add (Deduct)					
Net Income	-	-	-	7,651	7,651
Cash Dividends					
Declared on -					
Common Stock	-	-	-	(6,625)	(6,625)
Preferred Stock	-	-	-	(1,001)	(1,001)
Redemption of					
Preferred Stock	-	-	35	-	35
Capital Stock Expense	-	-	13	-	13
Balance December 31, 1979	500,000	50,000	16,830	27	66,857
Add (Deduct)					
Net Income	-	-	-	7,508	7,508
Cash Dividends					
Declared on -					
Common Stock	-	-	-	(6,595)	(6,595)
Preferred Stock	-	-	-	(934)	(934)
Redemption of					
Preferred Stock	-	-	206	-	206
Capital Stock Expense	-	-	10	-	10
Balance December 31, 1980	500,000	$50,000	$17,046	$ 6	$67,052

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

Maine Yankee Atomic Power Company

STATEMENT OF SOURCES OF FUNDS FOR ACQUISITION OF NUCLEAR FUEL AND CONSTRUCTION OF ELECTRIC PROPERTY
(Dollars in Thousands)

	Year Ended December 31,		
	1980	1979	1978
FUNDS PROVIDED			
Internal Sources			
From Operations			
Net Income	$ 7,508	$ 7,651	$ 7,727
Amortization of Nuclear Fuel	24,024	15,319	17,411
Depreciation and Amortization	8,319	8,279	8,173
Deferred Income Tax and Investment Tax Credits, Net	2,600	6,913	7,583
Allowance for Other Funds Used for Nuclear Fuel and During Construction	(1,371)	(1,623)	(1,391)
	41,080	36,544	39,503
Less:			
Sinking Fund Requirements:			
Long-Term Debt	5,078	4,850	5,555
Preferred Stock	1,090	626	-
Dividends on Preferred Stock	934	1,001	1,025
Dividends on Common Stock	6,595	6,625	6,700
Other, Net	(567)	505	46
	27,950	22,937	26,177
(Increase) Decrease in Working Capital, Exclusive of Notes Payable to Banks and Sinking Fund Requirements			
Cash and Receivables	(2,993)	425	(616)
Other Current Assets	(336)	(466)	(66)
Other Current Liabilities	34	(533)	(7,776)
	(3,245)	(574)	(8,458)
Net Available from Internal Sources	24,705	22,363	17,719
External Sources			
Increase (Decrease) in Notes Payable:			
MYA Fuel Company	(225)	15,800	8,750
Banks	12,075	3,925	-
Net Available from External Sources	11,850	19,725	8,750
	$36,555	$42,088	$26,469
FUNDS USED FOR ACQUISITION OF NUCLEAR FUEL AND CONSTRUCTION OF ELECTRIC PROPERTY			
Acquisition of Nuclear Fuel	$30,101	$35,244	$25,732
Allowance for Other Funds Used for Nuclear Fuel	(1,118)	(1,547)	(1,341)
Construction of Electric Property	7,825	3,467	2,128
Allowance for Other Funds Used During Construction	(253)	(76)	(50)
	$36,555	$42,088	$26,469

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

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company: The Company owns and operates a pressurized-water nuclear-powered electric generating plant with a current net capacity of approximately 830 megawatts. The plant commenced commercial operation on January 1, 1973. The following New England electric utilities own all of the Company's common stock:

Sponsor/Participant	Ownership Interest
Central Maine Power Company	38%
New England Power Company	20
The Connecticut Light and Power Company	8
Bangor Hydro-Electric Company	7
Maine Public Service Company	5
Public Service Company of New Hampshire	5
Cambridge Electric Light Company	4
Montaup Electric Company	4
The Hartford Electric Light Company	4
Western Massachusetts Electric Company	3
Central Vermont Public Service Corporation	2
	100%

For a period of thirty years, commencing on January 1, 1973, in accordance with the Power Contracts and, subject to certain limitations, each participant shall receive its entitlement percentage of plant output and is obligated to pay its entitlement percentage of the Company's total costs, including a return on invested capital regardless of the level of operation of the plant.

Regulation: The Company is subject to the regulatory authority of the Federal Energy Regulatory Commission (FERC), the Nuclear Regulatory Commission (NRC) and the Public Utilities Commission of the State of Maine (PUC) as to accounting, operations and other matters.

Depreciation: Depreciation is provided using a composite remaining life method designed to fully depreciate electric plant over the period ending May 1, 2002. Under the

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation: (continued)

composite method, at the time depreciable property is retired, the original cost, plus cost of removal, less salvage, of such property is charged to accumulated depreciation.

Decommissioning: The NRC currently recognizes three decommissioning methods - complete dismantling and removal, in-place encapsulation or "entombment" and mothballing - or a combination of these methods. [(USAEC Regulatory Guide 1.86, Termination of Operating Licenses for Nuclear Reactor (1974).] Although the Company presently does not provide for nuclear plant decommissioning costs, it is considering immediate dismantling as the most desirable and probably the only acceptable method of decommissioning its nuclear reactor. Based on a study performed by Stone and Webster Engineering Corporation and Nuclear Energy Services, Incorporated, the estimated cost of decommissioning utilizing this methodology is $57,600,000 in 1980 dollars. Accordingly, the Company proposes to bill out through May 1, 2002, under the terms and conditions of its Power Contract and pending FERC approval, an amount equal to the current estimate of the cost of decommissioning. The Company fully recognizes the relative uncertainty of the future cost of decommissioning, the changing technology of decommissioning or new requirements of the law and, therefore, recognizes the need to constantly monitor and adjust, if necessary, the amount of collection.

Deferred Charges: The Company has adopted the policy of deferring and amortizing over a five year period the costs of unusual and irregularly recurring studies and inspections. This is in response to recent events and orders requiring the Company to undertake significant analyses of specified operating design procedures and equipment.

Amortization of Nuclear Fuel: The cost of nuclear fuel in the reactor, plus the estimated cost of disposal of that nuclear fuel, is amortized to Fuel Expense based on the

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortization of Nuclear Fuel: (continued)

ratio of energy produced during the period to the estimated total core capability with a corresponding credit to Accumulated Amortization.

During 1978 and 1979 the Company provided for permanent storage of nuclear fuel in reactor using an estimated cost of permanent storage which was based on a study by the NRC. Specifically the disposal estimate provided was at a rate of $100/kilogram of uranium (KGU) originally contained in the assemblies in 1977 dollars escalated at 8% per year to the time of discharge from the reactor.

Beginning in March 1980 the Company's cost estimate for permanent disposal of Nuclear Fuel in Reactor was increased to $130/KGU originally contained in the assemblies, expressed in 1978 dollars, escalated at 8% per year to the time of permanent disposal (currently estimated to be 1988). This estimate of the cost of permanent disposal ($130/KGU) is based on a report issued by the Department of Energy. This report estimated the cost of permanent storage to be $117/KGU originally contained in the assemblies (in 1978 dollars). This estimate did not include the cost of transportation to the disposal center, which has been estimated by the Company to be $13/KGU.

The disposal cost for Nuclear Fuel in Reactor is being recovered from participants, based on generation, over the period that the fuel is consumed. Through 1988 the Company is also adjusting the disposal reserve collected for Spent Fuel to reflect the current disposal cost estimate. This adjustment which amounts to approximately $40,000,000 is being recovered based on estimated electric kilowatt hour generation from March 1980 through 1988.

The estimate of cost of disposal of nuclear fuel is subject to a number of uncertainties including the timing of available storage capacity, the extent of future inflation, regulatory requirements and the cost of future services, all of which may require periodic revisions in future nuclear fuel amortization rates. However, the Company believes that its estimate is reasonable.

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Funds Used During Construction (AFC) and Allowance for Funds Used for Nuclear Fuel (AFN): The Company records the net cost of borrowed funds and a reasonable return on other funds used to finance construction and nuclear fuel acquisition programs. The amount of the allowance recorded is determined by multiplying the average monthly dollar balance of Construction Work in Progress (CWIP) and Nuclear Fuel in Process (NFIP) by rates related to the cost of the capital used to finance the respective additions. The following table contains the weighted average rates used for the most recent three annual periods:

	AFC on CWIP	AFN on NFIP
1980	7.26%	8.90%
1979	7.40	7.68
1978	7.60	7.00

Unamortized Gain or Loss on Reacquired Debt: Gains and losses on bonds reacquired to satisfy sinking fund requirements of First Mortgage Bonds have been deferred and are being amortized to income over the remaining original terms of the applicable series as prescribed by the Uniform System of Accounts of the FERC.

2. INCOME TAX EXPENSE

The components of Federal and state income taxes reflected in the statements of income are as follows:

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

2. INCOME TAX EXPENSE (continued)

	Year Ended December 31,		
	1980	1979	1978
	(Dollars in Thousands)		
Federal			
Current	$ 3,242	$ 602	$ 625
Deferred	(2,545)	5,264	4,845
Investment Tax Credits, Net	5,468	812	1,986
	6,165	6,678	7,456
State			
Current	1,463	344	495
Deferred	(323)	842	752
	1,140	1,186	1,247
Total Federal and State income taxes	$ 7,305	$7,864	$8,703

The Company provides deferred taxes for the tax effects of timing differences, primarily accelerated depreciation and certain expenditures related to nuclear fuel, between pre-tax accounting income and taxable income. Prior to 1975 the Company did not provide fully for the tax effects of timing differences and began in 1976 to provide additional deferred taxes to recognize the tax effects of these prior timing differences through 1980.

Investment tax credits are deferred and amortized over the life of the assets giving rise to such credits. At December 31, 1979 the Company had available a carryover of unused investment tax credits of approximately $5,800,000 to be applied to reduce Federal income taxes.

The Company had provided for, and deducted for tax purposes, certain costs associated with nuclear fuel reprocessing and permanent storage. In the recent examination of the Company's Federal income tax returns for years 1973 through 1977, the Internal Revenue Service examining agent disallowed the current deduction of these costs. The Internal Revenue Services position was sustained at the Appelate level which resulted in the Company fully utilizing the $5,800,000 of investment tax credit available as of December 31, 1979 and paying

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

2. INCOME TAX EXPENSE (continued)

additional Federal and State income tax assessments cumulative through 1979 of $2,728,530 exclusive of interest. These assessments had no effect on total income tax expense because the Company had provided income taxes for the effects of all timing differences.

The following table reconciles the statutory income tax rate to the rate determined by dividing the total Federal income tax expense by income before that expense.

	Dollars in Thousands					
	1980		1979		1978	
	Amount	%	Amount	%	Amount	%
Statutory Federal income tax rate	$6,290	46.0	$6,591	46.0	$7,288	48.0
(Increase) Reductions in taxes resulting from:						
Deferred taxes not provided on certain timing differences	418	3.1	411	2.9	429	2.8
Amortization of investment tax credits	(890)	(6.5)	(678)	(4.7)	(573)	(3.8)
Other	347	2.5	354	2.4	312	2.1
Calculated rate	$6,165	45.1%	$6,678	46.6%	$7,456	49.1%

3. NOTES PAYABLE TO BANKS

The Company had bank lines of credit totaling $29,000,000 as of December 31, 1980, of which $28,000,000 requires an annual fee of 1/2 to 5/8 of 1% of the line. There are no compensating balance requirements for these lines. The remaining $1,000,000 dollar line requires a compensating balance of 10% of the line or 20% of relating borrowings, whichever is greater.

The Company had lines of credit at December 31, 1979 totaling $14,000,000. With respect to $13,000,000 of the line, there was a required annual fee of 5/8 of 1%. There are no compensating balance requirements for these lines.

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

3. NOTES PAYABLE TO BANKS (continued)

The compensating balance requirement for the remaining $1,000,000 dollar line was 10% of the line or 20% of outstanding borrowings, whichever was greater.

4. FIRST MORTGAGE BONDS

The annual sinking fund requirements of the First Mortgage Bonds currently outstanding amount to $4,775,000 for each of the years 1981 through 1985. Bonds repurchased amounted to $3,739,000 at December 31, 1980 and $3,436,000 at December 31, 1979.

Under the terms of the Indenture securing the First Mortgage Bonds, substantially all electric plant of the Company is subject to a first mortgage lien.

5. MYA FUEL COMPANY

On August 26, 1976, the Company entered into a Loan Agreement covering the issuance of up to $35,000,000 principal amount of promissory notes to MYA Fuel Company, a subsidiary of BSC Holdings, Inc. BSC is owned by a partnership composed of partners of Goldman, Sachs & Co. Certain information related to this loan arrangement is as follows for the years ended December 31:

	1980	1979
	(Dollars in Thousands)	
Promissory notes outstanding	$33,225	$33,450
Average daily outstanding borrowings	$32,901	$28,252
Highest level of borrowings	$33,500	$34,250
Annual interest rate at end of periods	20.58%	14.18%
Effective average annual interest rate	15.42%	13.33%

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

5. MYA FUEL COMPANY (continued)

The Loan Agreement provides that, in the absence of an Event of Default (as defined) or occurrence of a Terminating Event (as defined) the arrangement will extend to May 1, 2002, unless terminated by either party upon proper notice. The Company must provide 90 days written notice while MYA Fuel Company must give at least three years written notice. In order for the arrangement to extend beyond August 26, 1981, the PUC must extend its present approval of the arrangement.

6. REDEEMABLE PREFERRED STOCK

The Company may redeem, in whole or in part, any of the 7.48% Series Preferred Stock upon not less than thirty or more than fifty days' notice at $107.11 per share on or before December 31, 1982, and at amounts decreasing to $100.00 thereafter; in each case plus accrued dividends.

The Company must redeem and cancel 6,000 shares annually, at par, and at the election of the Company an additional 6,000 shares may be redeemed and cancelled, at par, on each redemption date. The optional provision is not cumulative.

Preferred Stock repurchased and not cancelled amounted to 12,195 shares at December 31, 1980, 7,300 shares at December 31, 1979 and 7,040 shares at December 31, 1978.

7. PENSION PLANS

The Company has two noncontributory pension plans which cover substantially all full-time employees. The Company's policy is to fund pension costs accrued on an annual basis, including amounts sufficient to amortize unfunded prior service costs over 30 years.The plans expenses approximated $183,000 for 1980, $182,000 for 1979 and $130,000 for 1978.

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

7. PENSION PLANS (continued)

	January 1 1980	January 1 1979
Actuarial present value of accumulated plan benefits:		
Vested	$173,000	$124,000
Nonvested	166,000	118,000
	$339,000	$242,000
Net assets available for benefits	$913,000	$856,000

The assumed weighted average rate of return used in determining the actuarial present value of accumulated plan benefits was 6.25%.

8. COMMITMENTS AND CONTINGENCIES

Nuclear Fuel: The Company anticipates nuclear fuel expenditures of $30,079,000 for 1981 (exclusive of AFN) and $113,362,000 for the period 1982 through 1985 (exclusive of AFN).

The Company has contracted for the purchase of all of its uranium concentrate requirements through 1986. The Company has conversion contracts through 1983 and is presently negotiating for conversion services which are expected to meet requirements through 1995. Uranium enrichment services are covered through 2002 under a contract with the Department of Energy. Nuclear fuel fabrication service requirements are covered through 1983 and a contract is presently being negotiated which is expected to meet services through 1988. The Company is expanding its on-site spent fuel storage facility to provide capacity to store such fuel through 1984 while maintaining a full core discharge capability. In addition, in September 1979 the Company filed with the NRC a proposed change in its operating license relating to increasing its existing spent fuel storage capacity by providing more compact fuel

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

8. COMMITMENTS AND CONTINGENCIES (continued)

storage. An intervenor has requested a hearing and the Company cannot predict the scope of that proceeding, its duration or its outcome. If the proposed change is not approved, the Company will have to develop alternative plans which would involve further approval by the NRC.

Construction: The Company anticipates construction expenditures to amount to $15,400,000 for 1981 including $4,200,000 towards the installation of a steam turbine driven feedpump and $3,200,000 for computer equipment.

Price-Anderson: The Price-Anderson Act requires each reactor licensee to carry $160 million of primary public liability insurance, supplemented by a mandatory industry-wide program of self insurance. Under the program, in the event of a nuclear incident at any operating reactor in the United States, each licensee could be assessed up to $5 million with a limit of two assessments per reactor owned per calendar year in the event of more than one incident.

Three Mile Island: The events during the spring of 1979 at the Three Mile Island Nuclear Unit No. 2 in Pennsylvania ("TMI") caused widespread concern about the safety of nuclear generating plants and prompted a rigorous reexamination of safety-related equipment and operating procedures in all nuclear facilities by their owners and the NRC. The commission formed by President Carter to investigate the causes of the TMI incident issued its report in 1979, recommending a number of changes in NRC organization and practices, licensing of nuclear plants, plant operating practices, operator training and other safety-related matters and in 1980, a NRC-commissioned report containing similar recommendations was released. As a result, the NRC has promulgated numerous requirements, including both near-term modifications and longer-term design changes. The Company has made the modifications required to date by the NRC, but cannot predict what further modifications will be required, their cost, or their effect on the operation of the Maine Yankee plant.

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

9. UNAUDITED QUARTERLY FINANCIAL DATA

Unaudited quarterly financial data pertaining to the results of operations are shown below.

	1980 Quarter Ended			
	March 31	June 30	September 30	December 31
	(Dollars in Thousands, Except Per Share Amounts)			
Electric Operating Revenues	$18,911	$24,065	$19,678	$21,591
Operating Income	4,297	4,718	4,546	4,473
Net Income	1,921	1,837	1,836	1,914
Earnings Per Share of Common Stock	3.35	3.22	3.21	3.37

	1979 Quarter Ended			
	March 31	June 30	September 30	December 31
	(Dollars in Thousands, Except Per Share Amounts)			
Electric Operating Revenues	$16,592	$15,324	$17,686	$19,265
Operating Income	4,334	4,234	4,145	4,205
Net Income	1,933	1,930	1,876	1,912
Earnings Per Share of Common Stock	3.35	3.35	3.26	3.34

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

10. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (UNAUDITED)

The following supplementary information is supplied in accordance with the requirements of the Statement of Financial Accounting Standards No. 33 for the purpose of providing certain information about the effect of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar-amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than the general rate of inflation. The current cost of nuclear generating plant is estimated based on an engineering study of the current cost (per kilowatt) of replacing the present generating plant. This study was updated in 1980 resulting in an increased cost (per kilowatt) from $871 to $1,276. This adjustment was reflected in January 1, 1980 beginning current cost values.

Nuclear fuel used in generation has been restated from historical cost using current market prices of uranium, conversion, enrichment and fabrication. Nuclear fuel expense was developed by dividing the estimated current cost of the in-reactor fuel by the expected generation of the core times the actual generation produced during the year 1980.

Depreciation expense for the current cost of productive capacity was developed by applying the depreciation rate to the current cost value adjusted by the ratio of average historical cost to year-end historical cost.

Since only historical costs are deductible for income tax purposes, the income tax expense in the historical cost financial statements is not adjusted.

Under the rate-making practices prescribed by the regulatory commissions to which the Company is subject, only the depreciation of historical cost of utility property is included in the cost of service used to establish the Company's rates. Therefore, the cost of

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

10. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (UNAUDITED) (continued)

plant and nuclear fuel stated in terms of constant dollars or current cost that exceeds the historical cost of plant is not presently recoverable in rates, and is reflected as a reduction to net recoverable costs. While the rate-making process gives no recognition to the current cost of replacing property, plant and equipment, based on past practices the Company believes it will be allowed to earn on and recover the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statement of Income from Operations Adjusted for Changing Prices, the reduction of utility plant and nuclear fuel to net recoverable cost should be offset by the gain from the decline in purchasing power of net amounts owed as shown below. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant, equipment and nuclear fuel. Since the depreciation on utility plant and amortization of nuclear fuel is limited to amounts based on historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

10. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (UNAUDITED) (continued)

Statement of Income and Operations Adjusted for Changing Prices for the Year Ended December 31, 1980 (Dollars in Thousands)

	Conventional Historical Cost	Constant Dollar Average 1980 Dollars	Current Dollar Average 1980 Dollars
Operating Revenues	$84,245	$84,245	$ 84,245
Operation & Maintenance	22,762	22,762	22,762
Fuel Expense	24,024	28,351	33,117
Depreciation & Amortization	8,319	15,951	41,419
Taxes	11,106	11,106	11,106
Interest Charges	11,752	11,752	11,752
Other, Net	(1,226)	(1,226)	(1,226)
Income (Loss) from Operations (excluding reduction to net recoverable amount)	$ 7,508	$(4,451)	$(34,685)
Increase in specific prices (current cost) of plant and Nuclear Fuel held during the year*			$ 84,845
Reduction to net recoverable amount		$(20,757)	(24,229)
Effect of increase in general price level			(51,139)
Net			9,477
Gain from decline in purchasing power of net amounts owed			
		$ 24,791	$24,791
		$ 4,034	$34,268

Maine Yankee Atomic Power Company

NOTES TO FINANCIAL STATEMENTS

10. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (UNAUDITED) (continued)

*At December 31, 1980 current cost of Plant and Nuclear Fuel, net of accumulated depreciation and amortization was $1,031,135 while historical costs or net cost recoverable through rates was $279,669.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (Dollars in Thousands, Average 1980 Dollars)

	Years Ended December 31,				
	1980	1979	1978	1977	1976
Operating Revenues	$ 84,245	$78,180	$88,385	$89,232	$85,200
Historical Cost Information Adjusted for General Inflation					
Loss from operations excluding reduction to net recoverable amount	$(4,451)	$ (670)			
Loss from operations per common share (after preferred dividend requirement)	$(10.77)	$ (3.61)			
Current Cost Information					
Loss from operations excluding reduction to net recoverable amount	$(34,685)	$(26,755)			
Loss from operations per common share (after preferred dividend requirement)	$(71.24)	$ (55.79)			
Excess of increase general price level over increase in specific prices after reduction to net recoverable amount	$9,477	$ (2,106)			
General Information					
Net assets at year end at recoverable amount	$64,042	$ 71,772			
Gain from decline in purchasing power of net amounts owed	$24,791	$ 28,002			
Cash dividends per common share	$13.19	$15.04	$16.92	$18.23	$19.40
Average Consumer Price Index	246.8	217.4	195.4	181.5	170.5

Maine Yankee Atomic Power Company

ELECTRIC PROPERTY AND NUCLEAR FUEL
For The Year Ended December 31, 1980
(Dollars in Thousands)

	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Transfers and Other Charges	Balance at End of Period
Electric Property					
Organization	$ 7	$ -	$ -	$ -	$ 7
Miscellaneous Intangible Plant	601	-	-	-	601
Land and land rights	522	-	-	-	522
Structures and improvements	57,527	356	9	-	57,874
Reactor plant equipment	101,468	1,714	-	-	103,182
Turbogenerator units	56,997	3,812	505	-	60,304
Accessory electric equipment	14,498	2	-	-	14,500
Miscellaneous power plant equip.	5,128	380	278	-	5,230
Substation equip.	3,239	1,388	-	-	4,627
Miscellaneous electric property	74	-	-	-	74
Unfinished construction	8,951	173	-	-	9,124
Total Electric Property	$249,012	$ 7,825	$792	$ -	$256,045
Nuclear Fuel					
Nuclear fuel in reactor	$ 52,564	$ -	$ -	$ 21,782	$ 74,346
Nuclear fuel in process	40,394	30,084	-	(238)	70,240
Nuclear fuel - spent	42,557	-	-	9,257	51,814
Nuclear fuel - stock	35,679	17	-	(30,801)	4,895
	$171,194	$30,101	$ -	$ -	$201,295

Schedule V (continued)

Maine Yankee Atomic Power Company

ELECTRIC PROPERTY AND NUCLEAR FUEL
For The Year Ended December 31, 1978
(Dollars in Thousands)

	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Transfers and Other Charges	Balance at End of Period
Electric Property					
Organization	$ 7	$ -	$ -	$ -	$ 7
Land and land rights	522	-	-	-	522
Structures and improvements	55,861	166	2	-	56,025
Reactor plant equipment	101,084	126	21	-	101,189
Turbogenerator units	56,658	947	-	-	57,605
Accessory electric equipment	14,477	21	-	-	14,498
Miscellaneous power plant equip.	4,607	130	12	-	4,725
Substation equip.	3,239	-	-	-	3,239
Miscellaneous electric property	74	-	-	-	74
Unfinished construction	2,537	738	-	-	3,275
Total Electric Property	$239,066	$ 2,128	$ 35	$ -	$241,159
Nuclear Fuel					
Nuclear fuel in reactor	$ 39,812	$ -	$ -	$ 12,752	$ 52,564
Nuclear fuel in process	33,140	25,665	-	(22,900)	35,905
Nuclear fuel - spent	33,202	-	-	9,355	42,557
Nuclear fuel - stock	4,064	67	-	793	4,924
	$110,218	$25,732	$ -	$ -	$135,950

Schedule V

Maine Yankee Atomic Power Company

ELECTRIC PROPERTY AND NUCLEAR FUEL
For The Year Ended December 31, 1979
(Dollars in Thousands)

	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Transfers and Other Charges	Balance at End of Period
Electric Property					
Organization	$ 7	$ -	$ -	$ -	$ 7
Miscellaneous Intangible Plant	-	601	-	-	601
Land and land rights	522	-	-	-	522
Structures and improvements	56,025	1,505	3	-	57,527
Reactor plant equipment	101,189	280	1	-	101,468
Turbogenerator units	57,605	-	608	-	56,997
Accessory electric equipment	14,498	-	-	-	14,498
Miscellaneous power plant equip.	4,725	405	2	-	5,128
Substation equip.	3,239	-	-	-	3,239
Miscellaneous electric property	74	-	-	-	74
Unfinished construction	3,275	5,676	-	-	8,951
Total Electric Property	$241,159	$ 8,467	$614	$ -	$249,012
Nuclear Fuel					
Nuclear fuel in reactor	$ 52,564	$ -	$ -	$ -	$ 52,564
Nuclear fuel in process	35,905	35,167	-	(30,678)	40,394
Nuclear fuel - spent	42,557	-	-	-	42,557
Nuclear fuel - stock	4,924	77	-	30,678	35,679
	$135,950	$35,244	$ -	$ -	$171,194

Maine Yankee Atomic Power Company

ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION
OF ELECTRIC PLANT AND NUCLEAR FUEL
For The Years Ended December 31,
(Dollars in Thousands)

1980	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Other Changes	Balance at End of Period
Electric Property	$54,105	$ 8,319	$792	$171	$ 61,803
Nuclear Fuel	$91,844	$24,024	$ -	$ -	$115,868
1979					
Electric Property	$46,448	$ 8,279	$614	$ (8)	$54,105
Nuclear Fuel	$76,525	$15,319	$ -	$ -	$91,844
1978					
Electric Property	$38,313	$ 8,173	$35	$ (3)	$46,448
Nuclear Fuel	$59,114	$17,411	$-	$ -	$76,525

See Note 1 of "Notes to Financial Statements" for the Company's depreciation and amortization policies.

Maine Yankee Atomic Power Company

Schedule IX
Short-Term Borrowings
(Dollars in Thousands)

	Column A Category of Short-Term Borrowings	Column B Balance at End of Year	Column C Weighted Average Interest Rate	Column D Maximum Amount Outstanding During the Year	Column E Average Amt. Outstanding During the Year	Column F Weighted Daily Average Interest Rate During the Year
Year Ended December 31, 1980	Banks (1)	$16,000	22.51%	$20,155	$6,992	17.90%
Year Ended December 31, 1979	Banks (1)	$ 3,925	15.25%	$ 9,300	$1,148	15.40%
Year Ended December 31, .978	Banks (1)	-	-	$ 3,900	$ 97	7.79%

(1) See Note 3 to Notes t Financial Statements

	Ownership, Construction and Operation of New Hampshire Nuclear Units	
10(x)	Copies of forms of documents related to the Company's proposed purchase of an additional 1.80142% interest in the Seabrook Nuclear Units, consisting of PSNH's offer to sell ownership shares dated March 8, 1979, the Company's letter response thereto dated March 19, 1979, and the Sixth, Seventh, Eighth and Ninth Amendment to the Agreement for Joint Ownership, Construction and Operation of New Hampshire Nuclear Units, dated April 18, 1979, April 18, 1979, April 25, 1979, and June 8, 1979, respectively.	Form 10-Q, 2nd Qtr. 1979, Exhibit A

MAINE ELECTRIC POWER COMPANY, INC.

Index to Financial Statements and Schedules

All other schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of

Maine Electric Power Company, Inc.

We have examined the balance sheet of Maine Electric Power Company, Inc. (a Maine corporation) as of December 31, 1980 and 1979, and the related statements of income, changes in common stock investment and changes in financial position for the three years ended December 31, 1980, and the supporting schedules as listed on the accompanying index. 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 financial statements referred to above present fairly the financial position of Maine Electric Power Company, Inc., as of December 31, 1980 and 1979, and the results of its operations and the changes in its financial position for the three years ended December 31, 1980, and the supporting schedules present fairly the information required to be set forth therein, all in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Boston, Massachusetts,
February 6, 1981.

Maine Electric Power Company, Inc.

STATEMENT OF INCOME
For the Three Years Ended December 31, 1980
(Dollars in Thousands Except per Share Amounts)

	Year Ended December 31, 1980	1979	1978
ELECTRIC OPERATING REVENUES	$111,604	$98,122	$59,860
OPERATING EXPENSES			
Purchased Power (Note 1)	108,756	95,368	57,181
Operation	303	206	182
Maintenance (Note 1)	136	153	44
Depreciation (Note 1)	735	735	736
Taxes			
Federal and State Income (Note 2)	152	162	197
Local Property and Other	216	217	229
Total Operating Expenses	110,298	96,841	58,569
OPERATING INCOME	1,306	1,281	1,291
OTHER INCOME AND DEDUCTIONS, NET	110	112	74
INCOME BEFORE INTEREST CHARGES	1,416	1,393	1,365
INTEREST CHARGES			
Long-Term Debt (Note 3)	993	1,056	1,127
Other	277	182	74
Total Interest Charges	1,270	1,238	1,201
NET INCOME	$ 146	$ 155	$ 164
Weighted Average Number of Shares of Common Stock Outstanding	12,161	12,923	13,677
EARNINGS PER SHARE OF COMMON STOCK	$ 12.00	$ 12.00	$ 12.00
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$ 12.00	$ 12.00	$ 12.00

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

Maine Electric Power Company, Inc.

BALANCE SHEET
(Dollars in Thousands)

ASSETS

	December 31, 1980	1979
ELECTRIC PROPERTY, at Original Cost (Notes 1 and 3) (Sch. V)	$18,588	$18,617
Less: Accumulated Depreciation (Note 1) (Sch. VI)	7,207	6,482
	11,381	12,135
CURRENT ASSETS		
Cash (Note 4)	828	129
Temporary Investments, at Cost which approximates market value	-	275
Accounts Receivable		
Associated Companies	1,579	1,165
Other	17,054	8,852
Other Current Assets	156	154
Total Current Assets	19,617	10,575
DEFERRED CHARGES	102	94
	$31,100	$22,804

STOCKHOLDERS' INVESTMENT AND LIABILITIES

	1980	1979
CAPITALIZATION		
Common Stock Investment		
Common Stock, $100 Par Value, Authorized 20,000 Shares, Outstanding 11,733 in 1980 and 12,467 in 1979	$ 1,173	$ 1,247
Retained Earnings	-	-
Total Common Stock Investment	1,173	1,247
Series A 9¼% First Mortgage Bonds due in Annual Installments through August 1, 1996-Less Sinking Fund Requirements (Note 3)	9,900	10,560
Total Capitalization	11,073	11,807
CURRENT LIABILITIES		
Current Sinking Fund Requirements (Note 3)	584	660
Notes Payable - Banks (Note 4)	1,515	-
Accounts Payable		
Associated Companies	36	90
Other	10	468
Dividends Payable	35	37
Accrued Purchased Power	15,350	7,547
Accrued Interest and Taxes	427	466
Other	74	-
Total Current Liabilities	18,031	9,268
DEFERRED CREDITS		
Accumulated Deferred Income Taxes (Note 2)	1,818	1,696
Unamortized Investment Tax Credits (Note 2)	9	10
Unamortized Gain on Reacquired Debt (Note 1)	169	23
Total Deferred Credits	1,996	1,729
	$31,100	$22,804

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

Maine Electric Power Company, Inc.

STATEMENT OF CHANGES IN COMMON STOCK INVESTMENT
For the Three Years Ended December 31, 1980
(Dollars in Thousands)

	Shares	Amount at Par Value	Retained Earnings	Total
Balance December 31, 1977	13,984	$1,398	$	$1,398
Add (Deduct)				
Net Income			164	164
Dividends Declared			(164)	(164)
Redemption of Stock	(736)	(73)	—	(73)
Balance December 31, 1978	13,248	1,325		1,325
Add (Deduct)				
Net Income			155	155
Dividends Declared			(155)	(155)
Redemption of Stock	(781)	(78)	—	(78)
Balance December 31, 1979	12,467	1,247	—	1,247
Add (Deduct)				
Net Income			146	146
Dividends Declared			(146)	(146)
Redemption of Stock	(734)	(74)	—	(74)
Balance December 31, 1980	11,733	$1,173	$ —	$1,173

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

Maine Electric Power Company, Inc.

STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Three Years Ended December 31, 1980
(Dollars in Thousands)

	Year Ended December 31, 1980	1979	1978
Funds Provided			
From Operations			
Net Income	$ 146	$ 155	$ 164
Depreciation	735	735	736
Deferred Income Taxes and Investment Tax Credit, Net	121	140	186
	1,002	1,030	1,086
Funds Used			
Sinking Fund Requirements of Long-Term Debt	736	660	660
Dividends on Common Stock	146	155	164
Redemption of Common Stock	74	78	73
Other	(157)	(23)	(5)
	799	870	892
Increase in Working Capital, exclusive of sinking fund requirements	$ 203	$ 160	$ 194
Increase in Working Capital, exclusive of sinking fund requirements-			
Cash, Receivables and Temporary Investments	$ 9,040	$2,730	$ (421)
Other Current Assets	2	7	4
Notes Payable	(1,515)	-	-
Other Current Liabilities	(7,324)	(2,577)	611
	$ 203	$ 160	$ 194

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

Maine Electric Power Company, Inc.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company: The Company owns and operates a 345,000 volt transmission interconnection, completed in 1971, extending from Wiscasset, Maine to the Canadian border at Orient, Maine, where it connects with a line of The New Brunswick Electric Power Commission (New Brunswick) under a 25-year Interconnection Agreement. Under a Participation Agreement which terminates in 1996, all costs of the Company (including a return on invested capital), to the extent not met by transmission revenues, are paid by the participating utilities (Participants), which include most of the larger companies in New England and a group of publicly-owned systems. Under a Power Purchase Agreement, New Brunswick provided to the Participants over the interconnection up to 400,000 kilowatts of base load power in 1980.

Under an Amendment Agreement, effective January 1, 1981, New Brunswick will provide 133,000 kilowatts through October 31, 1985.

The following is a list of those companies that purchase power from the Company and their respective entitlements:

Participant	Percent of Entitlement	
	1980 (400MW)	1981 (133MW)
Bangor Hydro-Electric Company	2.395%	1.9962%
Boston Edison Company	16.250	13.5429
Boylston Municipal Light Department	.030	.0248
Central Maine Power Company	10.274	5.8443
Danvers Municipal Light Department	.371	1.1158
Eastern Maine Electric Co-operative, Inc.	2.583	7.7684
Fitchburg Gas and Electric Company	.770	2.3158
Maine Public Service Company	.844	6.2977
Marblehead Municipal Light Department	.170	.1413
Middleborough Municipal Light Department	.769	1.1098
Middleton Municipal Light Department	.056	.2820
Montaup Electric Company	5.792	4.6714
New England Power Company	22.500	13.3158
Newport Electric Corporation	2.260	1.8828
Peabody Municipal Light Department	.546	.4549
Public Service Company of New Hampshire	26.250	20.8354
Shrewsbury Municipal Light Department	.275	.8271
Union River Co-op	.005	.0045
Vermont Electric Power Company, Inc.	7.509	16.5135
Wakefield Municipal Light Department	.268	.3060
West Boylston Municipal Lighting Department	.083	.2496
Total	100.000%	100.0000%

Maine Electric Power Company, Inc.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company: (continued)
The following Maine electric utilities own all of the Company's Common Stock:

Sponsor	Ownership Interest
Central Maine Power Company	78.15%
Bangor Hydro-Electric Company	14.19
Maine Public Service Company	7.49
Woodland Water and Electric Company	.17
Total	100.00%

Regulation: The Company is subject to the regulatory authority of the Federal Energy Regulatory Commission and the Public Utilities Commission of the State of Maine as to operations, accounting and other matters.

Depreciation and Maintenance: Depreciation is provided using the composite and straight-line methods at rates designed to fully depreciate all properties over the period ending July 1, 1996.

Under the composite depreciation method, at the time depreciable properties are retired, the original cost, plus cost of removal, less salvage, of such property is charged to accumulated depreciation.

Unamortized Gains and Losses: Gains and losses on bonds reacquired to satisfy sinking fund requirements are deferred and amortized over the remaining original term of the Series A Bonds.

2. INCOME TAX EXPENSE

The components of Federal and State income taxes reflected in the statement of income are as follows:

Maine Electric Power Company, Inc.

NOTES TO FINANCIAL STATEMENTS

2. INCOME TAX EXPENSE (continued)

	Year Ended December 31, 1980	1979	1978
	(Dollars in Thousands)		
Federal:			
Current	$ 30	$ 21	$ 10
Deferred	105	121	162
Investment Tax Credit, Net	(1)	-	(1)
	134	142	171
State:			
Current	1	1	1
Deferred	17	19	25
	18	20	26
Total Income Taxes	$152	$162	$197

The Company provides deferred Federal and state income taxes for the tax effects of timing differences between pre-tax accounting income and income subject to tax. The deferred provision represents principally the tax effects arising from the use of accelerated depreciation for income tax purposes which currently exceeds the amounts provided in the statement of income. Investment tax credits are deferred and amortized over the lives of the related properties.

The table below reconciles a provision calculated by multiplying income before Federal taxes by the statutory Federal income tax rate to the provision for Federal income taxes:

	1980 Amount	%	1979 Amount	%	1978 Amount	%
	(Dollars in Thousands)					
Federal income tax provision at statutory rate	$129	46.0%	$137	46.0%	$161	48.0%
Difference in tax expense:						
Depreciation and amortization for accounting purposes not allowed for tax purposes	22	8.0	22	7.6	22	6.7
Surtax exemption	(19)	(6.8)	(19)	(6.4)	(13)	(3.9)
Other	2	.7	2	.6	1	.3
Federal income tax provision	$134	47.9%	$142	47.8%	$171	51.1%

Maine Electric Power Company, Inc.

NOTES TO FINANCIAL STATEMENTS

3. FIRST MORTGAGE BONDS

Under the terms of the indenture securing the First Mortgage Bonds, substantially all electric property of the Company is subject to a first mortgage lien.

The annual sinking fund requirement for First Mortgage Bonds is $660,000.

4. COMPENSATING BALANCES

The Company had lines of credit at year-end 1980 totaling $10,400,000. With respect to $1,400,000, the average compensating balance is 15% of outstanding borrowings. The average compensating balance requirement for $2,500,000 is 10% of the line or 20% of outstanding borrowings, whichever is greater. With respect to $1,500,000 the compensating balance requirement is 2% of the line plus 13% of outstanding borrowings. With respect to $3,000,000 there is no compensating balance requirement but there is an annual fee of 5/8 of 1% of the line with interest at 110% of prime. The remaining $2,000,000 has no compensating balance requirement but has an annual fee of 3/8 of 1% of the line on the unused portion.

Certain information related to these lines is as follows:

	1980	1979	1978
	(Dollars in Thousands)		
Total lines of credit at end of periods	$10,400	$8,400	$8,400
Borrowings outstanding at end of the periods	1,515	-	-
Average daily outstanding borrowings for the twelve months ended	1,574	1,179	765
Average annual interest rate for the twelve months ended	16.18%	13.65%	9.02%
Highest level of borrowing at any time during the twelve months periods	$10,250	$8,150	$5,300

Schedule V

Maine Electric Power Company, Inc.

ELECTRIC PROPERTY
(Dollars in Thousands)

Classification	Balance at December 31, 1980	1979	1978
Intangible plant			
Organization	$ 4	$ 4	$ 4
Franchises and consents	4	4	4
Miscellaneous intangible plant	25	25	25
Total intangible plant	33	33	33
Transmission plant			
Land and land rights	914	914	914
Structures and improvements	180	180	180
Station equipment	3,040	3,040	3,040
Towers and fixtures	615	615	615
Poles and fixtures	9,029	9,029	9,029
Overhead conductors and devices	4,563	4,563	4,563
Total transmission plant	18,341	18,341	18,341
General plant			
Land and land rights	4	4	4
Structures and improvements	9	9	9
Tools, shop and garage equipment	14	14	14
Communication equipment	187	216	216
Total general plant	214	243	243
Total electric property	$18,588	$18,617	$18,617

Maine Electric Power Company, Inc.

Accumulated Provision for Depreciation and Amortization
of Electric Property For the Years Ended
December 31, 1980, 1979 and 1978
(Dollars in Thousands)

	Balance at Beginning of Period	Additions Charged to Profit and Loss*	Retire- ments	Other Changes	Balance at End of Period
1978					
Electric property	$5,011	$736	$ -	$ -	$5,747
1979					
Electric property	$5,747	$735	$ -	$ -	$6,482
1980					
Electric property	$6,482	$735	$29	$19	$7,207

*See Note 1 of "Notes to Financial Statements" for the Company's depreciation policy.

EXHIBIT INDEX

A. Exhibits filed herewith

Exhibit No.	Description of Exhibit
10(a)	Copy of Thirteenth Amendment dated as of December 31, 1980 to the Agreement for Joint Ownership and Operation of New Hampshire Nuclear Units
22	Subsidiaries of the Registrant

B. Exhibits Incorporated herein by Reference

Exhibit No.	Description of Exhibit	Incorporated by Reference To:
3(a)	Articles of Incorporation of the Company	Form S-1, Reg. No. 2-54452, Exhibit 3(a) (through 1975); Form S-7, Reg. No. 2-59747, Exhibit 2(a)2 (through 1977); Form 10-K, 1979, Exhibit C (through 1979); Form 10-Q, 1st Qtr. 1980, Exhibit A
3(b)	By-Laws of the Company	Form S-7, Reg. No. 2-69904, Exhibit 4
4(a)	Mortgage and Deed of Trust dated as of July 1, 1936, re First Mortgage Bonds	Form S-1, Reg. No. 2-54452, Exhibit 4(b)(1)
4(b)	Supplemental Indenture dated as of December 1, 1945, amending the Mortgage	Form S-1, Reg. No. 2-54452, Exhibit 4(b)(2)
4(c)	Supplemental Indenture dated as of April 1, 1963, re 4% Series Bonds, together with form of purchase agreement	Form S-1, Reg. No. 2-54452, Exhibit 4(b)(3)
4(d)	Supplemental Indenture dated as of September 1, 1969, re 8 1/4% Series Bonds, together with form of purchase agreement	Form S-1, Reg. No. 2-54452, Exhibit 4(b)(4)
4(e)	Supplemental Indenture dated as of November 1, 1975, re 10 1/2% Series Bonds, together with form of purchase agreement	Form 10-K, 1975, Exhibit B

4(f)	Supplemental Indenture dated as of June 1, 1976, re 9 1/4% Series Bonds	Form 8-K, 6/28/76, Exhibit A
4(g)	Form of Purchase Agreement re 9 1/2% Series Bonds	Form 10-K, 1976, Exhibit C
4(h)	Supplemental Indenture dated as of January 1, 1978, re 8.6% Series Bonds, together with form of purchase agreement	Form S-7, Reg. No. 2-61589, Exhibit 5(a)(7)
4(i)	Supplemental Indenture dated as of August 1, 1979, re 10.25% Series Bonds, together with form of purchase agreement	Form 10-Q, 3rd Qtr. 1979, Exhibit A
4(j)	Form of Purchase Agreement re 9 1/4% Preferred Stock dated June 1, 1976	Form 10-K, 1976, Exhibit E
4(k)	Form of Purchase Agreement re 9 1/2% Preferred Stock dated August 15, 1979	Form 10-Q, 3rd Qtr. 1979, Exhibit B
4(l)	Dividend Reinvestment and Common Stock Purchase Plan, including contract with Agent therefor	Form S-16, Reg. No. 2-62910, Exhibit (b)(1) (D), (E)
10(a)	Revolving Credit and Term Loan Agreement between the Company and the banks named therein	Form S-7, Reg. No. 2-69904, Exhibit 10(a)(1)
10(b)	New England Power Pool Agreement dated as of September 1, 1971, with all amendments to date	Form S-7, Reg. No. 2-69904, Exhibit 10(a)(3)
10(c)	Copy of Twelfth Amendment dated as of June 16, 1980 to the Agreement for Joint Ownership, Construction and Operation of New Hampshire Nuclear Units	Form S-7, Reg. No. 2-69904, Exhibit 10(a)(4)

10(d)	Participation Agreement dated June 20, 1969 between Maine Electric Power Company, Inc., ("MEPCO") and the Company	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(2)(a)-1
10(e)	Firm Power and Transmission Supplement to Participation Agreement dated as of June 20, 1969 between MEPCO and the Company	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(2)(a)-2
10(f)	Power Purchase and Transmission Agreement, Supplemental Participation Agreement dated August 1, 1969 between MEPCO, the Company and other utilities	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(2)(d)
10(g)	Power Purchase and Transmission Agreement dated December 3, 1971 re Second Supplement to Participation Agreement dated as of June 20, 1969, with letter of transmittal attached	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(2)(e)
10(h)	Power Contract dated May 20, 1968 between Maine Yankee Atomic Power Company ("Maine Yankee") and the Company and other utilities	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(3)(a)
10(i)	Stockholder Agreement dated May 20, 1968 among stockholders of Maine Yankee, (including the Company).	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(3)(b)
10(j)	Capital Funds Agreement dated May 29, 1968 between Maine Yankee and sponsors, including the Company.	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(3)(c)

10(k)	Maine Yankee Transmission Agreement dated April 1, 1971 among the Company and other utilities	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(3)(d)
10(l)	Modification of Maine Yankee Transmission Agreement of December 1, 1972	Form S-1, Reg. No 2-54452, Exhibit 13(a)(3)(f)
10(m)	Assignment Agreement dated June 1, 1973, Houlton Water Company to the Company assigning a portion of Houlton's entitlement to Maine Yankee output	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(3)(g)
10(n)	Agreement for Joint Ownership, Construction and Operation dated November 1, 1974 of Wyman Unit No. 4 among Central Maine Power Company, the Company and other utilities	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(4)(a)
10(o)	Amendment No. 1 dated June 30, 1975 to Amendment of November 1, 1974	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(4)(b)
10(p)	Transmission Agreement dated November 1, 1974 re Wyman Unit No. 4 among Central Maine Power Company and other utilities	Form S-1, Reg. No. 2-54452, Exhibit 13(a)(4)(c)
10(q)	Boston Edison Company contract, dated March 17, 1975 between Boston Edison Company and the Company relating to purchased power, Mystic Unit No. 7	Form S-1, Reg. No. 2-54452, Exhibit 13(b)(1)
10(r)	Form of Federal Power Commission license for hydro-electric dam facility	Form S-1, Reg. No. 2-54452, Exhibit 13(b)(4)

10(s)	Sample of binder relating to contingent liability for nuclear incidents	Form S-7, Reg. No. 2-59747, Exhibit 5(a)(4)
10(t)	Agreements relating to Seabrook 1 and 2, including offering letter dated September 7, 1977 and the Company's response thereto dated October 6, 1977, the Agreement to Transfer Ownership Share between the Company and The Connecticut Light and Power Co., dated November 1, 1977 and a letter amendment thereto dated January 31, 1978, and the Joint Ownership Agreement with Public Service Company of New Hampshire and other utilities as amended through January 31, 1975	Form S-7, Reg. No. 2-61589, Exhibit 5(a)(3)
10(u)	Power Purchase Agreement dated December 15, 1977 between the Company and The Connecticut Light and Power Co., the Hartford Electric Light Company and Western Massachusetts Electric Company, concerning various gas turbine units	Form S-7, Reg. No. 2-61589, Exhibit 5(a)(4)
10(v)	Amendment No. 2 dated August 16, 1976 to Joint Ownership Agreement dated November 1, 1974 with Central Maine Power Company and others re Wyman Unit No. 4	Form 10-K, 1976, Exhibit H(2)
10(w)	Copies of Tenth and Eleventh Amendments, dated October 11, 1979 and December 15, 1979, respectively, to the Agreement for Joint	Form 10-K, 1979, Exhibit D

Seabrook FSAR
Section 0, Exh. B

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 1981 Commission file number 0-505

BANGOR HYDRO-ELECTRIC COMPANY
(Exact Name of Registrant as Specified in its Charter)

Maine (State or Other Jurisdiction of Incorporation or Organization)	01-0024370 (I.R.S. Employer Identification No.)
33 State Street, Bangor, Maine (Address of Principal Executive Offices)	04401 (Zip Code)

Registrant's telephone number, including area code 207- 945-5621

None
Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report

Outstanding Common Stock, $5 Par Value - 2,089,160 shares at March 31, 1981

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

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 1981

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

BANGOR HYDRO-ELECTRIC COMPANY

STATEMENT OF INCOME

000's Omitted Except Per Share Amounts

(Unaudited)

	Three Months Ended March 31, 1981	Three Months Ended March 31, 1980
ELECTRIC OPERATING REVENUES:		
General rate revenue	$ 8,488	$ 7,395
Fuel charge	13,826	8,770
	$ 22,314	$ 16,165
OPERATING EXPENSES:		
Fuel for generation	$ 13,684	$ 8,859
Purchased power	1,979	1,921
Operation and maintenance	2,672	2,311
Depreciation and amortization	870	744
Taxes-		
Local property and other	505	441
State income	40	24
Federal income	402	281
	$ 20,152	$ 14,581
OPERATING INCOME	$ 2,162	$ 1,584
OTHER INCOME:		
Allowance for other funds used during construction	28	-
Other, net of applicable income taxes	7	2
	$ 35	$ 2
INCOME BEFORE INTEREST EXPENSE	$ 2,197	$ 1,586
INTEREST EXPENSE:		
First mortgage bonds	$ 621	$ 638
Other	847	410
Allowance for borrowed funds used during construction	(309)	(177)
	$ 1,159	$ 871
NET INCOME	$ 1,038	$ 715
DIVIDENDS ON PREFERRED STOCK	184	184
EARNINGS APPLICABLE TO COMMON STOCK	$ 854	$ 531
WEIGHTED AVERAGE NUMBER OF SHARES	2,087,986	1,815,854
EARNINGS PER COMMON SHARE, based on weighted average number of shares outstanding during the period	$ .41	$ .29
DIVIDENDS PER COMMON SHARE	$ .38	$ .38

See notes to financial statements

BANGOR HYDRO-ELECTRIC COMPANY
MANAGEMENT'S ANALYSIS OF QUARTERLY INCOME STATEMENT

Management's Discussion and Analysis of Financial Statements contained in the Company's 1980 Annual Report on Form 10-K should be read in conjunction with the comments below.

RESULTS OF OPERATIONS
FIRST QUARTER 1981 VERSUS FIRST QUARTER 1980

General Rate Revenue increased some $1,093,000 or 14.8% due to the 18% general rate increase received on August 8, 1980. Somewhat offsetting the rate increase was a 3.5% decline in total kilowatt-hour sales.

Fuel Charge Revenue increased some $4,920,000 or 56% as a result of a higher fuel factor in use during the 1981 period. See note 1 to the financial statements of Form 10-K for a discussion of the fuel clause.

Although the actual cost of fuel for generation was about 5% lower in 1981 than 1980, the fuel expense recognized increased $4,825,000 or 54%. This resulted from the fact that the fuel factor used to bill customers in 1980 was below that needed to accommodate the increased fuel costs being experienced in that period. Consequently, $4,078,000 of excess fuel costs were deferred in 1980.

Operation and Maintenance Expenses reflect an increase in the operating expenses of the Wyman #4 generating station in which the Company has an 8.3% interest as well as increases in Company expenses due to general inflationary pressures.

Amortization of the NEPCO nuclear units over a 5 year period commenced in August of 1980. Thus, the 1981 period contains $88,000 of such amortization in contrast to no amortization of this item for the first quarter of 1980.

There was no "Allowance for Other Funds Used During Construction" in 1980 as, in that period, the average balance of notes payable for the entire year were estimated to be in excess of the average balance of construction work in progress. Consequently, the entire "Allowance for Funds" was allocated to borrowed funds in 1980.

The "Allowance for Borrowed Funds Used During Construction" increased by approximately $132,000 primarily because of the higher construction work in progress balances during 1981. This was due to the start of the adjustment period for the Company's purchase of the additional 1.8% interest in the Seabrook nuclear project.

Liquidity and Capital Resources

The Statement of Sources of Funds for Plant Additions reflects the Company's liquidity position.

In 1981 the internal uses of funds exceeded the internal generation of funds by $797,000 as opposed to $2,505,000 in 1980. This improvement in internal operations is primarily attributable to recovery of $1,722,000 in deferred fuel costs in 1981 as opposed to the undercollection of $4,078,000 in fuel costs during the 1980 period. This improvement, however, was tempered by increases in other current assets, primarily accounts receivable as well as a decrease in accounts payable.

As noted above, the adjustment period for the Company's purchase of an additional 1.8% of the Seabrook nuclear project started in February 1981. This is the principal reason for the $2,930,000 increased level of investment in that project in 1981 over 1980.

On April 3, 1981 the Company issued and sold through private placement $5,000,000 of 15 1/4% First Mortgage Bonds. The Bonds are subject to a sinking fund at the rate of 10% beginning in 1987 and are due on April 1, 1996.

BANGOR HYDRO-ELECTRIC COMPANY

BALANCE SHEET

MARCH 31, 1981 AND DECEMBER 31, 1980
000's Omitted
(Unaudited)

ASSETS

	MARCH 31, 1981	DECEMBER 31, 1980
INVESTMENT IN UTILITY PLANT:		
Electric plant, at original cost	$98,685	$97,539
Less-Accumulated depreciation	34,681	33,929
	$64,004	$63,610
Construction in progress, including $8,826 at March 31, 1981 and $5,424 at December 31, 1980 for participation in jointly-owned project	9,404	6,296
Investments in corporate joint ventures:		
Maine Yankee Atomic Power Company	4,806	4,689
Maine Electric Power Company, Inc.	178	172
	$78,392	$74,767
OTHER INVESTMENTS, principally at cost	$ 508	$ 504
CURRENT ASSETS:		
Cash	$ 1,727	$ 1,051
Accounts receivable, net of reserve	8,352	6,871
Unbilled revenue receivable	3,220	3,378
Material and supplies, at average cost	3,946	3,460
Prepaid expenses	18	394
Deferred fuel costs	5,608	7,057
	$22,871	$22,211
DEFERRED CHARGES:		
Unamortized cost of cancelled NEPCO nuclear units	$ 1,705	$ 1,794
Other	584	567
	$ 2,289	$ 2,361
	$104,060	$99,843

See notes to financial statements

BANGOR HYDRO-ELECTRIC COMPANY

BALANCE SHEET

MARCH 31, 1981 AND DECEMBER 31, 1980
000's Omitted
(Unaudited)

STOCKHOLDERS' INVESTMENT AND LIABILITIES

	MARCH 31, 1981	DECEMBER 31, 1980
CAPITALIZATION (see accompanying statement):		
Common stock investment	$ 27,436	$27,317
Preferred stock	9,734	9,734
First mortgage bonds, exclusive of sinking fund requirements	32,175	32,175
	$ 69,345	$69,226
CURRENT LIABILITIES:		
Current sinking fund requirements	$ 170	$ 170
Notes payable to banks	17,100	12,100
Accounts payable	5,871	7,396
Dividends payable	978	905
Accrued interest	622	677
Accrued current and short-term deferred taxes	(373)	59
Customers' deposits	62	64
Accrued pension plan contribution	565	445
	$ 24,995	$21,816
DEFERRED CREDITS AND RESERVES:		
Accumulated deferred income taxes	$ 5,023	$ 4,869
Unamortized investment tax credits	4,449	3,729
Other	248	203
	$ 9,720	$ 8,801
	$104,060	$99,843

See notes to financial statements

BANGOR HYDRO-ELECTRIC COMPANY

STATEMENT OF CAPITALIZATION
MARCH 31, 1981 AND DECEMBER 31, 1980
000's Omitted
(Unaudited)

	MARCH 31, 1981	DECEMBER 31, 1980
COMMON STOCK INVESTMENT:		
Common stock, par value $5 per share -		
Authorized--5,000,000 shares		
Outstanding 2,089,160 shares in 1981		
and 2,083,600 shares in 1980	$10,446	$10,418
Amounts paid in excess of par value	9,050	9,019
Retained earnings	7,940	7,880
	$27,436	$27,317
PREFERRED STOCK, non-participating, cumulative, par value $100 per share, authorized 250,000 shares:		
Subject to mandatory redemption requirements-		
9 1/2%, Callable at $109.00, 30,000 shares authorized and outstanding	$ 3,000	$ 3,000
9 1/4%, Callable at $106.15, 20,000 shares authorized and outstanding	2,000	2,000
	$ 5,000	$ 5,000
Not redeemable or redeemable solely at the option of the issuer -		
7%, Noncallable, 25,000 shares authorized and outstanding	$ 2,500	$ 2,500
4 1/4%, Callable at $100.00, 4,840 shares authorized and outstanding	484	484
4%, Series A, Callable at $110.00, 17,500 shares authorized and outstanding	1,750	1,750
	$ 4,734	$ 4,734
FIRST MORTGAGE BONDS:		
3 1/4% Series due 1982	$ 1,000	$ 1,000
3 1/8% Series due 1984	1,000	1,000
3 1/4% Series due 1985	1,500	1,500
4% Series due 1988	2,500	2,500
4% Series due 1993	3,500	3,500
6 3/4% Series due 1998	2,500	2,500
8 1/4% Series due 1999	3,500	3,500
10 1/2% Series due 2000	4,750	4,750
9 1/4% Series due 2001	2,820	2,820
8 3/5% Series due 2003	2,275	2,275
10 1/4% Series due 2004	7,000	7,000
	$32,345	$32,345
Less-Sinking fund requirements	170	170
	$32,175	$32,175
Total capitalization	$69,345	$69,226

See notes to financial statements

BANGOR HYDRO-ELECTRIC COMPANY
STATEMENT OF RETAINED EARNINGS
FOR THE THREE MONTHS ENDED MARCH 31, 1981 AND 1980
000's Omitted
(Unaudited)

	MARCH 31, 1981	MARCH 31, 1980
BALANCE BEGINNING OF PERIOD	$ 7,880	$ 8,798
ADD - NET INCOME	1,038	715
	$ 8,918	$ 9,513
DEDUCT:		
Dividends -		
Preferred stock	$ 184	$ 184
Common stock	794	690
	$ 978	$ 874
BALANCE END OF QUARTER	$ 7,940	$ 8,639

See notes to financial statements

BANGOR HYDRO-ELECTRIC COMPANY
STATEMENT OF SOURCES OF FUNDS FOR PLANT ADDITIONS
FOR THE THREE MONTHS ENDED MARCH 31, 1981 AND 1980
000's Omitted
(Unaudited)

	MARCH 31, 1981	MARCH 31, 1980
SOURCES OF FUNDS:		
Internal sources-		
Operations-		
Net income	$ 1,038	$ 715
Items not currently requiring or (providing) funds -		
Depreciation and amortization	870	744
Deferred income taxes	153	178
Investment tax credit, net	720	465
Allowance for other funds used during construction	(28)	-
	$ 2,753	$ 2,102
Other sources (uses) of funds-		
Dividends declared	$ (978)	$ (874)
Other, net	(287)	(204)
	$(1,265)	$(1,078)
Change in net current assets, exclusive of interim financing-		
Cash, receivables and unbilled revenue	$(2,005)	$ 41
Deferred fuel costs	1,722	(4,078)
Other current assets	(110)	(364)
Accounts payable	(1,471)	974
Other current liabilities	(421)	(102)
	$(2,285)	$(3,529)
Funds available from internal sources	$ (797)	$(2,505)
External sources -		
Notes payable to banks	$ 5,000	$ 3,700
Common Stock-		
Dividend Reinvestment Plan	58	62
Funds from external sources	$ 5,058	$ 3,762
FUNDS AVAILABLE FOR PLANT ADDITIONS	$ 4,261	$ 1,257
FUNDS USED FOR:		
Wyman Unit #4	$ 4	$ 206
Seabrook	3,401	471
Other plant additions	884	580
	$ 4,289	$ 1,257
Less: Allowance for other funds used during construction	(28)	-
FUNDS USED FOR PLANT ADDITIONS	$ 4,261	$ 1,257

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1981
(Unaudited)

(1) Accounting Policies

The Company's significant accounting policies are described in the Notes to Financial Statements included in its 1980 Annual Report on Form 10-K filed with the Securities and Exchange Commission. For interim reporting purposes, the Company follows these same basic accounting policies but considers each interim period as an integral part of an annual period. Accordingly, certain expenses are allocated to interim periods based upon estimates of such expenses for the year. Income Tax expense is calculated using the statutory rates applied to pre-tax book income, adjusted for non-tax allocated timing differences and permanent differences. The dividends received deduction related to earnings of associated companies and the exclusion from taxable income of allowance for funds used during construction are the principal permanent differences between book and taxable income.

Since the implementation as of January 1, 1980 of the fuel clause regulation issued by the Maine Public Utilities Commission (MPUC), fuel expense is recognized when the customers are billed for that fuel. Any unbilled fuel costs are now deferred.

(2) Income Taxes

The individual components of Federal and state income taxes reflected in the Statement of Income for the three months ended March 31, 1981 and March 31, 1980 are as follows:

	1981		1980	
	Federal	State	Federal	State
Current	$ 278,452	$ 168,936	$(2,254,876)	$(288,262)
Deferred-short term	(745,480)	(121,981)	1,897,408	310,468
Deferred-other	157,905	(5,098)	175,362	2,319
Investment Tax Credit, net	720,000	-	465,000	-
Total provisions for income taxes	$ 410,877	$ 41,857	$ 282,894	$ 24,525
Charged to other income	(8,898)	(1,455)	(2,083)	(340)
Charged to operating expense	$ 401,979	$ 40,402	$ 280,811	$ 24,185

(2) Income Taxes (Continued)

The rate-making practice currently followed by the MPUC permits the Company to recover, through customer rates, only Federal and state income taxes payable currently or met by the use of investment tax credit and deferred taxes when the tax law, in effect, requires such treatment. The MPUC allows as a cost of service only the deferred Federal income tax arising from the use, for income tax purposes, of accelerated depreciation of property added subsequent to 1969. The income tax effects of other minor timing differences between pretax accounting income and taxable income generally are, in effect, flowed through to the Company's customers. Although this accounting differs from generally accepted accounting principles followed by nonrate-regulated companies, which are required to record deferred taxes related to all timing differences, the Company expects that deferred taxes not recorded will be collected through customer rates in the future when such taxes become payable.

In 1980 and 1979, the Company experienced net losses for tax purposes, resulting principally from three significant transactions which increased income for accounting but not for tax purposes. These losses for tax purposes resulted in net operating loss and investment tax credit carryovers which, subject to review by the Internal Revenue Service, will be used to reduce income taxes otherwise payable in future years. Income tax provisions and accruals related to these items are classified in the above table as "deferred-short term" taxes.

The following table reconciles a provision calculated by multiplying income before Federal income taxes by the statutory Federal income tax rate to the above provisions for Federal income taxes:

(2) Income Taxes (Continued)

	Three Months Ended March 31,			
	1981		1980	
	Amount	%	Amount	%
	(Dollars in Thousands)			
Federal income tax provision at statutory rate	$ 667	46%	$ 459	46%
Less permanent reductions in tax expense resulting from statutory exclusions from taxable income:				
Dividend received deduction related to earnings of associated companies	48	3	51	5
Equity component of AFDC	13	1	-	-
Preferred dividends paid deduction	9	1	9	1
Amortization of investment tax credit	30	2	24	2
Federal income tax provision before effect of timing differences	$ 567	39%	$ 375	38%
Less timing differences that are flowed-through for rate-making and accounting purposes:				
Interest component of AFDC	142	10	81	8
Deduction of certain costs (primarily pension costs and payroll taxes) for tax purposes that are included in the cost of electric property	10	1	7	1
Other	4	-	4	1
Federal income tax provision	$ 411	28%	$ 283	28%

FINANCIAL NOTES - (CONTINUED)

(3) Investment in Maine Yankee and Maine Electric

Condensed financial information for Maine Yankee Atomic Power Company (Maine Yankee) and Maine Electric Power Company, Inc. (MEPCO) is as follows:

	MAINE YANKEE (Dollars in Thousands)		MEPCO	
	Operations For Three Months Ended			
	March 31, 1981	March 31, 1980	March 31, 1981	March 31, 1980
OPERATIONS:				
As reported by investee-				
Operating Revenues	$ 24,278	$ 18,911	$ 43,567	$ 28,185
Earnings applicable to common stock	$ 1,679	$ 1,677	$ 35	$ 37
Company's reported equity -				
Equity in Net Income	$ 117	$ 117	$ 5	$ 5
Add (deduct) - Effect of adjusting Company's estimate to actual	-	-	1	1
Amounts reported by Company	$ 117	$ 117	$ 6	$ 6
	Financial Position For March 31, 1981 and December 31, 1980			
	March 31, 1981	Dec. 31, 1980	March 31, 1981	Dec. 31, 1980
FINANCIAL POSITION:				
As reported by investee -				
Total Assets	$ 290,626	$ 297,064	$ 27,009	$ 31,100
Less-				
Preferred Stock	11,880	11,980	-	-
First Mortgage Bonds and Long-Term Notes	133,130	134,823	9,900	9,900
Other Liabilities and Deferred Credits	78,538	83,209	15,936	20,027
Net Assets	$ 67,078	$ 67,052	$ 1,173	$ 1,173
Company's reported equity-				
Equity in net assets	$ 4,695	$ 4,694	$ 167	$ 177
Add (deduct)-Effect of adjusting Company's estimate to actual	111	(5)	11	(5)
Amounts reported by Company	$ 4,806	$ 4,689	$ 178	$ 172

BANGOR HYDRO-ELECTRIC COMPANY

FORM 10-Q FOR PERIOD ENDED MARCH 31, 1981

PART II

Item 1. Legal Proceedings

With the exception of the following, this item is the same as previously reported in the Company's Form 10-K for 1980.

Indian Cases

On April 22 and April 24, 1980, the Court entered orders granting the Company's motions to dismiss the two Indian cases. The Company's motion in the flowage case brought by the Penobscot Tribe was uncontested. However, the claimant in the transmission line matter argued against the dismissal, and the Company cannot predict what further action, if any, will be taken.

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's Annual Meeting of Stockholders held on April 28, 1981, two stockholder proposals were presented and submitted to a vote of the stockholders. The stockholder proposals were included in the Company's proxy statement furnished to stockholders and filed with the Commission.

The first stockholder proposal, which would have required the Company to include in its annual and quarterly reports to stockholders a detailed report on the status of uranium contracts, spent fuel storage facilities, and safety issues concerning nuclear power plants in which the Company has an interest, was defeated by a vote of 129,211 5/12 to 1,401 3/12. The second proposal, which would have required the Company to establish and maintain a nuclear information library, was defeated by a vote of 130,286 7/12 to 7,344 10/12.

Item 5. Other Information

Seabrook Nuclear Units

In the Company's Form 10-K for 1980, the Company's participation in the Seabrook nuclear units being constructed by Public Service Company of New Hampshire (PSNH) is discussed (see page 6 of the Company's Annual Report and notes 9 and 10 to the financial statements).

On April 14, 1981, PSNH announced a revised schedule for completion and cost estimate for the project. The completion dates are now estimated to be February, 1984 for unit 1 and May, 1986 for unit 2 (compared to the latest prior estimate of 1983 and 1985), and the cost of the project is now estimated at $2.58 billion, including nuclear fuel but excluding AFDC.

Based upon PSNH's revised cost estimates, the Company's share of such costs would be $56 million, exclusive of the Company's AFDC estimated at $32 million.

Subsequent to the denial in February of PSNH's request before the New Hampshire Public Utilities Commission for emergency rate relief, PSNH filed, on April 2, 1981, for a permanent increase of approximately $34.9 million annually, with a request for temporary rates of that increased level as soon as possible. On May 1, 1981, the NHPUC granted PSNH's request for a temporary rate increase of approximately $17.4 million annually, to be collected subject to refund.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit A - Form of Purchase Agreement and Supplemental Indenture relative to the First Mortgage Bonds, 15.25% Series due 1996.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter for which this report is submitted.

BANGOR HYDRO-ELECTRIC COMPANY

FORM 10-Q FOR PERIOD ENDED MARCH 31, 1981

The information furnished in this report reflects all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim period.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BANGOR HYDRO-ELECTRIC COMPANY
(Registrant)

5/11/81
Date

/s/ John P. O'Sullivan
Vice President & Treasurer

(Principal Financial Officer)

PROSPECTUS

250,000 Shares

Bangor Hydro-Electric Company

Common Stock

(Par Value $5 per Share)

The Common Stock of the Company is traded in the over-the-counter market. On December 9, 1980 the closing highest bid and lowest asked quotations as reported by the National Association of Securities Dealers Automated Quotation System ("NASDAQ") were $9¾ and $10⅛, respectively.

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	$10.125	$.625	$9.50
Total	$2,531,250	$156,250	$2,375,000

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

(2) Before deducting expenses estimated at $89,000.

These shares of Common Stock are offered by the several Underwriters named herein subject to prior sale, when, as and if issued by the Company and accepted by the Underwriters, and subject to the approval of certain legal matters by Davis Polk & Wardwell, counsel for the Underwriters. It is expected that certificates for such shares will be available on or about December 17, 1980 at the office of Smith Barney, Harris Upham & Co. Incorporated, 120 Broadway, New York, New York 10005.

Smith Barney, Harris Upham & Co.

Incorporated

December 10, 1980

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

Bangor Hydro-Electric Company (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 1979 and prior years concerning directors and officers and their remuneration, principal holders of securities, 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. Information filed with the Commission, including proxy statements and reports and other information, can be inspected and copied at the public reference facilities maintained by the Commission at Room 6101, 1100 L Street, N.W., Washington, D.C.; Room 1100, Federal Building, 26 Federal Plaza, New York, New York; 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 be obtained from the Commission at prescribed rates by writing to the Commission at 500 North Capitol Street, N.W., Washington, D.C. 20549.

THE COMPANY

The Company was incorporated under the general laws of Maine in 1924. Its principal office is located at 33 State Street, Bangor, Maine 04401, and its telephone number is 207-945-5621.

The Company is a public utility engaged in the generation, purchase, transmission, distribution and sale of electric energy. Its sales territory includes portions of the counties of Penobscot, Hancock, Washington, Waldo, Piscataquis and Aroostook in Eastern Maine (See "Map of Territory Served").

USE OF PROCEEDS

The net proceeds (estimated at $2,286,000) to be received from the sale of the 250,000 shares of common stock offered hereby (the "Additional Common Stock") will be used for the Company's continuing capital construction program, including the repayment of a portion of the short-term notes payable to banks which have been incurred as interim financing for the program. Short-term notes payable to banks amounted to $14.5 million at December 9, 1980. See "Construction and Financing" for information concerning the Company's capital construction program and the sources of funds for such program.

THE ISSUE IN BRIEF

The following material is qualified in its entirety by the detailed information and financial statements (including the notes thereto) appearing elsewhere in this Prospectus.

THE OFFERING

Securities to be Offered	250,000 shares of Common Stock
Use of Proceeds	To reduce the short-term borrowings incurred for construction
Traded	Over-the-Counter, reported on NASDAQ (Symbol BANG)
1980 Bid Price Range (through Dec. 9)	High 12¾ Low 9½
Closing Price Quotation on Dec. 9, 1980	Bid 9¾ Asked 10⅛

BANGOR HYDRO-ELECTRIC COMPANY

Principal Business	Electric utility, serving approximately 74,000 customers
Service Area	Eastern Maine, covering approximately 4,850 square miles with a population of approximately 190,000
1980 Energy Sources (Est.)	Fossil (generated and purchased energy) 61%, Nuclear (purchased energy) 23%, Hydro (generated energy) 16%
Construction Expenditures (Est.)	1980 — \$5.7 million; 1981-1984 — \$71.2 million
1980 Rate Increase	Effective August 8, 1980, the Company received a basic rate increase of 18% designed to yield additional revenues of \$4.7 million annually

FINANCIAL INFORMATION

(Dollars in Thousands, except Per Share Amounts)

	Twelve Months Ended October 31, 1980 (Unaudited)	Year Ended December 31, 1979	1978	1977
Electric Operating Revenues	\$64,085	\$51,748	\$42,627	\$38,294
Net Income	3,803 (1)	3,488 (1) (2)	3,391	2,759
Earnings Applicable to Common Stock	3,067 (1)	2,941 (1) (2)	2,941	2,308
Earnings per Common Share	1.69 (1)	1.63 (1) (2)	1.77	1.75
Dividends Declared per Common Share	1.52	1.52	1.46	1.41

	September 30, 1980 (Unaudited) Outstanding	Ratio	As Adjusted	Ratio
Capitalization				
First Mortgage Bonds	\$32,300	48.3%	\$ 32,300	46.7%
Preferred Stock	9,734	14.6	9,734	14.1
Common Stock Investment	24,788	37.1	27,147 (3)	39.2
Total	\$66,822	100.0%	\$ 69,181	100.0%
Short-term Bank Borrowings	\$15,000		\$ 12,714	
Book Value per Common Share	\$ 13.57		\$ 13.03	
Common Shares	1,827,040		2,083,600 (3)	

(1) Includes the effect of deferring \$3.8 million in fuel costs in December 1979 which increased earnings \$1.06 per share (See Note 1 of Notes to Financial Statements of the Company).

(2) After the cumulative effect of a change in accounting principle which increased earnings by \$1,043,000 or \$.58 per share in the first quarter of 1979 (See Note 1 of Notes to Financial Statements of the Company).

(3) Includes 6,560 shares issued October 20, 1980 pursuant to the Dividend Reinvestment and Common Stock Purchase Plan.

PROBLEMS OF THE ELECTRIC UTILITY INDUSTRY

The electric utility industry in general is, and for several years has been, experiencing problems in a number of areas, including the effects of inflation on operating and construction costs, obtaining adequate and timely rate increases, financing construction programs at reasonable costs during a period of high inflation and unsettled capital markets, compliance with environmental and nuclear regulations, availability and cost of fuel, uncertainties caused by increased political involvement in utility regulation and the effects of energy conservation and general economic conditions. These problems are being experienced in varying degrees by different companies within the industry.

Events at the Three Mile Island Nuclear Unit No. 2 in Pennsylvania ("TMI") in March 1979 have prompted a rigorous reexamination of safety related equipment and operating procedures in all nuclear facilities. The Company has an interest in Maine Yankee Atomic Power Company's nuclear generating facility located in Wiscasset, Maine ("Maine Yankee") (representing 23% of the Company's current generating capacity) and an interest in the Seabrook nuclear generating units being constructed in Seabrook, New Hampshire (the "Seabrook nuclear units") by Public Service Company of New Hampshire ("PSNH") as the lead owner. The Company has been informed by Maine Yankee that the near-term modifications required by the United States Nuclear Regulatory Commission ("NRC") in response to studies of the TMI incident have been made. The owners of both plants in which the Company has interests are still in the process of evaluating the impact of certain long-term modifications required by the NRC. While the ultimate effect of the reexaminations, studies and legislative proposals arising out of the TMI incident cannot be specifically predicted, they could interfere with or require costly modifications to operating nuclear generating plants, and prevent licensing of and cause delays in construction and costly modifications of those planned or under construction (See "Construction and Financing" and "Business — Properties and Power Supply").

CONSTRUCTION AND FINANCING

1974-1979 Construction Costs

For the five years ended December 31, 1979, expenditures by the Company for construction totalled approximately $37.0 million, of which $20.5 million was for generation, $10.1 million for distribution and $6.4 million for transmission and other general construction. Such amounts do not include an allowance for funds used during construction ("AFDC") totalling $3.1 million over the same period. See Note 1 of Notes to Financial Statements of the Company for an explanation of accounting for AFDC. The Company's construction program for adding new generating capacity over the five years ended December 31, 1979 consisted primarily of participation as one of the joint owners in William F. Wyman Unit No. 4 ("Wyman 4"), a 600 megawatt ("MW") oil-fired generating unit located in Yarmouth, Maine, constructed and operated by Central Maine Power Company as the lead owner (See "Business — Properties and Power Supply — Existing Facilities"), which project was completed in late 1978; in the Seabrook nuclear units (See "Business — Properties and Power Supply — Future Power Sources"); and in the New England Power Company nuclear units which were to have been built in Charlestown, Rhode Island, but which project was cancelled in December 1979 (See Note 9 of Notes to Financial Statements of the Company).

1980-1984 Estimated Construction Costs

The Company's construction program currently consists of its existing and anticipated interest referred to below in the Seabrook nuclear units and transmission, distribution and other general

construction. Estimated construction expenditures (not including AFDC) for the period 1980 through 1984 based on current construction schedules and cost projections are as follows:

	Estimated Construction Expenditures* (Thousands of Dollars)					
	1980	1981	1982	1983	1984	Total
Generating Facilities						
Seabrook nuclear units	$ 964	$24,136	$ 9,836	$ 6,302	$ 4,717	$45,955
Other generation	300	—	1,000	500	1,300	3,100
Transmission, Distribution & General	4,400	5,320	5,851	6,051	6,251	27,873
Total	$5,664	$29,456	$16,687	$12,853	$12,268	$76,928

*Assumes acquisition of an additional interest in the Seabrook nuclear units commencing January 1, 1981, and completion of the Seabrook nuclear units in 1984 and 1986.

The Company's construction program is subject to continuous review and revision. The program may vary from the above projections due to factors, among others, such as changes in business conditions, rates of growth in the service area, construction and equipment delivery schedules, availability and cost of capital, inflation, regulatory climate and problems relating to environmental considerations.

Seabrook. The Company has an undivided interest of 0.37249% in each of the two generating units which comprise the Seabrook nuclear units. This interest will entitle the Company to approximately 8.6 MW, or 4.3 MW per unit. The units have been scheduled for completion in 1983 and 1985 respectively, but it is likely that these dates will be extended. In addition, the Company has agreed to purchase an additional 1.80142% interest, or approximately 41.4 MW, from PSNH, for a total interest of 2.17391%, or approximately 50 MW. This purchase will take place over a buy-in period, the commencement of which is contingent upon regulatory approvals and certain other matters pertaining to other purchasers of Seabrook interests from PSNH (See "Business — Properties and Power Supply — Future Power Sources").

The cost of the two units is currently estimated to be $2.4 billion (assuming completion dates of 1984 and 1986), including initial nuclear fuel but excluding AFDC. The Company's share of such costs, assuming the additional interest is purchased, would be $52.2 million. Adding the Company's AFDC (estimated at $30 million) and deducting the Company's share of the estimated cost of initial nuclear fuel ($2.4 million) the average cost per kilowatt ("KW") is estimated to be $1,596. These estimated costs may be increased as a result of several factors as described under "Problems of the Electric Utility Industry" and "Business — Properties and Power Supply — Future Power Sources". The Company's investment in the Seabrook nuclear units at September 30, 1980 was $4.1 million, excluding AFDC of $894,000.

Other Construction. The remaining $31 million of estimated construction expenditures for 1980-1984 is for construction and replacement projects of a routine nature, and for the initial phases of other possible generation projects.

Financing

In addition to the amounts set forth above with respect to the construction program, the financing program for 1980-1984 includes refinancing of $2 million of first mortgage bonds which matured in May 1980 and $2 million in other maturing first mortgage bond issues. For planning purposes the Company estimates that during the five year period 1980 through 1984, internal resources will provide approximately 12% of the amounts required to meet this financing program. The Company's ability to achieve its estimate of the amount to be derived from internal resources is dependent upon obtaining adequate and timely rate increases, the Company's level of sales, general economic conditions and other variable factors.

The balance will be provided initially by short-term bank borrowings which are expected to be refinanced from time to time during the five year period by the proceeds from sales of long-term debt, preferred stock and common stock. The Company has entered into a revolving credit and term loan agreement with a group of banks under which the Company may borrow, prior to the commencement of the above-mentioned Seabrook buy-in, up to $17.4 million, and after the commencement of the Seabrook buy-in, up to $30 million, from time to time through June 1985 to meet its interim financing needs. In June 1985 any unpaid balance may be converted into a term loan repayable in semi-annual installments over 36 months. Interest is payable at a premium over the prime rate, and varies over the term of the agreement and with the amount outstanding. The Company may prepay amounts outstanding under the agreement at any time without penalty. Borrowings under the revolving credit agreement were $14.5 million at December 9, 1980 (See Note 6 of Notes to Financial Statements of the Company).

The indenture securing the Company's first mortgage bonds provides that the Company may issue additional bonds as long as net earnings (as defined in the indenture) of the Company are at least twice the interest charge on bonds presently outstanding and those proposed to be issued for a period of twelve months out of the fifteen months preceding the issuance of such additional bonds. As of October 31, 1980, the Company had the ability to issue approximately $18 million of additional bonds at an assumed interest rate of 15% per annum. The amount of additional bonds which may actually be issued under the terms of the indenture in the future will depend upon the level of net earnings as described above, the availability of adequate rate increases, interest rate levels and other factors. The Company's Articles of Incorporation and By-Laws provide that the Company may issue additional series of the authorized but unissued preferred stock and additional amounts of authorized but unissued common stock from time to time as the board of directors of the Company may determine. Issuance of the Additional Common Stock as well as other common stock and securities which may be issued by the Company is subject to prior approval of the Maine Public Utilities Commission ("MPUC").

Except for the Additional Common Stock, no commitments for the issuance of any securities to finance the construction program or to repay amounts borrowed under the revolving credit and term loan agreement have been entered into nor have the relative amounts of any securities to be issued been determined. The success of the Company's financing program is dependent upon a number of factors, including conditions in the capital markets and the factors referred to above affecting the Company's ability to generate funds from internal resources.

DIVIDENDS ON COMMON STOCK

Cash dividends have been declared and paid on the Company's common stock in each year since 1925. It is the policy of the board of directors of the Company to declare dividends on a quarterly basis. The payment of future dividends will be dependent upon earnings, the financial condition

of the Company and other factors. The quarterly dividend was 32 cents per share in 1975; 33 cents in 1976; 35 cents in 1977; 36 cents for each of the first three quarters of 1978; and 38 cents thereafter through the current date. The 1980 third quarter dividend was declared on September 22, 1980, payable on October 20, 1980 to shareholders of record on September 30, 1980.

Earnings of the Company for the year 1976 and for the first three quarters of 1980 were not sufficient to cover dividends declared and paid during those periods on the Company's common stock, nor on the Company's preferred stock in the second quarter of 1980. Dividends paid for those periods, to the extent not earned, were paid from retained earnings (See "Statements of Income").

The Company has implemented a Dividend Reinvestment and Common Stock Purchase Plan, under which newly issued shares of the Company's common stock may be purchased by holders of common stock through automatic reinvestment of common stock dividends, or with optional cash payments of between $25 and $5,000 per quarter, or both, without payment of brokerage commissions or service charges. Such shares are offered only by means of a separate prospectus available from the Company upon request.

COMMON SHARE PRICE RANGE

The Company's common stock is traded over-the-counter and is quoted on NASDAQ under the symbol BANG. The table below sets forth the high and low bid prices for the common stock as reported by the National Quotation Bureau, Inc. The prices shown represent quotations between dealers and do not include retail mark-up, mark-down or commission. They may not represent actual transactions.

	Bid Price	
Year	**High**	**Low**
1975	13¾	9½
1976	14⅞	11⅞
1977	16⅛	14⅜
1978		
First Quarter	15⅜	14⅞
Second Quarter	15⅜	14⅜
Third Quarter	15⅛	14½
Fourth Quarter	14¾	13⅞

	Bid Price	
Year	**High**	**Low**
1979		
First Quarter	14¾	13⅞
Second Quarter	14¾	13⅛
Third Quarter	14⅝	12⅝
Fourth Quarter	12⅝	11⅝
1980		
First Quarter	12¾	9½
Second Quarter	12½	10
Third Quarter	12¾	10½
Fourth Quarter (through Dec. 9)	11	9¾

On July 7, 1980, NASDAQ discontinued the practice of reporting representative quotations on NASDAQ stocks and began reporting inside quotations. On December 9, 1980, the closing highest bid and lowest asked quotations for shares of the Company's common stock, as reported by NASDAQ, were $9¾ and $10⅛, respectively.

The book value of the common stock at September 30, 1980 was $13.57 per share. Upon the sale of the Additional Common Stock, the book value per share at that date on a pro forma basis would have been $13.03.

CAPITALIZATION

The capitalization of the Company as of September 30, 1980 and as adjusted to reflect the issuance and sale of the Additional Common Stock offered hereby and the application of net proceeds of approximately $2,286,000 from the sale to the reduction of short-term borrowings is as follows:

	Outstanding		Adjusted*	
	Amount	**Per Cent**	**Amount**	**Per Cent**
First Mortgage Bonds (less sinking fund requirements of $170,000)	$32,300,000	48.3%	$32,300,000	46.7%
Cumulative Preferred Stock, $100 par value, 250,000 shares authorized:				
Subject to mandatory redemption requirements	$ 5,000,000		$ 5,000,000	
Not redeemable or redeemable solely at the option of the Company	4,734,000		4,734,000	
Total Preferred Stock	$ 9,734,000	14.6%	$ 9,734,000	14.1%
Common Stock Investment:				
Common Stock, $5 par value, 5,000,000 shares authorized	$ 9,135,200		$10,418,000	
Amounts paid in excess of par value	7,942,772		9,018,952	
Retained earnings	7,710,169		7,710,169	
Total Common Stock Investment	$24,788,141	37.1%	$27,147,121	39.2%
Total Capitalization	$66,822,141	100.0%	$69,181,121	100.0%
Short-term Notes Payable to Banks	$15,000,000		$12,714,000	
Number of Common Shares Outstanding	1,827,040		2,083,600	

*Also includes 6,560 shares of common stock issued October 20, 1980 pursuant to the Dividend Reinvestment and Common Stock Purchase Plan.

STATEMENTS OF INCOME

The following statements of income of the Company for the five years ended December 31, 1979 have been examined by Arthur Andersen & Co., independent public accountants, as set forth in their report included elsewhere in this Prospectus. The statement of income for the twelve months ended September 30, 1980, not examined by independent public accountants, reflects, in the opinion of the Company, all adjustments (which include only normal accruals) necessary to present fairly the operations for such period. These statements should be read in conjunction with the Company's financial statements and related notes included elsewhere in this Prospectus.

	Twelve Months Ended September 30, 1980 (Unaudited)	Year Ended December 31, 1979	1978	1977	1976	1975
Electric Operating Revenues (Note 1)	$62,650,358	$51,748,328	$42,626,796	$38,293,892	$31,336,404	$32,313,653
Operating Expenses:						
Purchased power	$ 7,986,897	$ 9,689,425	$ 9,194,030	$ 8,321,465	$ 7,251,820	$ 5,908,631
Fuel for generation (Note 1)	32,100,277	23,365,489	17,568,718	14,227,030	10,890,845	12,065,287
Other operation	7,085,393	6,266,570	5,156,183	5,324,278	4,904,124	4,817,268
Maintenance (Note 1)	1,948,993	2,077,141	1,456,350	1,362,266	1,429,532	1,249,682
Depreciation (Note 1)	2,987,567	2,814,541	2,200,513	2,094,989	2,029,358	1,962,021
Taxes —						
Local property and other	1,836,604	1,822,225	1,514,646	1,519,750	1,479,[illegible]	1,362,374
Federal and state income (Note 2)	1,635,787	722,874	1,128,430	1,374,580	339,983	1,589,770
	$55,581,518	$46,758,265	$38,218,870	$34,224,358	$28,324,989	$28,955,033
Operating Income	$ 7,068,840	$ 4,990,063	$ 4,407,926	$ 4,069,534	$ 3,011,415	$ 3,358,620
Other Income (Deductions):						
Allowance for other funds used during construction (Note 1)	—	—	531,293	233,173	147,91[illegible]	46,044
Other, net of applicable income taxes	(17,063)	(5,886)	(14,117)	(1,605)	(16,[illegible]70)	(15,899)
Income Before Interest Expense	$ 7,051,777	$ 4,984,177	$ 4,925,102	$ 4,301,102	$ 3,142,559	$ 3,387,765
Interest Expense:						
First mortgage bonds (Note 5)	$ 2,530,483	$ 2,088,957	$ 1,872,034	$ 1,717,751	$ 1,633,372	$ 1,131,456
Other (Note 6)	1,841,628	1,243,365	304,734	269,835	163,165	231,015
Allowance for borrowed funds used during construction (Note 1)	(753,232)	(792,693)	(643,149)	(445,169)	(199,464)	(62,091)
	$ 3,618,879	$ 2,539,629	$ 1,533,619	$ 1,542,417	$ 1,597,073	$ 1,300,380
Income Before Cumulative Effect of a Change in Accounting Principle	$ 3,432,898	$ 2,444,548	$ 3,391,483	$ 2,758,685	$ 1,545,486	$ 2,087,385
Cumulative effect on prior periods (to December 31, 1978) of changing to a different method of recording revenue net of related income taxes of $1,034,000 (Note 1)	—	1,043,000	—	—	—	—
Net Income (Note A)	$ 3,432,898	$ 3,487,548	$ 3,391,483	$ 2,758,685	$ 1,545,486	$ 2,087,385
Dividends on Preferred Stock	735,570	546,420	450,570	450,570	368,870	265,570
Earnings Applicable to Common Stock	$ 2,697,328	$ 2,941,128	$ 2,940,913	$ 2,308,115	$ 1,176,616	$ 1,821,815
Weighted Average Number of Shares	1,818,449	1,801,906	1,658,985	1,317,816	1,233,710	1,139,960
Earnings per common share based on weighted average number of shares outstanding during the period:						
Before cumulative effect of a change in accounting principle	$1.48	$1.05	$1.77	$1.75	$.95	$1.60
Cumulative effect on prior periods (to December 31, 1978) of changing to a different method of recording revenue	—	.58	—	—	—	—
Net (Note A)	$1.48	$1.63	$1.77	$1.75	$.95	$1.60
Pro forma earnings applicable to common stock assuming the new method of recording revenue is applied retroactively	$ 2,697,328	$ 1,898,128	$ 3,045,475	$ 2,424,614	$ 1,314,914	$ 1,744,717
Pro forma earnings per share	$1.48	$1.05	$1.83	$1.84	$1.06	$1.53
Dividends declared per common share	$1.52	$1.52	$1.46	$1.41	$1.34	$1.29

Numbered notes refer to Notes to Financial Statements of the Company. All such Notes and the Note on the following page are an integral part of these Statements of Income.

NOTE TO STATEMENTS OF INCOME (Unaudited)

(A) Quarterly Financial Information (Unaudited)

Unaudited quarterly financial information pertaining to the results of operations for the nine months ended September 30, 1980 and for the years ended December 31, 1979 and 1978 is shown below. Information for any one quarterly period is not necessarily indicative of the results which may be expected for a twelve month period due to seasonal and other factors.

	Quarter Ended (Thousands except Per Share Amounts)										
	1980			1979				1978			
	September	June	March	December	September	June	March	December	September	June	March
Electric Operating Revenues	$16,896	$14,630	$16,165	$14,959	$12,509	$11,844	$12,436	$12,797	$9,597	$9,518	$10,715
Operating Income	1,675	1,196	1,585	2,013	543	1,439	395	1,285	563	1,134	1,425
Income (Loss) before cumulative effect of a change in accounting principle	685	140	715	1,893	(95)	817	(170)	958	447	853	1,133
Net Income (Loss)	685	140	715	1,893	(95)	817	873	958	447	853	1,133
Dividends on Preferred Stock	184	184	184	184	137	113	113	113	113	113	113
Earnings (Loss) Applicable to Common Stock	501	(44)	531	1,709	(232)	704	760	846	334	740	1,021
Earnings (Loss) Per Common Share	$.27	$(.02)	$.28	$.95	$(.13)	$.39	$.42	$.51	$.20	$.45	$.61
Pro forma earnings (loss) per share assuming the new method of recording revenue (implemented in the first quarter of 1979) is applied retroactively	$.27	$(.02)	$.28	$.95	$(.13)	$.39	$(.16)	$.51	$.43	$.32	

The quarter ended September 30, 1980 includes revenue from increased base rates approved by the MPUC effective August 8, 1980; therefore, higher rates were earned for electricity sold in 54 of the 92 days in that quarter.

The quarter ended March 31, 1979 includes the cumulative effect on prior periods (to December 31, 1978) of changing to a different method of recording revenue, resulting in an after-tax increase in earnings in such quarter of $1,043,000 or $.58 per common share (See the applicable portion of Note 1 of Notes to Financial Statements of the Company).

The quarter ended December 31, 1979 includes the deferral of $3,806,901 of previously expensed fuel costs. Such deferral was authorized by the MPUC upon implementation of new fuel clause regulations which assured the recovery of these costs by the Company over a three year period beginning January 1, 1980. The after-tax effect of this deferral was to increase earnings in December 1979 by $1.06 per common share (See the applicable portion of Note 1 of Notes to Financial Statements of the Company).

Pro Forma Earnings Per Common Share

On a pro forma basis, assuming the Additional Common Stock offered hereby had been outstanding for the entire twelve months ended September 30, 1980, and assuming that the estimated net proceeds of $2,286,000 had been applied to reduce short-term debt, Earnings per Common Share would have been $1.39 for such period.

Recent Results of Operations

Information with respect to the results of operations for the twelve months ended October 31, 1980 and September 30, 1980 is as follows:

	Twelve Months Ended October 31, 1980	Twelve Months Ended September 30, 1980
	(Thousands except Per Share Amounts)	
Operating Revenues	$64,085	$62,650
Operating Income	$ 7,565	$ 7,069
Net Income	$ 3,803	$ 3,433
Dividends on Preferred Stock	$ 736	$ 736
Earnings Applicable to Common Stock	$ 3,067	$ 2,697
Average Shares of Common Stock Outstanding	1,820	1,818
Earnings per Common Share	$ 1.69	$ 1.48

The foregoing information is unaudited and, in the opinion of the Company, reflects all adjustments (which include only normal accruals) necessary to present fairly the operations for such period.

The twelve month periods ended October 31, 1980 and September 30, 1980 contain the positive impact on earnings ($1.06 per common share) of the December 1979 deferral of $3.8 million of previously expensed fuel costs (See Note 1 of Notes to Financial Statements of the Company). Earnings for the year ending December 31, 1980 will not include the effect of this deferral.

The twelve month periods shown above partially reflect the 18% basic rate increase approved by the MPUC effective August 8, 1980, which was designed to yield additional revenue of $4.7 million annually. The twelve month period ended October 31, 1980 contains 85 days of electricity sales at these higher rates compared to 54 days for the twelve month period ended September 30, 1980.

Earnings per share for the twelve months ended October 31, 1980 increased $.21 over the twelve month period ended September 30, 1980, due principally to the positive impact of the new higher rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENTS OF INCOME

General

As a result of the deferral in December 1979 of $3.8 million of previously expensed fuel costs (See Note (A) above and Note 1 of Notes to Financial Statements of the Company), earnings applicable to common stock for that month were increased by $1.06 per common share. Earnings for the year ended December 31, 1980 will not include the effect of this deferral.

"Electric Operating Revenues" consist of two components — "General Rate Revenues" and "Fuel Charge Revenues". For the purposes of the period to period analysis below, the following table sets forth "General Rate Revenues" and "Fuel Charge Revenues" for the twelve months ended September 30, 1980 and for the years ended December 31, 1979, 1978 and 1977:

	Twelve Months Ended September 30, 1980	Year Ended December 31, 1979	1978	1977
	(In Thousands of Dollars)			
General Rate Revenues	$28,202	$27,341	$26,253	$24,598
Fuel Charge Revenues	34,448	24,407	16,374	13,696
Electric Operating Revenues	$62,650	$51,748	$42,627	$38,294

Twelve Months Ended September 30, 1980 Compared with the Year 1979

"Electric Operating Revenues" increased by $10.9 million or 21% attributable principally to an increase of $10 million or 41% in *"Fuel Charge Revenues"* as a result of higher fuel costs incurred by the Company and passed on to customers.

"Purchased power" expense decreased $1.7 million or 17% as a result of a 30 MW reduction in the purchased power contract with Boston Edison Company effective November 1, 1979.

"Fuel for generation" expense increased $8.7 million or 37% primarily as a result of substantial increases in the price of oil and replacement of hydro-electric generation lost due to low water conditions.

"Other operation" expense increased $819,000 or 13% due to a general wage increase effective January 1, 1980 and other general inflation.

"Depreciation" expense for the 1980 period includes the amortization of $68,000 of the investment in the cancelled New England Power Company nuclear units (See Note 9 of Notes to Financial Statements of the Company).

"Taxes — Federal and state income" expense increased $913,000 or 126% due to the increase in taxable income before the cumulative effect of the change in accounting principle (See Note 1 of Notes to Financial Statements of the Company).

"Allowance for other funds used during construction" was not accrued because the average balance of short-term notes payable exceeded the average balance of construction work in progress, with the result that the AFDC was limited to the borrowed component.

"*Interest Expense: First mortgage bonds*" increased $441,000 or 21% as a result of the August 31, 1979 issuance of $7 million of $10\frac{1}{4}\%$ bonds, offset somewhat by the May 1980 retirement of $2 million of $2\frac{3}{4}\%$ bonds.

"*Interest Expense: Other*" increased $598,000 or 48% due to an increase in short-term borrowings and higher short-term interest rates. Average short-term borrowings were $11.1 million for the 1980 period compared to $9.3 million in 1979, and the average rate of interest was 16.4% in the 1980 period compared to 13.2% in 1979.

"*Dividends on Preferred Stock*" increased $189,000 or 34% reflecting the issuance on August 31, 1979 of 30,000 shares of $9\frac{1}{2}\%$ preferred stock.

1979 Compared with 1978

"*Electric Operating Revenues*" increased $9.1 million or 21% primarily as a result of an $8 million or 49% increase in "*Fuel Charge Revenues*" due to higher fuel costs incurred by the Company and passed on to customers.

"*Fuel for generation*" expense increased $5.8 [illegible]lion or 33% due to substantial increases in the price of oil, the amortization of $2.5 million of replacement energy costs as a result of two Maine Yankee shutdowns in 1979, and an increase in kilowatt-hour ("KWH") sales.

"*Other operation*" expense increased $1.1 million or 21% as a result of expenses of $251,000 attributable to Wyman 4 which became operational on December 1, 1978, an Internal Revenue Service adjustment attributable to a prior period which reduced the 1978 expense by approximately $300,000, and increased wages and other inflationary pressures.

"*Maintenance*" expense increased $620,000 or 43% principally because of $222,000 attributable to Wyman 4 and increased wages and other inflationary pressures.

"*Depreciation*" expense increased $614,000 or 28% [illegible]rgely as a result of depreciation attributable to Wyman 4 of $485,000.

"*Taxes — Local property and other*" increased $307,000 or 20% due primarily to the tax at Wyman 4 as well as generally increased taxable property and higher property tax rates.

"*Taxes — Federal and state income*" decreased $405,000 or 36% because of a reduction in taxable income before the cumulative effect of the change in accounting principle as well as the lower federal tax rate.

"*Allowance for other funds used during construction*" was not accrued because the average balance of short-term notes payable exceeded the average balance of construction work in progress, with the result that the AFDC was limited to the borrowed component.

"*Interest Expense: First mortgage bonds*" increased $216,000 or 12% as a result of the August 31, 1979 issuance of $7 million of $10\frac{1}{4}\%$ bonds.

"*Interest Expense: Other*" increased $939,000 or 308% because the average short-term borrowings increased $6.8 million and the average interest rate increased from [illegible] to 13.2%.

"Allowance for borrowed funds used during construction" increased \$149,000 or 23% due to higher average short-term borrowings, and the higher average interest rate, offset somewhat by a reduction in the Company's construction work in progress due to the completion of Wyman 4.

"Dividends on Preferred Stock" increased \$95,000 or 21% reflecting the issuance on August 31, 1979 of 30,000 shares of 9½% preferred stock.

1978 Compared with 1977

"Electric Operating Revenues" increased \$4.3 million or 11% due to higher fuel costs passed on to customers and increased KWH sales.

"Purchased power" expense increased \$873,000 or 10% due principally to a 10 MW increase in the purchased power contract with Boston Edison Company effective November 1, 1977.

"Fuel for generation" expense increased \$3.3 million or 23% due to below normal water conditions, a refueling shutdown at Maine Yankee, a reduction in the operation of Graham Station as a result of cooling water intake problems, and an increase in KWH sales.

"Taxes — Federal and state income" decreased \$246,000 or 18% due principally to lower amounts of AFDC in 1978, the tax effects of which are required to be flowed through.

"Allowance for other funds used during construction" increased \$298,000 or 128% as a result of increased expenditures for construction in progress, primarily Wyman 4, the New England Power Company nuclear units and the Seabrook nuclear units.

"Interest Expense: First mortgage bonds" increased \$154,000 or 9% as a result of the refunding in January 1978 of \$2.5 million of bonds at higher interest rate.

"Allowance for borrowed funds used during construction" increased \$198,000 or 44% as a result of increased expenditures for construction in progress, primarily for Wyman 4, the New England Power Company nuclear units and the Seabrook nuclear units.

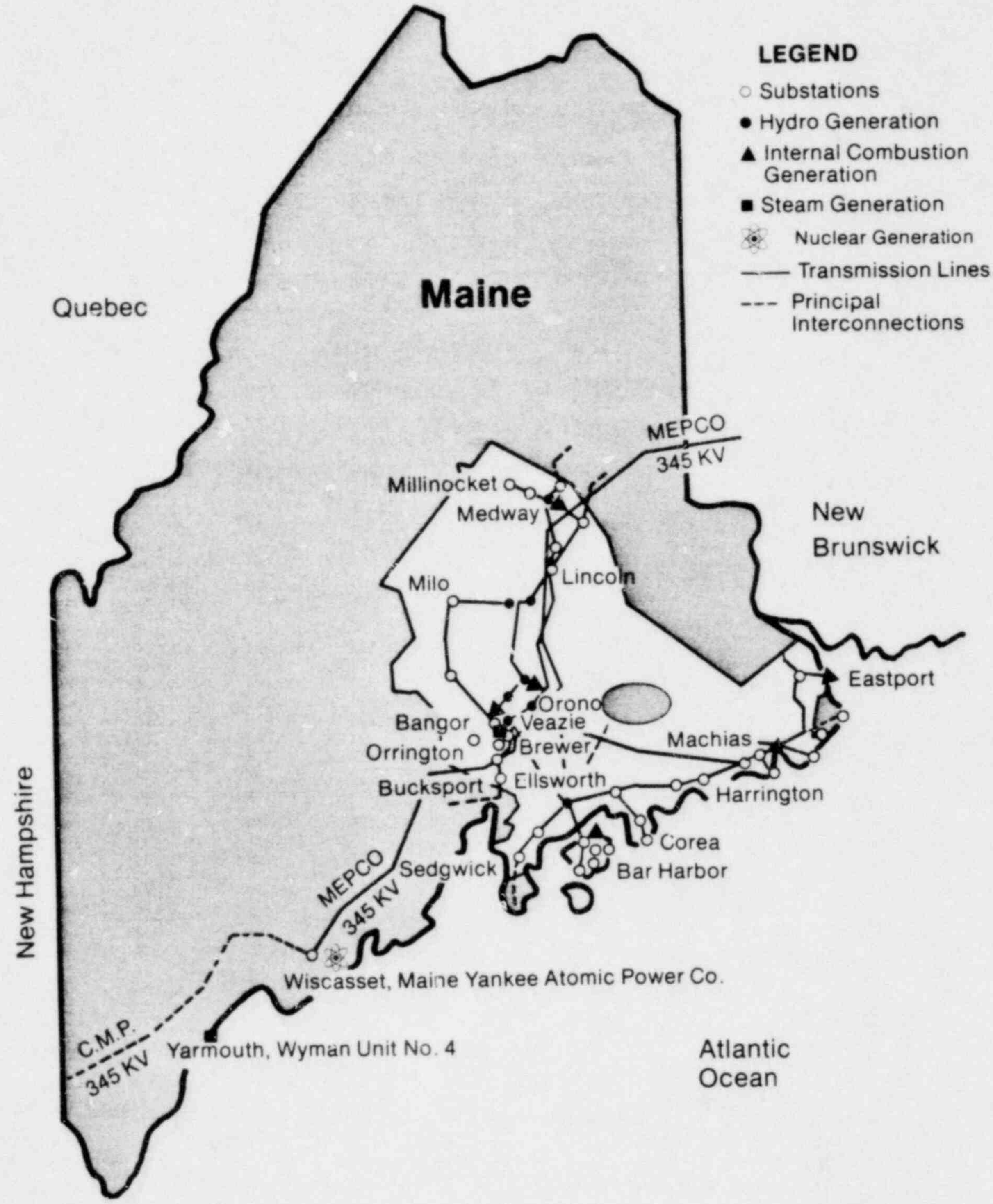
OPERATING STATISTICS

	Twelve Months Ended September 30, 1980	Year Ended December 31, 1979	1978	1977	1976	1975
KWH Company Generated and Purchased (In Thousands):						
Hydro — Company generated	233,721	246,052	213,195	245,821	254,812	232,341
Nuclear — Maine Yankee	325,736	326,506	402,951	388,704	447,980	340,246
Steam and internal combustion —						
Company generated	136,506	77,209	15,910	11,498	113,119	118,[illegible]86
Purchased	729,993	786,170	705,465	588,696	37[illegible],000	38[illegible],[illegible]4
Total	1,425,956	1,435,937	1,337,521	1,234,719	1,187,911	1,073,577
Less:						
System losses	108,439	99,812	103,048	101,563	103,624	87,294
System use	4,858	4,374	3,942	4,224	5,157	6,694
	113,297	104,186	106,990	105,787	108,781	93,988
Total	1,312,659	1,331,751	1,230,531	1,128,932	1,079,130	979,589
Net Output (Percent of Total):						
Hydro generation	16.4%	17.1%	16.0%	19.9%	21.5%	21.6%
Steam and internal combustion generation	60.8	60.1	53.9	48.6	40.8	46.7
Nuclear generation	22.8	22.8	30.1	31.5	37.7	31.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
KWH Sales (In Thousands):						
Residential	384,842(A)	381,266(A)	369,989	349,869	335,692	308,253
Commercial	221,137	221,071	213,777	198,384	186,271	170,291
Power (industrial)	593,918	608,451	532,007	469,692	448,463	399,432
Government agencies	71,369	73,341	72,308	70,858	69,058	63,684
Electric utilities	28,848	30,701	31,220	29,311	29,246	27,766
Street and area lighting	11,400	11,563	11,230	10,818	10,400	10,163
Total	1,311,514(A)	1,326,393(A)	1,[illegible]30,531	1,128,932	1,079,130	979,589
Electric Operating Revenues (In Thousands):						
Residential	$22,327(B)	$18,769(B)	$16,171	$14,994	$12,306	$12,618
Commercial	12,256	10,384	9,013	8,207	6,649	6,705
Power (industrial)	22,500	17,853	13,309	11,164	9,133	9,580
Government agencies	3,046	2,523	2,147	2,021	1,691	1,794
Electric utilities	1,199	1,056	892	817	675	707
Street and area lighting	981	874	804	763	723	749
Other revenues	341	289	291	328	159	161
Total	$62,[illegible]50(B)	$51,748(B)	$42,627	$38,294	$31,336	$32,314
Residential Sales Averages:						
Annual KWH used	5,919	5,952	5,721	5,609	5,505	5,184
Annual electric bill	$ 334	$ 287	$ 250	$ 241	$ 203	$ 213
Revenue per KWH	5.64¢	4.82¢	4.37¢	4.29¢	3.67¢	4.09¢
Number of Customers — Avg.						
Residential	65,519	64,958	64,666	62,371	60,975	59,462
Commercial	8,101	8,276	7,944	7,623	7,359	7,137
Power (industrial)	959	979	951	928	955	993
Government agencies	79	7[illegible]	76	74	74	75
Electric utilities	8	8	8	7	7	5
Total	74,666	74,298	73,645	71,003	69,370	67,672
Peak Load (KW)	222,000	222,000	215,900	198,300	195,400	177,800
Installed Capacity (KW) — Owned and Purchased	280,200	274,600	278,200	251,800	240,900	220,300
Load Factor	71.1%	73.8%	70.7%	71.1%	69.1%	6[illegible] 6%

(A) Includes 1,145,300 and (5,358,000) of changes in unbilled KWH during 1980 and 1979, respectively.

(B) Includes $561,000 and $142,000 of changes in unbilled revenues during 1980 and 1979, respectively.

MAP OF TERRITORY SERVED



BUSINESS

General

The Company is a public utility engaged in the generation, purchase, transmission, distribution and sale of electric energy, with a service area of 4,850 square miles having a population of approximately 190,000 persons and covering portions of the counties of Penobscot, Hancock, Washington, Waldo, Piscataquis and Aroostook in Eastern Maine. With minor exceptions which are not material, no other electric utility operates in competition with the Company in any city or town in which it operates. Its customers are residential, commercial, industrial and governmental. The Company also sells energy to other utilities for resale. The Company serves approximately 74,000 customers, excluding summer seasonal customers. Some of the more important industries served are those engaged in the manufacture of pulp and paper products, chemicals, lumber and woodworking, and footwear. In 1979, 29.0% of the Company's KWH sales were to residential customers, 16.6% were to commercial customers, 45.8% were to industrial customers [of which approximately one-half was to IMC Chemical Group, Inc. ("IMC")] and 8.6% were to municipal and other customers. In 1979 IMC, the Company's largest single customer (which is served on an interruptible basis), accounted for 7.9% of the Company's general rate revenues, 15.2% of its electric operating revenues and 23.4% of its KWH sales. In 1975 IMC instituted proceedings before the MPUC requesting that it be served by another utility (See "Pending Legal Proceedings"). If the MPUC should grant the request, the Company would apply for appropriate rate relief (an increase in basic rates) as a condition of the order, and in the absence of such rate relief, the loss of this customer would have an adverse effect on the Company's earnings.

The Company's electric operating revenues, including fuel revenues, have increased over the last five years from $32.3 million in 1975 to $51.7 million in 1979. KWH sold were 980 million in 1975 and 1,326 million in 1979 (See "Operating Statistics"). The maximum one-hour prime peak load experienced to date by the Company's system was 222.0 MW on December 18, 1979. At that time the Company had available to meet such load 274.6 MW, including 122.4 MW from Company operated generating capacity, 51.3 MW from its entitlement from Wyman 4, 61.0 MW from its entitlement from Maine Yankee, and 39.9 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 upon the ability of the New England utilities to meet the New England load (See "New England Power Pool").

During the period 1975 through 1979 winter demand has exceeded summer demand by approximately 20%.

During the period 1975 through 1979, the Company's KWH sales have grown at an average annual compound growth rate of approximately 8%. The Company's most recent official forecast of KWH sales, completed in March 1980, indicated an annual compound growth rate of approximately ?.3% for the period 1980 through 1985. However, sales to date in 1980 indicate that this forecasted rate of growth will be revised downward in the Company's next official forecast. While firm KWH sales were approximately 3.8% higher in the ten months ended October 31, 1980 than in the same period in 1979, much if not all of this increase is attributable to substantially higher KWH sales to certain industrial customers whose own hydro-electric generation has been reduced in 1980 due to low water conditions, and total KWH sales including non-firm or interruptible sales (primarily to IMC) were approximately 1.9% lower than the same period in 1979.

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 1979-1980 NEPOOL winter peak, the New England utilities had about 21,587 MW of installed capacity to meet the New England peak load of about 15,169 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 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.

Properties and Power Supply — Existing Facilities

In order to meet its load growth and reserve obligations under NEPOOL, the Company, in addition to utilizing its own generating capacity, acquires capacity and energy through contracts with other utilities and through joint ownership of generating facilities. The Company estimates that it has sufficient generating capacity, through a combination of wholly owned and jointly owned generating facilities and purchased power contracts, to meet anticipated load growth through 1985. Because a significant portion of the Company's capacity requirements through the mid-1980's is being met by purchased power contracts described below which expire during that period, the Company will have requirements for replacement of capacity now purchased in addition to providing for continued growth.

The Company's KWH output, generated by its own facilities and purchased from others, for 1977, 1978, 1979 and its estimate for 1980 by type of facility is shown below.

Source	1980 Est.	1979	1978	1977
Fossil Fuel	61%*	60%*	54%	49%
Nuclear	23%*	23%*	30%	31%
Hydro-Electric	16%	17%	16%	20%
Total	100%	100%	100%	100%

*Maine Yankee is usually shut down for six to eight weeks annually for refueling and scheduled maintenance. During 1979 and 1980, Maine Yankee was shut down for longer periods of time as a result of NRC ordered safety checks, unscheduled maintenance and fuel modifications, during which periods nuclear generation was replaced by fossil generation.

Fossil Fuel Energy Sources. The Company purchases energy pursuant to an agreement with Boston Edison Company from its Mystic Unit No. 7, an oil-fired plant. Purchases under this contract began

in mid-1975 at a level of 20 MW, increased to 60 MW in 1977, are currently at 40 MW, and will increase again to as much as 95 MW in late 1983. The contract terminates in late '984.

The Company also purchases energy from Maine Electric Power Company, Inc. ("MEPCO"), in which the Company has a 14.2% ownership interest. MEPCO owns a 345 kilovolt transmission line which runs from Wiscasset, Maine, to the border of New Brunswick, Canada, where it connects with lines of the New Brunswick Electric Power Commission ("New Brunswick"). The Company connects with the MEPCO lines at Orrington, Maine. MEPCO does not generate electric energy; it purchases energy from Canadian sources and sells to, and for a fee, transmits energy for, its owners and other New England utilities.

The Company is currently entitled to 9.6 MW of MEPCO's total entitlement of 400 MW provided under a contract with New Brunswick until October 31, 1985, at which time the entitlement will be reduced to 4.8 MW through October 31, 1986 when the contract terminates. However, this contract may be amended or terminated sooner than anticipated as a result of a dispute between MEPCO and the New England utilities (including the Company) that participate in the contract on the one hand, and New Brunswick and the Canadian federal government on the other (See "Pending Legal Proceedings").

The Company also purchases energy from other utilities, and from New Brunswick through MEPCO, on a short-term basis from time to time when it is economical to do so to displace higher cost energy from other sources.

The Company, as a tenant in common with other utilities, owns 8.333%, or approximately 50 MW, of Wyman 4. The Company is entitled to 8.333% of the energy produced and pays the same percentage of the operating expenses. The Company also owns three oil-fired generating units located at its Graham Station in Veazie, Maine having a capacity of 59.7 MW and fourteen internal combustion generating units located at five stations having a total capacity of 24.2 MW.

Under the Powerplant and Industrial Fuel Use Act of 1978, a "new" electric powerplant is prohibited from using oil as a primary energy source and is required to be constructed with the capability to burn coal or alternate fuels. An "existing" oil-fired powerplant may be required by the Department of Energy to convert to the use of coal or an alternate energy source, provided such plant has the capability to utilize coal or such alternate source or could have that capability, if financially feasible, without being subject to substantial physical modification or substantial reduction in rated capacity. The Company's Graham Station units qualify as "existing" powerplants, and the Company believes that Wyman 4 qualifies as an "existing" powerplant. In view of the lack of experience to date under this Act, no assurances can be given as to the ultimate status and treatment of the Company's oil-fired units or Wyman 4 under the Act.

Nuclear Energy Source. All nuclear generated energy sold by the Company is acquired from Maine Yankee. Because the Company holds an equity ownership interest in Maine Yankee Atomic Power Company of approximately 7%, it is entitled to purchase approximately 6.9% of the output of Maine Yankee. In addition, an arrangement with one other participant which will terminate on June 1, 1983 entitles the Company to another 0.4% of such output, for a total entitlement of approximately 61 MW. The Company is obligated to pay approximately 7.3% of Maine Yankee's operating expenses and capital costs.

Maine Yankee was shut down for twelve weeks in the spring of 1979 for NRC ordered safety checks, and in 1980 was shut down for a total of five weeks for unscheduled maintenance and fuel modifications and operated at a reduced level for about six weeks as a result of the replacement of a feedwater pump. These shutdowns were in addition to scheduled shutdowns for refueling and maintenance.

A petition calling for the termination of current and future nuclear power generation in Maine for alleged safety and economic reasons, and the consequent shutdown of Maine Yankee, was presented to the Maine Legislature in February 1980. The Legislature referred the proposal to a vote of the electorate which was held on September 23, 1980. The measure was defeated by a 59% to 41% margin; however, the supporters of the proposal have indicated that they will seek another referendum vote on this or a similar proposal. The Company believes Maine Yankee is a safe and economical source of base load power, and the Company will assist in taking all reasonable steps necessary to support the continued operation of the plant.

Hydro-Electric Energy Sources. All hydro-electric energy sold by the Company is generated at its own facilities. The Company owns eight hydro-electric stations having a total capacity of 34 MW. The hydro-electric stations are used to the maximum extent possible, depending upon water availability. All of the Company's hydro-electric stations are licensed under the Federal Power Act (See "Rates and Regulation").

Other Properties. The Company owns more than 560 miles of transmission lines and 2,500 miles of distribution lines to serve its customers. Other properties consist of office, garage and warehouse facilities at various locations in its service area.

Properties and Power Supply — Future Power Sources

Seabrook. The only electric generating facilities planned or under construction in which the Company is currently involved are the Seabrook nuclear units. As noted in "Construction and Financing", the Company has a 0.37249% interest, or about 8.6 MW, in that project, and has contracted to purchase an additional 1.80142% interest, or 41.4 MW, for a total interest of 2.17391%, or approximately 50 MW.

The necessary approvals and permits for the construction of the Seabrook nuclear units have been obtained, and have been upheld by the courts on appeal by a number of opposition groups. Construction is currently in progress, although at a reduced level from that originally scheduled for 1980 (see below). Significant delays (including the suspension of construction for seven months in 1977 and three weeks in 1978) resulting from actions by such opposition groups have greatly increased costs. There are still proceedings pending before the NRC Atomic Safety and Licensing Board relating to seismic issues, and appeals pending before various courts. In addition, further proceedings before the NRC relating to the licensing of the units will be required for operation, including a review of emergency response and evacuation plans for which other governmental agencies are in part responsible, and other proceedings and appeals are possible. The Company is unable to predict the outcome of such proceedings or what effect current or further administrative or court proceedings may have on the cost or completion of the project or on the Company.

PSNH, which currently owns 50% of the Seabrook nuclear units, is experiencing continuing difficulties in financing its construction program. In view of these difficulties, PSNH initiated efforts

in March 1979 to sell a 22% ownership share to other utilities (the "March offer"). The total amount of the March offer was initially accepted by a group of nine New England utilities (including the Company), but three utilities later determined that they could not take a part or all of the amount accepted, thereby reducing acceptances of the March offer to about 12%. In October 1979 PSNH reoffered the remaining 10% interest, out of which commitments were received for approximately 2.6% (the "October offer"). The total of the March offer and the October offer is approximately 15%; accordingly the transfers, if consummated, would reduce PSNH's share of the Seabrook nuclear units to approximately 35%.

The Company and the other transferees of interests in the Seabrook nuclear units under the March offer and the October offer will acquire their interests gradually over an adjustment period (the "Adjustment Period"). During the Adjustment Period, the transferees will share pro rata the construction costs otherwise attributable to PSNH's interest until the interests of the transferees have been increased and PSNH's interest has been decreased accordingly. The Adjustment Period for the transferees under the March offer (including the Company) will begin only after receipt by all of the accepting transferees of all required regulatory approvals and the obtaining of initial financing in the case of one such transferee. All necessary approvals have been received with the exception of that of the Massachusetts Department of Public Utilities ("MDPU"), from which agency three of the transferees must receive approval in order to increase their shares in the Seabrook nuclear units, and one other transferee must receive approval for financing its increased share. On October 30, 1980 the MDPU issued its order approving the increase in the ownership shares for the three transferees requiring such approval. Hearings have been completed with respect to the financing approval for the other transferee, but no order has yet been issued. The Adjustment Period for transferees under the October offer will not begin prior to that of transferees under the March offer, and if the Adjustment Period for any transferee under the October offer has not commenced by January 1, 1981, that transferee's commitment may be terminated by the transferee or by PSNH. The transferees and PSNH have agreed that appeals from orders of regulatory agencies approving the transfers shall not delay the commencement of the Adjustment Period unless the order or orders are stayed pending such appeal. Pending the commencement of the Adjustment Period, PSNH must continue to finance the construction of the project at the 50% level.

On March 20, 1980, PSNH announced that due to the unsettled state of the capital markets and the high cost of external funds it would substantially reduce the overall level of construction of the Seabrook project in order to lessen PSNH's external financing requirements for 1980. The reduction of the level of construction will have the effect of increasing the costs of the units and may cause the scheduled completion dates to be further deferred. It is anticipated that the reduction will continue until the necessary regulatory approvals for reduction of PSNH's interest in the plant are obtained, assuming that the capital markets are reasonably stable at that time.

As part of its order of June 9, 1980 granting PSNH an increase in its retail rates, the New Hampshire Public Utilities Commission ("NHPUC") ordered PSNH to delay work on Unit No. 2 of the Seabrook plant for three years, except for those areas common to both units. Upon rehearing, the NHPUC amended its order to provide that such delay shall continue only until commencement of the Adjustment Period referred to above with respect to PSNH's reduction in its ownership interest.

In light of the reduction in construction activities at the Seabrook nuclear units, and a ten-week ironworkers' strike in the summer of 1980, PSNH has advised the Company that it now appears that the most recently scheduled completion date for Seabrook nuclear units of 1983 and 1985 will be extended, although the extent to which such dates will be extended will not be known before the first quarter of 1981.

Other Future Sources. The Company is considering a number of alternatives for the provision of necessary electric generation in the late 1980's and beyond. The Company is currently assessing the feasibility of obtaining additional hydro-electric generation from the Penobscot River basin, either by increasing the output of existing stations or by the construction of new stations at various undeveloped sites. Other alternatives for additional electric generation may include coal-fired units, either wholly owned by the Company or jointly owned by the Company and other utilities.

The Company is currently conducting preliminary negotiations with New Brunswick for the purchase of 30 MW of generating capacity on a unit contract basis from New Brunswick's nuclear generating unit under construction at Point Lepreau.

In the event the Seabrook nuclear units are further delayed or cancelled, or if the Company does not purchase the additional 41.4 MW in those units as described above, or if other planned alternatives for additional generating capacity do not occur, the Company would attempt to meet its capacity requirements by purchasing capacity from other utilities. No arrangements for such purchases have been made.

Fuel Supply

Oil. New England utilities, including the Company, make greater use of fuel oil for generation of electricity than utilities in other regions of the country. Most fuel oil supplies for New England utilities are derived from foreign sources which are subject to interruption and to unpredictable price increases. The foregoing factors, possible actions by the federal government, and events in the Middle East may have an impact upon the price or availability of fuel oil, or upon the Company's operations.

The Company carries a supply of fuel oil sufficient to operate its Veazie plant at full capacity over a period of at least 8 days, even though such an extended period of operation at full capacity is unlikely because of the Company's participation in NEPOOL. The Company does not have long term contracts for fuel oil. The Company believes that, due to a long association with its vendor, its needs will continue to be met without the necessity of contractual arrangements. There can be no assurance the vendor will continue to be able to fulfill these needs.

The Company has been advised by Central Maine Power Company, the lead owner and operator of Wyman 4, that, subject to unforeseen events and the factors set forth above with respect to the availability and use of fuel oil generally, it believes it will be able to obtain sufficient fuel oil with no more than the maximum permitted level of sulphur content to operate that unit.

Most if not all of the energy the Company purchases under purchased power contracts and through the operation of NEPOOL, other than purchases from Maine Yankee, is produced from fossil fuel, principally fuel oil. The Company has no control over fuel supplies of other utilities from which it purchases energy.

The cost of fuel oil per barrel, including transportation charges and sales taxes, used by the Company at its Graham Station facility, for the past five years at year end was: 1975 — $11.47; 1976 — $12.71; 1977 — $13.21; 1978 — $12.71; 1979 — $24.86. The cost of oil dropped sharply during the first four months of 1980, but has since increased significantly. As of November 29, 1980, the effective date of the most recent price increase, the cost (including transportation charges and sales taxes) has risen to $34.18. The fuel component of oil-fired energy purchased by the Company for resale has been subject to similar cost increases. The Company's retail tariffs include a factor for the current recovery of estimated fuel costs, including the fuel component of purchased power, based upon projections of such costs and KWH sales over a twelve month period, which factor may be amended at certain intervals to correct for actual experience (See "Rates and Regulation").

Nuclear Fuel. The cycle of production and utilization of nuclear fuel consists of the mining and milling of uranium ore, the conversion of the resulting concentrate to uranium hexafluoride, the enrichment of the uranium hexafluoride, the fabrication of fuel assemblies, the utilization of the nuclear fuel and the disposition of spent fuel.

The Company has been advised by Maine Yankee that it has contracted for the purchase of all of its uranium concentrate requirements through 1983. In addition, Maine Yankee has contracted with a supplier for the purchase of up to 1.3 million pounds of uranium concentrates, deliveries of which, although contingent upon the commercial operation of a processing facility currently under construction, are scheduled for 1981 to 1992 and would fulfill all of its nuclear fuel requirements through 1986 and partially fulfill such requirements through 1992. Maine Yankee has a conversion contract through 1983 and has a contract with the Department of Energy for enrichment services through 2002. Maine Yankee's fabrication requirements are covered through 1983, with a contract option for two additional years. As is the case throughout the nuclear industry, Maine Yankee has no contractual arrangements for the final disposition of spent fuel.

In September 1979 Maine Yankee filed with the NRC a proposed change in its operating license to increase its existing spent fuel storage capacity by providing more compact fuel storage. A Maine citizen's group intervened in the proceeding and requested a hearing, and the Attorney General of Maine filed a notice of intent to participate in any hearings. The Company cannot predict the scope of the proceeding, its duration or its outcome.

The present capacity of the spent fuel pool at the Maine Yankee plant will be filled in 1987 and after 1984 would not accommodate a full core removal. Maine Yankee is currently re-evaluating a proposed modification for its spent fuel pool, but its proposal will not differ substantially from designs heretofore implemented at other nuclear facilities, which essentially provide for more compact storage in the existing spent fuel pool. If the proposed modification is not approved, Maine Yankee will have to develop alternative plans which would involve further approval by the NRC.

The Company has been advised by PSNH that it has contracted for all of the uranium concentrate required to commence operation of the Seabrook nuclear units and is actively seeking additional sources, and has contracted for certain other segments of the nuclear fuel production cycle through various dates, ranging from 1986 to 2008.

There are currently no nuclear fuel reprocessing facilities in operation in the United States. The Carter Administration has taken the position that the United States should defer indefinitely commercial reprocessing and recycling of spent nuclear fuel. The unavailability of such services

has led to the storage of spent fuel on site, as in the case of Maine Yankee. If reprocessing facilities are not available when required for the Seabrook nuclear units and if no decision has been made to dispose of spent fuel without reprocessing, storage for the spent fuel from those units will also have to be arranged. 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 further difficulties will be encountered regarding disposal of nuclear wastes or the effects of any such difficulties upon the operations, operating costs or capital costs of nuclear generating plants in which the Company has an interest.

Employees

The Company has 360 employees of whom 184 are represented by a local union affiliated with the International Brotherhood of Electrical Workers (AFL-CIO). The present contract expires December 31, 1980. Negotiations between the Company and the union are currently in progress.

RATES AND REGULATION

General

The Company is subject to the regulatory authority of the MPUC as to retail rates, accounting, service standards, territory served, the issuance of securities and various other matters. The Company is also subject as to some phases of its business, including licensing of its hydro-electric stations, accounts, rates relating to wholesale sales (which constitute approximately 2% of total operating revenues) and to interstate transmission and sales of energy and certain other matters, to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") of the Department of Energy under Parts I, II and III of the Federal Power Act. Other activities of the Company from time to time are subject to the jurisdiction of various other state and federal regulatory agencies. Specific areas of regulation of the most significance to the Company's operations are more fully discussed in the following paragraphs.

State Regulation — Rates

Basic Rate Increase. In February 1980 the Company filed with the MPUC for a basic rate increase of $5.4 million, and for interim rate relief pending the outcome of the basic rate increase proceeding. The matter was divided by the MPUC into revenue and rate design categories, in order that the MPUC would have more time to explore rate design issues and discharge the investigatory duties mandated by the National Energy Act with respect to certain aspects of rate design and rate standards. Upon the agreement of all parties, the petition for interim rate relief was held in abeyance and the revenue portion of the basic rate proceeding was then processed on an expedited basis, and on July 22, 1980 the MPUC approved a stipulation entered into by the Company, the MPUC Staff and the intervenors providing that the Company be granted a basic rate increase of 18% designed to yield additional revenues of $4.7 million on an annual basis. The new rates became effective for service rendered on and after August 8, 1980. The stipulation approved by the MPUC includes a 14% return on common equity, an overall rate of return of 10.65%, and an attrition allowance of 0.38%.

The rate design portion of the proceeding is continuing, and will in part be combined with similar proceedings involving Central Maine Power Company for a consideration of issues common to both proceedings.

Fuel Clause. Regulations implemented by the MPUC with respect to the Company effective January 1, 1980 allow the Company to recover currently the cost of fuel consumed in the Company's generating stations and the fuel component of purchased power by the application of a uniform factor in the monthly bills to the Company's retail customers. The factor is based upon the Company's projected cost of fuel and the fuel component of purchased power for a twelve month forward-looking period and must be approved by the MPUC after public notice and hearings. The Company may at intervals of not less than ninety days request changes in the uniform rate to reflect actual experiences during any period. In addition, the Company's fuel clause provides for recovery over a thirty-six month period (from January 1, 1980) of the unrecovered fuel costs outstanding at the time the new clause became effective (See Note 1 of Notes to Financial Statements of the Company). Over- or under-collections resulting from differences between estimated and actual fuel costs for a period are included in the computation of the estimated fuel costs of the succeeding fuel adjustment period.

During the NRC-ordered shutdown of Maine Yankee for twelve weeks in the spring of 1979, it was necessary for the Company to purchase more expensive replacement energy (principally oil-fired) from other sources. An MPUC investigation was commenced to examine responsibility for the shutdown and the costs associated therewith, including the replacement energy costs. Pending the investigation the MPUC issued an order altering the then-applicable fuel clauses of the Company and the other electric utilities involved in the investigation, to provide that the replacement energy costs would be collected over a twelve month period instead of the three month period that otherwise would have pertained, and by a later order the MPUC extended this recovery period to December 31, 1980. The Company estimated those replacement energy costs to have been approximately $3.4 million, of which approximately $270,000 was uncollected as of September 30, 1980. The MPUC investigation was concluded in October 1980, and the recovery schedule described above was maintained. The recovery of those replacement energy costs over the longer period than would have otherwise been applicable has increased the Company's working capital requirements, necessitating a higher level of short-term borrowing with resulting increased interest costs.

Under the federal Public Utility Regulatory Policies Act of 1978 ("PURPA"), the Company's fuel clause may be subject to periodic review by the MPUC to ensure that the clause provides incentives for efficient use of fuel and for maximum economies in operations and purchases that affect utility rates.

On October 31, 1980 the Company filed with the MPUC a request to change its fuel clause factor, pursuant to the regulations described above, as a result of increases in fuel costs in excess of what the Company had projected. If allowed, the factor would increase fuel revenues for the twelve months ended December 31, 1981 by approximately $10.3 million in order to recover corresponding projected increased fuel costs over the same period.

Other State and Federal Regulation

Nuclear Regulatory Commission. The nuclear generating facility of Maine Yankee and the other nuclear facilities in which the Company has an interest are subject to extensive regulation by the NRC. The NRC is empowered to authorize the siting, construction and operation of nuclear reactors after consideration of public health, safety, environmental and antitrust matters. Under its continuing jurisdiction, the NRC may, after appropriate proceedings, require modification

of units for which construction permits or operating licenses have already been issued, or impose new conditions on such permits or licenses, and may require that the operation of a unit cease or that the level of operation of a unit be temporarily or permanently reduced. See "Problems of the Electric Utility Industry" for a discussion of the impact of the TMI incident on Maine Yankee and the other nuclear facilities in which the Company has an interest.

Price-Anderson Act. The federal Price-Anderson Act, as amended, requires each licensee of a nuclear generating plant to carry primary liability insurance of $160 million and establishes limits on the liability of owners of such plants. In the event of a nuclear incident at any nuclear facility within the United States, each licensee of a nuclear plant (including Maine Yankee) may be assessed retrospective premiums of up to $5 million for each incident, not to exceed $10 million per year, for the purpose of providing a fund for paying injury claims made by the public in excess of primary coverage. If such an incident should occur, Maine Yankee could be assessed for its share of the cost of providing the fund, and the Company would ultimately bear approximately 7% (not to exceed approximately $350,000 per incident or approximately $700,000 per year in the event of more than one incident) of the costs assessed to Maine Yankee. When operating licenses have been granted to the owners of the Seabrook nuclear units, the Company will be subject to similar assessments based on its proportionate ownership of those units. 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 the Act as a result of that incident.

Federal Energy Regulatory Commission. All of the Company's hydro-electric projects are licensed by the FERC. Three of the licenses will expire in 1987, one will expire in 1990, two in 1993, one in 1999, and one in 2000. The United States has the right upon or after expiration of a license to take over and thereafter maintain and operate a project upon payment to the licensee of the lesser of its "net investment" or the fair value of the property taken, and any severance damages, less certain amounts earned by the licensee in excess of specified rates of return. If the United States does not exercise its statutory right, the FERC is authorized to issue a new license to the original licensee, or to a new licensee upon payment to the original licensee of the amount the United States would have been obligated to pay had it taken over the project.

National Energy Act. In 1978 Congress enacted the National Energy Act, which includes the National Energy Conservation Policy Act ("NECPA"), PURPA and other measures dealing with the use of oil and gas as fuels, natural gas regulation and pricing, and energy taxes. NECPA will require the Company to assist customers with home energy audits and insulation and conservation measures, and PURPA requires the Company to collect and file data and estimates concerning cost of service and energy production. In addition, PURPA sets forth certain standards for utility rates and utility practices which the MPUC must consider, which consideration will take place during the rate design portion of the Company's most recent MPUC rate proceeding. PURPA, along with certain federal tax legislation, also contains provisions tending to encourage the development of cogeneration and small power production facilities and the interconnection of such facilities with those of electric utilities. The effect of these and other provisions of PURPA, NECPA and the National Energy Act upon the operations, operating costs and capital costs of the Company cannot as yet be determined.

Environmental Matters. The Environmental Protection Agency ("EPA") administers programs established under the federal Water Pollution Control Act (the "Water Act") and the federal Clean

Air Act of 1970 (the "Clean Air Act") which affect the Company's thermal generating facilities, as well as the other thermal and nuclear facilities in which it has an interest. The Water Act establishes a national objective of complete elimination of discharges of pollutants into the nation's water and creates a rigorous permit program designed to achieve these effluent limitations. The Clean Air Act empowers EPA to establish clean air standards which are implemented and enforced by state agencies. EPA has broad authority in administering these programs, including the ability to require installation of pollution control and mitigation devices.

The Company is also subject to regulation with regard to environmental matters and land use by various state and local authorities. The application of federal, state and local standards to protect the environment, including but not limited to those described herein, 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.

As of late 1979 the Company held all discharge permits required under the Water Act for its existing plants. In general, these water quality control permits as well as siting permits issued by the Maine Department of Environmental Protection ("DEP") require the subject plant to meet prescribed environmental quality standards in its ongoing operations and impose monitoring requirements on the Company intended to insure compliance with the standards.

With respect to effluent discharges, including heat, from existing plants, the Water Act, as amended in December 1977, requires the application of the "best practicable control technology currently available" by July 1, 1977 and the "best available technology economically achievable" by July 1, 1984. In addition, the amended Water Act also requires that cooling water intake structures must reflect the "best technology available for minimizing adverse environmental impact". Regulations promulgated under the amended Water Act, unless waived, require non-exempt generating units to use closed-cycle cooling systems such as cooling towers by July 1, 1981. Certain of these regulations have been remanded for further deliberation by the EPA, and further administrative hearings and court proceedings are expected. In addition, the amended Water Act calls for the promulgation of additional pollution control technology requirements relating to matters such as toxic pollutants and waste management practices. The Company believes that it is in compliance with the July 1, 1977 guidelines referred to above. Although the Company is currently unable to determine with certainty whether changes in cooling water intake structures or the installation of closed-cycle cooling systems will be required, it does not believe that the guidelines will materially affect the operations of its generating units or those in which it has an ownership interest. However, if changes were required, the Company's expenditures could be substantial.

Pursuant to the Clean Air Act, the DEP has issued air quality standards with respect to certain pollutants. One of the effects of these regulations is to restrict the sulphur content of fuel oil burned in the Company's Graham Station facility in Veazie to not more than 2.5%. For many years the Company has burned fuel oil with a sulphur content below 2.5% and to the best of its knowledge a supply of such fuel will continue to be available. These regulations also have the effect of restricting the sulphur content of fuel oil burned in Wyman 4 to not more than 0.7%, and similar regula-

tions in other New England states restrict the sulphur content of fuel oil burned in various units from which the Company obtains or may obtain energy. The Company is unaware of any difficulty in maintaining a continued supply of such fuel oil for Wyman 4 or other plants in New England, but the Company cannot predict the effect of these regulations upon the availability or the cost of fuel oil having an acceptable sulphur content.

The Clean Air Act Amendments of 1977 require, among other things, that the EPA promulgate New Source Performance Standards; that state clean air implementation plans contain emission limitations and other measures to prevent "significant deterioration" of air quality; that such plans prescribe new classification of non-degradation areas, and other measures limiting emissions and particulates and requiring the promulgation of further regulations. The effect of these amendments upon existing regulations or upon the Company cannot currently be determined.

Other regulations are currently being developed at the federal and state level dealing with the storage and handling of hazardous wastes, and the disposal of all types of wastes. The Company cannot predict the effect of these regulations upon its operations, operating costs or capital costs.

PENDING LEGAL PROCEEDINGS

Indian Cases

The Company is a defendant in a class action brought on July 17, 1972, in the United States District Court, District of Maine, Northern Division, by the Penobscot Nation of Indians seeking $5 million in compensatory damages and a like amount in punitive damages for loss of lands taken by flowage resulting from the damming of the Penobscot River by the Company's predecessors in title, allegedly in violation of the Indian Trade and Intercourse Act of 1790. The Company is also the defendant in an action brought simultaneously in that court based upon the same 1790 law by an individual alleging that he is a Penobscot Indian seeking $200,000 in damages for trespassing and requesting removal of existing transmission lines.

Proceedings in both of the above matters have been stayed pending the outcome of two suits brought by the United States against the State of Maine, one on behalf of the Passamaquoddy Tribe of Indians and one on behalf of the Penobscot Nation of Indians, seeking a total of $300 million in damages for divesting them of their aboriginal lands more than a century ago, allegedly in violation of the above mentioned 1790 Act. The area involved includes much of northeastern Maine and substantially all of the Company's service territory.

In March 1980 the parties to the Indian cases against the state announced a proposed settlement under the terms of which the state and the Indian Tribes would enter into an agreement, to be enacted as a Private and Special Law (the "Maine Implementing Act") specifying the jurisdiction of the state over the Indian Tribes and Indian lands; certain large landowners would grant purchase options to the Tribes, agreeing to sell 300,000 acres of land at fair market value; and Congress would enact a bill extinguishing the land claims, compensating the Tribes, ratifying the Maine Implementing Act, and providing for other details. The state has adopted the Maine Implementing Act and Congress has enacted the federal legislation, including the appropriation of the requisite funds ($81.5 million). The parties to the proceeding are in the process of implementing the settlement.

The Company cannot currently determine the extent to which the Indian cases against the Company will be terminated as a result of the settlement described above, but in the opinion of management the outcome of the above mentioned cases against the Company will not have a materially adverse effect on the financial condition of the Company.

Wyman 4

On April 11, 1979 the DEP issued an order restricting the hours of operation of Wyman 4 to weekdays only, and from 6 A.M. to 11 P.M. only, as a result of alleged excessive noise emanating from the unit. Sound attenuating mufflers were fabricated to reduce the noise, and the installation of those mufflers was completed in late 1979. On September 4, 1979, the DEP instituted a lawsuit in Kennebec County Superior Court against Central Maine Power Company as the lead owner of the unit, seeking payment of civil penalties for each day of an alleged violation of the siting permit as a result of alleged excessive noise during operation. Central Maine Power Company has advised the Company that it does not believe that substantial penalties will be imposed.

IMC

On August 11, 1975, IMC, the Company's largest single customer, located within the Company's service territory in Orrington, brought a complaint before the MPUC requesting that the MPUC order Central Maine Power Company to provide electric service to IMC. After court resolution of certain preliminary issues, the matter is now in order for further proceedings at the MPUC. If the MPUC were to grant the request, the Company would apply for rate relief to make up for the loss of revenue from the basic rates applicable to this customer. However, the loss of this customer would reduce the Company's cost of fuel and purchased energy which is passed on to all customers including IMC. In the opinion of management, the magnitude of this reduction in fuel and purchased energy costs would offset substantially all of any base rate increase to other customers.

MEPCO vs. New Brunswick

On September 18, 1980 MEPCO commenced legal action against New Brunswick in the United States District Court, District of Maine, alleging that New Brunswick's intention to pass through to MEPCO the increased cost of energy from New Brunswick's Coleson Cove oil-fired units resulting from the reduction or elimination by the Canadian federal authorities of the fuel oil subsidy for fuel used to generate electricity for export to the United States would be contrary to the terms of the pertinent contract between MEPCO and New Brunswick. The legal action seeks declaratory relief to the effect that MEPCO should be allowed to terminate the contract. The Company and other New England utilities, as participants and assignees of MEPCO's rights under the contract, have joined in the suit with MEPCO as additional plaintiffs. The parties to the proceeding, including the Company, have tentatively agreed upon a settlement reducing the amount of capacity purchased under the contract and shortening the term of the contract by at least one year.

FERC Permit Application

On August 15, 1980 the Company filed under the Federal Power Act with the FERC an application for a preliminary permit in order to study the feasibility of constructing a new hydro-electric facility, the Basin Mills Project, on the Penobscot River in Orono and Bradley. This filing is a

competing application to a preliminary permit filing made by a non-utility developer on a site upstream from the Basin Mills Project site that would be inundated if the Basin Mills Project were to be constructed. The matter is in order for further proceedings at the FERC, but no action has yet been taken. The Company cannot predict the outcome of this proceeding.

DESCRIPTION OF COMMON STOCK

Holders of common stock are entitled to participate in dividends as and when declared by the board of directors. No dividend may be paid on common stock until dividends on preferred stock (which are fully cumulative) have been paid or provided for to the da of payment of the proposed common stock dividend.

The holders of common stock have general voting rights of one-twelfth of one vote per share. Of the outstanding preferred stock, 47,340 shares have general voting rights of one vote per share; the remaining 50,000 shares do not have general voting powers. On issues determined by general voting rights, it would be possible for votes represented by preferred stock to combine with votes represented by less than a majority of common stock so as to affect the rights of holders of all common stock.

The Company's By-Laws provide that holders of preferred stock have the power to elect two of the seven directors in the event of default in payment of four quarterly dividends or in the event of failure to make any required sinking fund payment with respect to preferred stock. To date there has been no such default. The By-Laws further provide that with respect to preferred stock hereafter authorized for issuance the board of directors may confer special voting rights (including, in the event of default in payment of dividends, the power to elect a majority of directors) and the power to consent or object to any matter which the board of directors may specify.

Neither the common stock nor any of the preferred stock has cumulative voting rights, which means that the holders of stock with a majority of the voting power can elect all of the directors if they choose to do so, in which event the holders of the remaining stock, whether preferred or common, will not be able to elect any directors.

The common stock has no conversion rights nor is it subject to any redemption or sinking fund provisions. Subject to the rights of senior securities, holders of common stock are entitled to pro rata distribution of assets upon liquidation. All common stock is, and the shares of the Additional Common Stock when issued and paid for will be, fully paid and non-assessable. The Company's By-Laws forbid the purchase by the Company of common stock when there is any arrearage in payment of dividends on preferred stock.

The By-Laws of the Company provide that prior to the issuance of any stock having voting rights the board of directors shall determine whether such stock shall be subject to preemptive rights of the holders of outstanding stock. The board of directors has determined that the holders of presently outstanding stock shall have no preemptive rights with respect to the Additional Common Stock.

UNDERWRITING

Upon the terms and subject to the conditions contained in the Underwriting Agreement, the Underwriters named below have severally agreed to purchase 250,000 shares of Additional Common Stock from the Company. The number of shares of Additional Common Stock that each Underwriter has agreed to purchase is set forth opposite its name below:

Name	Number of Shares
Smith Barney, Harris Upham & Co. Incorporated	72,000
Advest, Inc.	6,000
Bache Halsey Stuart Shields Incorporated	12,000
Bear, Stearns & Co.	12,000
Blyth Eastman Paine Webber Incorporated	12,000
Burgess & Leith Incorporated	6,000
Butcher & Singer Inc.	4,000
Cowen & Co.	4,000
Drexel Burnham Lambert Incorporated	12,000
First Albany Corporation	4,000
Goldman, Sachs & Co.	12,000
E. F. Hutton & Company Inc.	12,000
Janney Montgomery Scott Inc.	4,000
Kidder, Peabody & Co. Incorporated	12,000
Lehman Brothers Kuhn Loeb Incorporated	12,000
Means Investment Company	6,000
Moseley, Hallgarten, Estabrook & Weeden Inc.	6,000
L. F. Rothschild, Unterberg, Towbin	12,000
Shearson Loeb Rhoades Inc.	12,000
Tucker, Anthony & R. L. Day, Inc.	6,000
Dean Witter Reynolds Inc.	12,000
Total	250,000

The Company has been advised by Smith Barney, Harris Upham & Co. Incorporated, as the Representative of the several Underwriters, that the Underwriters propose to offer part of the shares of Additional Common Stock purchased by them directly to the public at the price set forth on the cover page of this Prospectus and part of such shares to certain dealers at a price which represents a concession not in excess of \$.475 per share under the price to the public. The Underwriters may allow, and such dealers may reallow, a concession not in excess of \$.25 per share to other dealers. The Underwriters are committed to purchase and pay for all of the shares of Additional Common Stock if any are taken.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

LEGAL OPINIONS

Legal matters with respect to the Additional Common Stock will be passed upon for the Company by Robert S. Briggs, Esq., Vice President and General Counsel of the Company, and for the Underwriters by Davis Polk & Wardwell, 1 Chase Manhattan Plaza, New York, New York. Mr. Briggs owns 290 shares of the Company's common stock either directly or jointly with his wife.

EXPERTS

The financial statements of the Company as of December 31, 1979 and for the five years then ended and the financial statements of Maine Yankee and MEPCO as of December 31, 1979 and for the four years then ended included herein have been examined by Arthur Andersen & Co., independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

[THIS PAGE INTENTIONALLY LEFT BLANK]

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Bangor Hydro-Electric Company:

We have examined the balance sheet of BANGOR HYDRO-ELECTRIC COMPANY (a Maine corporation) and statement of capitalization as of December 31, 1979, and the statements of income (included elsewhere in this Prospectus), retained earnings and source of funds for plant additions for the five years ended December 31, 1979. 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 financial statements referred to above present fairly the financial position of Bangor Hydro-Electric Company as of December 31, 1979, and the results of its operations and its source of funds for plant additions for the five years ended December 31, 1979, in conformity with generally accepted accounting principles, which, except for the change (with which we concur) in the method of recording Electric Operating Revenues as indicated in Note 1 to the financial statements, have been applied on a consistent basis.

Arthur Andersen & Co.

Boston, Massachusetts,
January 25, 1980.

BANGOR HYDRO-ELECTRIC COMPANY

BALANCE SHEETS

ASSETS

	September 30, 1980 (Unaudited)	December 31, 1979
Investment in Utility Plant		
Electric plant in service, at original cost (Notes 8 and 9)	$96,535,431	$95,017,710
Less — accumulated depreciation (Notes 8 and 9)	33,570,322	32,459,170
	$62,965,109	$62,558,540
Construction in progress, including $4,964,810 in 1980 and $3,697,502 in 1979 for construction of jointly-owned generating units (Notes 9 and 10)	5,723,755	3,824,265
	$68,688,864	$66,382,805
Investments in corporate joint ventures (Notes 1 and 8):		
Maine Yankee Atomic Power Company	4,810,022	4,683,022
Maine Electric Power Company, Inc.	175,884	178,898
	$73,674,770	$71,244,725
Other Investments, principally at cost	$ 516,978	$ 520,395
Current Assets:		
Cash	$ 1,164,750	$ 1,122,801
Accounts receivable —		
Customers, net of reserve	5,379,730	5,098,511
Income tax refund	526,287	563,287
Unbilled revenue receivable (Note 1)	2,970,948	2,549,199
Inventories, at average cost —		
Materials and supplies	2,149,691	1,840,857
Fuel oil	1,188,343	1,286,905
Prepaid expenses	67,760	359,103
Deferred fuel costs (Note 1)	6,518,178	5,484,688
	$19,965,687	$18,305,351
Deferred Charges:		
Unamortized cost of cancelled NEPCO nuclear units, net of related income taxes (Note 9)	$ 1,251,576	$ 1,230,041
Other	611,842	424,054
	$ 1,863,418	$ 1,654,095
	$96,020,853	$91,724,566

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

BANGOR HYDRO-ELECTRIC COMPANY

BALANCE SHEETS

STOCKHOLDERS' INVESTMENT AND LIABILITIES

	September 30, 1980 (Unaudited)	December 31, 1979
Capitalization (see accompanying statement):		
Common stock investment (Note 3)	$24,788,141	$25,694,645
Preferred stock (Note 4)	4,734,000	4,734,000
Redeemable preferred stock (Note 4)	5,000,000	5,000,000
First mortgage bonds, exclusive of a current maturity in 1979 and sinking fund requirements (Note 5)	32,300,000	32,345,000
Total Capitalization	$66,822,141	$67,773,645
Current Liabilities:		
Current maturity of long-term debt (Note 5)	$ —	$ 2,000,000
Notes payable to banks (Note 6)	15,000,000	7,550,000
	$15,000,000	$ 9,550,000
Other current liabilities —		
Current sinking fund requirements	$ 170,000	$ 170,000
Accounts payable	4,477,381	5,116,931
Dividends payable	878,156	856,598
Accrued interest	611,567	664,954
Accrued current and short-term deferred taxes (Note [illegible])	(490,207)	152,347
Customers' deposits	69,337	73,859
Accrued pension plan contribution (Note 7)	333,900	410,000
	$ 6,050,134	$ 7,444,689
	$21,050,134	$16,994,689
Commitments and Contingencies (Notes 8, 9, and 10)		
Deferred Credits and Reserves (Note 2):		
Accumulated deferred income taxes	$ 3,998,356	$ 3,441,848
Unamortized investment tax credits	3,967,326	3,418,326
Other	182,896	96,058
	$ 8,148,578	$ 6,956,232
	$96,020,853	$91,724,566

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

BANGOR HYDRO-ELECTRIC COMPANY

STATEMENTS OF CAPITALIZATION

	September 30, 1980 (Unaudited)	December 31, 1979
COMMON STOCK INVESTMENT:		
Common stock, par value $5 per share —		
Authorized — 5,000,000 shares in 1980 and 2,500,000 shares in 1979		
Outstanding — 1,827,040 shares in 1980 and 1,812,023 shares in 1979	$ 9,135,200	$ 9,060,115
Amounts paid in excess of par value	7,942,772	7,83[illegible],827
Retained earnings	7,710,169	8,798,703
	$24,788,141	$25,694,645
PREFERRED STOCK, non-participating, cumulative, par value $100 per share, authorized 250,000 shares in 1980 and 100,000 shares in 1979:		
Subject to mandatory redemption requirements —		
9½%, Callable at $109.00 in 1980 and $109.50 in 1979, 30,000 shares authorized and outstanding	$ 3,000,000	$ 3,000,000
9¼%, Callable at $106.77, 20,000 shares authorized and outstanding	2,000,000	2,000,000
	$ 5,000,000	$ 5,000,000
Not redeemable or redeemable solely at the option of the issuer —		
7%, Noncallable, 25,000 shares authorized and outstanding	$ 2,500,000	$ 2,500,000
4¼%, Callable at $100, 4,840 shares authorized and outstanding	484,000	484,000
4%, Series A, Callable at $110, 17,500 shares authorized and outstanding	1,750,000	1,750,000
	$ 4,734,000	$ 4,734,000
FIRST MORTGAGE BONDS:		
2¾% Series due 1980	$ —	$ 2,000,000
3¼% Series due 1982	1,000,000	1,000,000
3⅛% Series due 1984	1,000,000	1,000,000
3½% Series due 1985	1,500,000	1,500,000
4% Series due 1988	2,500,000	2,500,000
4% Series due 1993	3,500,000	3,500,000
6¾% Series due 1998	2,500,000	2,500,000
8¼% Series due 1999	3,500,000	3,500,000
10½% Series due 2000	4,800,000	4,800,000
9¼% Series due 2001	2,820,000	2,865,000
8⅗% Series due 2003	2,350,000	2,350,000
10¼% Series due 2004	7,[illegible]0,000	7,000,000
	$32,4[illegible]0,000	$34,515,000
Less — Sinking fund requirements, and a current maturity in 1979	170,000	2,170,000
	$32,300,000	$32,345,000
Total Capitalization	$66,822,141	$67,773,645

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

BANGOR HYDRO-ELECTRIC COMPANY

STATEMENTS OF RETAINED EARNINGS

	Twelve Months Ended Sept. 30, 1980	Year Ended December 31,				
		1979	1978	1977	1976	1975
	(Unaudited)					
Balance at beginning of period	$ 7,778,456	$ 8,599,913	$ 8,026,517	$ 7,637,078	$ 8,249,896	$ 7,899,569
Add — Net income for period	3,432,898	3,487,548	3,391,483	2,758,685	1,545,486	2,087,385
Equity reserve for licensed hydro projects (Note 1)	—	—	136,262	—	—	—
	$11,211,354	$12,087,461	$11,554,262	$10,395,763	$ 9,795,382	$ 9,986,954
Deduct —						
Cash dividends declared on:						
Preferred stock —						
9½% — $9.50 per share	$ 285,000	$ 95,850	$ —	$ —	$ —	$ —
9¼% — $9.25 per share	185,000	185,000	185,000	185,000	103,300	—
7% — $7.00 per share	175,000	175,000	175,000	175,000	175,000	175,000
4¼% — $4.25 per share	20,570	20,570	20,570	20,570	20,570	20,570
4% — $4.00 per share	70,000	70,000	70,000	70,000	70,000	70,000
	$ 735,570	$ 546,420	$ 450,570	$ 450,570	$ 368,870	$ 265,570
Common stock — $1.52 in 1980, $1.52 in 1979, $1.46 in 1978, $1.41 in 1977, $1.34 in 1976 and $1.29 in 1975	$ 2,765,615	$ 2,742,338	$ 2,503,779	$ 1,918,676	$ 1,653,172	$ 1,471,488
Equity reserve for licensed hydro projects (Note 1)	—	—	—	—	136,262	—
	$ 3,501,185	$ 3,288,758	$ 2,954,349	$ 2,369,246	$ 2,158,304	$ 1,737,058
Balance at end of period	$ 7,710,169	$ 8,798,703	$ 8,599,913	$ 8,026,517	$ 7,637,078	$ 8,249,896

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

BANGOR HYDRO-ELECTRIC COMPANY
STATEMENTS OF SOURCE OF FUNDS FOR PLANT ADDITIONS

	Twelve Months Ended Sept. 30, 1980	Year Ended December 31, 1979	1978	1977	1976	1975
	(Unaudited)					
SOURCES OF FUNDS:						
Internal sources —						
Operations —						
Net income	$ 3,432,898	$ 2,444,548	$ 3,391,483	$ 2,758,685	$ 1,545,486	$ 2,087,385
Items not currently requiring funds —						
Depreciation	2,987,567	2,814,541	2,200,513	2,094,989	2,029,358	1,962,021
Deferred income taxes	1,634,092	1,480,932	470,488	230,693	272,678	312,374
Investment tax credit, net	1,110,750	980,478	923,637	570,941	376,000	289,983
Allowance for other funds used during construction	—	—	(531,293)	(233,173)	(147,914)	(46,044)
Funds from operations	$ 9,165,307	$ 7,720,499	$ 6,454,828	$ 5,422,135	$ 4,075,608	$ 4,605,719
Cumulative effect on prior years (to December 31, 1978) of a change to a different method of recording revenue (Note 1)	—	1,043,000	—	—	—	—
	$ 9,165,307	$ 8,763,499	$ 6,454,828	$ 5,422,135	$4,075,608	$ 4,605,719
Other sources (uses) of funds —						
Sinking fund requirements	$ (170,000)	$ (170,000)	$ (170,000)	$ —	$ —	$ —
Dividends declared	(3,501,185)	(3,288,758)	(2,954,349)	(2,369,246)	(2,022,042)	(1,737,058)
Other, net	(90,811)	89,687	74,206	121,230	(105,315)	211,474
	$(3,761,996)	$(3,369,071)	$(3,050,143)	$(2,248,016)	$(2,127,357)	$(1,525,584)
Change in net current assets, exclusive of interim financing —						
Cash, receivables and unbilled revenue	$(2,268,006)	$(2,363,720)	$(3,122,661)	$ 120,571	$ 495,464	$ 790,379
Deferred fuel costs	(3,536,658)	(5,484,688)	—	—	—	—
Other current assets	(442,879)	(1,084,148)	(83,265)	169,915	53,605	90,152
Accounts payable	(700,836)	982,261	1,807,113	194,303	418,035	(97,817)
Other current liabilities	(531,628)	309,522	54,944	532,069	(433,884)	(15,887)
	$(7,480,007)	$(7,640,773)	$(1,343,869)	$ 1,016,849	$ 533,220	$ 766,827
Funds available from (required for) internal sources	$(2,076,696)	$(2,246,345)	$ 2,060,816	$ 4,190,968	$ 2,481,471	$ 3,846,962
External sources (uses) —						
Notes payable to banks	$10,450,000	$ 500,000	$ 2,750,000	$ 1,800,000	$ (500,000)	$ (350,0[illegible]
Proceeds from sale of —						
Common stock	—	—	4,288,010	3,680,431	—	1,266,643
First mortgage bonds	—	7,000,000	2,500,000	—	3,000,000	5,000,000
Preferred stock, 30,000 shares in 1979, 20,000 shares in 1976	—	3,000,000	—	—	2,000,000	—
Dividend reinvestment plan (21,577 shares in 1980, 14,145 shares in 1979)	231,147	194,626	—	—	—	—
Retirement of first mortgage bonds	(2,000,000)	—	—	(2,500,000)	—	(5,000,000)
Employee stock ownership plan — 8,051 shares in 1979, 3,800 shares in 1978 and 2,317 shares in 1977	—	110,547	56,696	35,983	—	—
Funds from external sources	$ 8,681,147	$10,805,173	$ 9,594,706	$ 3,016,414	$ 4,500,000	$ 916,643
FUNDS AVAILABLE FOR PLANT ADDITIONS	$ 6,604,451	$ 8,558,828	$11,655,522	$ 7,207,382	$ 6,981,471	$ 4,763,605
FUNDS USED FOR:						
Wyman Unit #4	$ 655,399	$ 1,313,818	$ 3,157,502	$ 4,466,107	$ 3,873,189	$ 2,026,547
NEP 1 and 2 (Note 9)	—	379,991	1,227,495	66,410	283,069	—
Seabrook (Note 9)	1,715,025	1,504,070	2,196,333	—	—	—
Other plant additions	4,234,027	5,360,949	5,074,192	2,674,865	2,825,213	2,737,058
FUNDS USED FOR PLANT ADDITIONS	$ 6,604,451	$ 8,558,828	$11,655,522	$ 7,207,382	$ 6,981,471	$ 4,763,605

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

BANGOR HYDRO-ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS
(Including Notes Applicable to Unaudited Period)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Electric Operating Revenues — Prior to 1979, Electric Operating Revenues were recorded when billings, based on cycle meter readings for either a one or two month period of consumption, were rendered to customers. Due to the cycle billing process, a portion of the electricity used by the Company's customers during a fiscal period remains unbilled at the end of that period. In general, this "unbilled" amount of revenue was not recorded as revenue prior to 1979.

In the first quarter of 1979, the method of recording Electric Operating Revenues was changed to recognize revenues as electricity is used by the Company's customers, including electricity delivered but not yet billed at the end of the accounting period. This accounting change was made in order to better match the recognition of electric revenues with the recognition of the costs of providing the electric service.

The cumulative effect of this accounting change on prior years (to December 31, 1978) amounts to $1,043,000 (after reduction for income taxes of $1,034,000) and was included in income for the first quarter of 1979. The pro forma amounts shown in the Statements of Income reflect the effect of retroactive application of the new method of recording revenue as if the new method had been followed throughout the periods.

Deferred Fuel Accounting — Under the fuel adjustment clause in operation prior to 1980, Fuel Charge Revenue was generally recorded when the cost of fuel was billed to customers. Operating Expenses were charged for the cost of fuel as incurred, which preceded the billing of fuel adjustment revenues by an average of three months. Consequently, in periods of rising fuel costs the Company's earnings were adversely affected by the amount of fuel costs incurred in excess of fuel billings.

On December 28, 1979 the Maine Public Utilities Commission ("MPUC") promulgated new fuel adjustment regulations to be effective January 1, 1980. As part of its order implementing the new fuel regulations, the MPUC authorized the Company to collect, over a three-year period beginning January 1980, the fuel costs incurred which were unrecovered at December 31, 1979, due to the operation of the previous fuel clause. Accordingly, in December 1979 the Company deferred $3,806,901 of fuel expenses, which amount represents the balance of unrecovered fuel costs which will be collected over the period January 1, 1980 through December 31, 1982. The after tax effect of this deferral is to increase earnings by $1.06 per common share for both the twelve months ended September 30, 1980, and the year ended December 31, 1979.

Equity Method of Accounting — The Company accounts for its investments in the common stock of Maine Yankee and MEPCO on the equity method of accounting and records its proportionate share of the net earnings of these companies (substantially all of these earnings are paid out in dividends) as a reduction of purchased power costs. See Note 8 for additional information with respect to these investments.

Depreciation of Electric Plant and Maintenance Policy — Depreciation of electric plant is provided using the straight-line method at rates designed to amortize the original cost of the properties

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

over their estimated service lives. The composite depreciation rate, expressed as a percentage of average depreciable plant in service, was approximately 3.2% during the periods presented.

The Company follows the practice of charging to maintenance the cost of repairs, replacements and renewals of items considered to be less than units of property. Costs of additions, replacements and renewals of items considered to be units of property are charged to the utility plant accounts and any items removed are retired from such accounts. The original costs of units of property retired and removal costs, less salvage, are charged to the reserve for depreciation.

Equity Reserve for Licensed Hydro Projects — The Federal Energy Regulatory Commission ("FERC") requires that a reserve be maintained equal to one-half of earnings in excess of a prescribed rate of return on the Company's investment in licensed hydro property beginning with the twenty-first year of project operation under license. In 1976 the FERC required the Company to record, by charging retained earnings, the cumulative equity reserve arising in years 1960 through 1976. As required by an order of the FERC, which was effective January 1, 1978, the Equity Reserve provided for licensed hydro projects was reclassified from Other Deferred Credits and Reserves to Retained Earnings.

Allowance for Funds Used During Construction — The Company reflects as an element of the cost of construction of major units of depreciable property an allowance for funds (including common equity funds) employed during the construction period ("AFDC"). While not currently providing funds, under the rate-making processes of applicable regulatory agencies the Company is permitted to recover these amounts over the useful life of the constructed property. Further, the unrecovered cost of constructed property, including the allowance, is an element of rate base on which the Company is permitted to earn a return.

The amount of the allowance recorded is determined by multiplying the portion of the average monthly dollar balance of construction in progress financed by short-term borrowings by the weighted average interest rate applicable to short-term borrowings for the month and multiplying any remainder of the monthly dollar balance of construction in progress by the weighted average cost of debt and equity as of the beginning of the year. For the twelve months ended September 30, 1980 and for 1979, the average monthly short-term borrowings exceeded the average monthly balance of construction in progress and, as a result, the allowance rate for these two periods is the average interest rate of short-term borrowings during these respective periods.

The average rate produced by the Company's computations was 16.3% for the twelve months ended September 30, 1980, 13.2% in 1979, 8.4% in 1978, and 8% for 1977, 1976 and 1975.

Effective January 1, 1977, the FERC established a formula for computing the amount of AFDC applicable to borrowed funds and to other funds. Had this formula been used in prior years, the effect on the total amount of AFDC recorded would not have been significant. Further, the FERC

NOTES TO FINANCIAL STATEMENTS — (Continued)
(Including Notes Applicable to Unaudited Period)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

required that the AFDC applicable to borrowed funds be reported as a reduction of interest expense. The statements of income for 1975 and 1976 have been adjusted to reflect a reclassification of borrowed funds as a reduction of "Interest Expense" as if the prescribed formula had been in effect.

(2) INCOME TAXES

The individual components of federal and state income taxes reflected in the Statements of Income for the twelve months ended September 30, 1980 and the five years ended December 31, 1979 are as follows:

	Twelve Months Ended Sept. 30, 1980 (Unaudited)	Year Ended December 31, 1979	1978	1977	1976	1975
Currently Payable						
Federal	$ —	$ (491,027)	$ (453,080)	$ 368,324	$ (297,738)	$ 812,897
State	—	(238,106)	102,120	166,238	801	177,001
	$ —	$ (729,133)	$ (350,960)	$ 534,562	$ (296,937)	$ 989,898
Deferred — Short Term						
Federal	$ (1,298,081)	$ (355,508)	$ —	$ —	$ —	$ —
State	33,766	300,091	—	—	—	—
	$ (1,264,315)	$ (55,417)	$ —	$ —	$ —	$ —
Deferred — Other						
Federal	$ 1,528,424	$ 1,377,215	$ 467,928	$ 245,497	$ 267,844	$ 259,012
State	105,668	103,717	2,560	(14,804)	4,834	53,362
	$ 1,634,092	$ 1,480,932	$ 470,488	$ 230,693	$ 272,678	$ 312,374
Investment tax credits, net	$ 1,110,750	$ 980,478	$ 923,637	$ 570,941	$ 376,000	$ 289,983
Employee stock ownership plan investment tax credit	168,265	106,165	95,964	59,027	—	—
Total Provision	$ 1,648,792	$ 1,783,025	$ 1,139,129	$ 1,395,223	$ 351,741	$ 1,592,255
Charged to other income	(13,005)	(26,198)	(10,699)	(20,643)	(11,758)	(2,485)
Allocated to cumulative change in accounting principle (Note 1)	—	(1,033,953)	—	—	—	—
Charged to operating expense	$ 1,635,787	$ 722,874	$ 1,128,430	$ 1,374,580	$ 339,983	$ 1,589,770

BANGOR HYDRO-ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)
(Including Notes Applicable to Unaudited Period)

(2) Income Taxes — (Continued)

For the twelve months ended September 30, 1980 and for the year ended December 31, 1979, the Company experienced a net loss for tax purposes resulting principally from three significant transactions which increased income for accounting purposes but not for tax purposes. The loss for tax purposes resulted in net operating loss and investment tax credit carryovers which, subject to review by the Internal Revenue Service, will be used to reduce income taxes otherwise payable in future years. The provisions and accruals related to these items, which have been classified (principally as short-term deferred taxes) to correspond to the accounting for the related assets, are as follows:

	Twelve Months Ended September 30, 1980		1979	
	Federal	State	Federal	State
	(Unaudited)			
Deferred fuel costs	$ 1,512,982	$ 247,566	$ 2,346,349	$ 383,928
Unbilled revenues	239,817	39,240	1,090,547	178,444
Net operating loss carry forward	(299,483)	(253,040)	(1,603,732)	(262,281)
Investment tax credit carry forwards				
Through 1985	(1,187,814)	—	(1,187,814)	—
Through 1986	(1,000,858)	—	(1,000,858)	—
Through 1987	(562,725)	—	—	—
	$(1,298,081)	$ 33,766	$ (355,508)	$ 300,091

The rate-making practice followed by the MPUC in the Company's most recent (August 1980) rate order permitted the Company to recover as a part of the cost of service deferred federal income tax arising from the use, for income tax purposes, of accelerated depreciation of certain property added subsequent to 1969. The income tax effects of other property related timing differences between pretax accounting income and taxable income generally are, in effect, flowed through to the Company's customers. Although this accounting differs from generally accepted accounting principles followed by non-rate-regulated companies, which are required to record deferred taxes related to all timing differences, the Company expects that deferred taxes not recorded will be collected through customer rates in the future when such taxes become payable.

BANGOR HYDRO-ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)
(Including Notes Applicable to Unaudited Period)

(2) Income Taxes — (Continued)

The table below reconciles the total provision for federal income taxes to a provision calculated by multiplying income before federal income taxes by the statutory federal income tax rate:

	Twelve Months Ended Sept. 30, 1980		1979		1978		1977		1976		1975	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Unaudited)				(Dollars in Thousands)							
Federal income tax provision	$1,509	30%	$1,617	32%	$1,034	23%	$1,244	31%	$ 346	18%	$1,362	40%
Permanent reductions in tax expense resulting from statutory exclusions from taxable income:												
Dividend received deduction related to earnings of associated companies	207	4	207	4	208	5	207	5	207	11	212	6
Equity component of AFDC	—	—	—	—	255	6	112	3	71	4	—	—
Preferred dividends paid deduction	34	1	—	—	34	1	34	1	34	2	34	1
Amortization of investment tax credit	92	2	80	1	36	1	16	—	64	3	47	1
Other	36	1	34	1	—	—	—	—	—	—	—	—
Federal income tax provision before effect of timing differences	$1,878	38%	$1,938	38%	$1,567	36%	$1,613	40%	$ 722	38%	$1,655	48%
Timing differences that are flowed through for ratemaking and accounting purposes:												
Interest component of AFDC	346	7	365	7	309	7	214	5	96	5	—	—
Deduction of certain costs (primarily pension costs and payroll taxes) for tax purposes that are included in the cost of electric property	30	1	29	1	27	1	24	1	23	1	—	—
One-half year depreciation convention	—	—	—	—	216	5	—	—	—	—	—	—
Other	19	—	16	—	(9)	(1)	85	2	67	4	—	—
Federal income tax provision at statutory rate	$2,273	46%	$2,348	46%	$2,110	48%	$1,936	48%	$ 908	48%	$1,655	48%

Under the federal income tax laws, the Company receives investment tax credits at a rate of 10% on qualified property additions. Investment credits received are deferred and amortized over the life of the related property. Due to the adoption of a Tax Reduction Act Stock Ownership Plan (see Note 3), the Company receives an additional 1% investment tax credit which is used to fund the Plan.

(3) Capital Stock

The Company has an employee stock ownership plan which qualifies as a Tax Reduction Act Stock Ownership Plan ("TRASOP"). Annual contributions to the Plan by the Company are in the form of common stock of the Company having a market value equal to an additional 1% investment credit allowed by federal tax law, less administrative expenses. The Company also has a Dividend Reinvestment and Common Stock Purchase Plan through which shareholders may purchase common stock without payment of brokerage commissions or service charges. In connection with these plans, the Company has reserved 130,000 shares of common stock.

(4) Preferred Stock

General — Authorized preferred stock consists of 250,000 shares, par value $100 per share, of which there are outstanding 97,340 shares. The remaining 152,660 authorized but unissued shares (plus additional shares equal in number to such presently outstanding shares as may be retired) may be issued with such preferences, restrictions or qualifications as the board of directors may determine. The callable preferred stock may be called in whole or in part upon any dividend date by appropriate resolution of the board of directors.

With the exception of the 20,000 shares of 9¼% Preferred Stock and the 30,000 shares of 9½% Preferred Stock, the outstanding preferred stock has general voting rights of one vote per share.

Redeemable Preferred Shares — The 9¼% Preferred Stock and the 9½% Preferred Stock are subject to mandatory redemption through the operation of sinking funds at the redemption price of $100 per share plus dividends accrued. The Company will set aside in cash annually (1) on December 1 in each year commencing with December 1, 1982, an amount sufficient to redeem 1,000 shares of the 9¼% Preferred Stock and (2) on August 1 in each year commencing with August 1, 1985, an amount sufficient to redeem 2,000 shares of the 9½% Preferred Stock.

The aggregate amounts of preferred stock redemption requirements for each of the five years following 1979 are as follows:

1980	—
1981	—
1982	$100,000
1983	$100,000
1984	$100,000

(5) First Mortgage Bonds

Under the provisions of the indenture, substantially all of the Company's plant and property has been mortgaged to secure the First Mortgage Bonds. Additional bonds may be issued under the First Mortgage Bond Indenture, subject to certain restrictions and provisions specified in the indenture and supplements thereto.

NOTES TO FINANCIAL STATEMENTS — (Continued)
(Including Notes Applicable to Unaudited Period)

(5) First Mortgage Bonds — (Continued)

Sinking fund requirements and current maturities of long-term debt for the five years subsequent to December 31, 1979 aggregate $4,850,000 as follows:

	Sinking Fund Requirement	Current Maturities	Total
1980	$170,000	$2,000,000	$2,170,000
1981	170,000	—	170,000
1982	170,000	1,000,000	1,170,000
1983	170,000	—	170,000
1984	170,000	1,000,000	1,170,000
			$4,850,000

(6) Notes Payable to Banks

On August 22, 1980, the Company entered into a $30 million Revolving Credit and Term Loan Agreement with a syndicate of seven banks. Under the Agreement, the Company may borrow up to $17.4 million until the start of the Company's commitment to purchase the additional 41.4 megawatts of the Seabrook nuclear units (see Note 9). At that time, the credit available to the Company under this Agreement increases to $30 million. The revolving credit portion of this facility terminates on June 30, 1985, at which time the indebtedness may be converted to a term loan to be paid down by the Company over a three year period ending June 30, 1988.

The interest rate on the revolving credit is tied to the prime rate. For the periods ending June 28, 1981, June 28, 1983 and June 29, 1985, the interest rates are 106%, 108% and 110% of the prime rate respectively. In addition, the Company is obligated to pay a commitment fee of one-half of one percent on the unused portion of the commitment and an additional fee of 4% of the prime rate applied to the available credit. The interest rate under the term loan portion of the facility is 115% of the prime rate. Under both the revolving credit portion and the term loan portion, there is an additional interest charge of one-quarter of one percent on amounts outstanding in excess of $20 million.

The Company plans to use the borrowings under this Agreement to initially finance construction and for other corporate purposes. The Company intends to refinance such borrowings with the proceeds from sales of long-term debt and equity securities.

Under the terms of this Agreement, the Company is prohibited from incurring over $1 million of other unsecured borrowings.

NOTES TO FINANCIAL STATEMENTS — (Continued)
(Including Notes Applicable to Unaudited Period)

(6) NOTES PAYABLE TO BANKS — (Continued)

Prior to August 22, 1980 the Company arranged for its short-term borrowings under separate lines of credit with individual banks.

Certain information related to short-term borrowings is as follows:

	Twelve Months Ended Sept. 30, 1980	1979
Total credit available at end of period	$17,400,000	$15,300,000
Unused credit at end of period	$ 2,400,000	$ 8,050,000
Borrowings outstanding at end of period	$15,000,000	$ 7,250,000
Effective interest rate (exclusive of fees) on borrowings outstanding at end of period	13.8%	15.5%
Average daily outstanding borrowings for the period	$11,143,000	$ 9,291,000
Weighted daily average annual interest rate	16.4%	13.2%
Highest level of borrowings outstanding at any month-end during the period	$16,800,000	$14,250,000

(7) SUPPLEMENTARY INCOME STATEMENT INFORMATION

The Company has a noncontributory pension plan covering substantially all of its employees. The Company funds pension costs accrued. Pension cost was $436,250 for the twelve months ended September 30, 1980, $410,000 in 1979, $408,600 in 1978, $262,300 in 1977 and 1976, and $229,900 in 1975, including amortization of unfunded prior service costs (approximately $1,076,800 as of January 1, 1980) over a twenty year period.

As of January 1, 1980, the date of the latest actuarial review, pertinent pension plan information was as follows:

The actuarial present value of vested accumulated plan benefits	$5,952,800
The actuarial present value of nonvested accumulated plan benefits	$ 152,000
Net assets available for benefits	$7,977,989
Assumed rate of return on plan investments	5½%

Maintenance expense, depreciation, and local property and other taxes not based on income which were charged to operating expenses are stated separately in the income statement. Rents and advertising costs are not significant. No royalty or research and development expenses [illegible]red.

(8) CAPACITY

The Company owns 7% of the common stock of Maine Yankee and 14.2% of the common stock of MEPCO. Under purchased power arrangements, the Company is entitled to purchase 7.3% of the output of Maine Yankee, and is obligated to pay a like percentage of Maine Yankee's costs regardless of the level of electrical output. The Company is also presently entitled to 2.4% of a purchased power contract between MEPCO and the New Brunswick Electric Power Commission. However, it is probable that this contract will be revised (see "Pending Legal Proceedings"). To the extent that MEPCO's revenues from transmission services are insufficient to meet its expenses, the Company and the other participants pay MEPCO's costs based upon their relative system peaks. Information relating to the above purchased power arrangements and the operations of Maine Yankee and MEPCO is as follows:

Power Sales Contract Term Capacity Entitlement	MAINE YANKEE 1973-2003 61 MW			MEPCO 1976-1986 9.6 MW		
	Twelve Months Ended September 30, 1980	1979	1978	Twelve Months Ended September 30, 1980	1979	1978
OPERATIONS:			(Dollars in Thousands)			
As reported by investee —						
Operating revenues	$ 81,919	$ 68,867	$ 70,373	$103,758	$98,122	$59,860
Depreciation	$ 8,333	$ 8,279	$ 8,173	$ 735	$ 735	$ 736
Interest and Preferred Dividends	16,218	14,458	12,550	1,264	1,238	1,201
Other, net	50,810	39,480	42,948	101,611	95,994	57,760
	$ 75,361	$ 62,217	$ 63,671	$103,610	$97,967	$59,697
Earnings applicable to common stock	$ 6,558	$ 6,650	$ 6,702	$ 148	$ 155	$ 163
Amounts reported by the Company —						
Purchased power costs	$ 4,541	$ 4,199	$ 4,217	$ 588	$ 587	$ 551
Equity in net income	(468)	(468)	(479)	(24)	(24)	(39)
	$ 4,073	$ 3,731	$ 3,738	$ 564	$ 563	$ 512
FINANCIAL POSITION:						
As reported by investee —						
Plant in service	$240,186	$240,061	$237,884	$ 18,617	$18,617	$18,617
Accumulated depreciation	(59,729)	(54,105)	(46,449)	(7,033)	(6,482)	(5,746)
Other	102,013	101,149	74,520	14,042	10,669	7,941
Total assets	$282,470	$287,105	$265,955	$ 25,626	$22,804	$20,812
Less —						
Preferred stock	[illegible],286	13,070	13,696	—	—	—
Long-term debt	133,537	139,373	128,818	9,900	10,560	11,220
Other liabilities and deferred credits	69,573	67,805	56,657	14,553	10,997	8,267
Net assets	$ 67,074	$ 66,857	$ 66,784	$ 1,173	$ 1,247	$ 1,325
Company's reported equity —						
Equity in net assets	$ 4,695	$ 4,680	$ 4,675	$ 166	$ 177	$ 188
Adjust Company's estimate to actual	115	3	4	10	2	—
	$ 4,810	$ 4,683	$ 4,679	$ 176	$ 179	$ 188

(8) Capacity — (continued)

Complete financial statements of Maine Yankee and MEPCO as of September 30, 1980 and December 31, 1979 and for the five years ended December 31, 1979 are included elsewhere in this Prospectus.

The Company owns 8.333% (50 MW) of the 600 MW Wyman 4 unit. The Company's proportionate share of the direct expenses of this unit is included in the corresponding operating expenses in the Statements of Income for the years 1978 (from December 1), 1979 and the twelve months ended September 30, 1980. Included in the Company's utility plant are the following amounts with respect to this unit:

	September 30, 1980	December 31, 1979
Electric plant in service	$16,507,802	$16,207,360
Accumulated depreciation	(892,008)	(523,008)
	$15,615,794	$15,684,352

(9) Construction

The Company is engaged in an ongoing construction program including an investment in the Seabrook nuclear units ("Seabrook"), a jointly-owned electric generating facility being built by the Public Service Company of New Hampshire ("PSNH"). The Company now owns .37% (8.6 megawatts) of Seabrook and has contracted to purchase another 1.8% (41.4 megawatts) of that plant. The Company's participation in the .37% interest and its potential participation in the 1.8% interest are summarized below:

	Participation in Seabrook		
	Existing	Under Contract	Total
	(Dollars in Thousands)		
Company's Ownership Percentage	.37%	1.8%	2.17%
Utility plant under construction at September 30, 1980:			
Construction and nuclear fuel costs, exclusive of allowance for funds	$4,070	$19,593	$23,663
Estimated for completion:			
Construction and nuclear fuel costs, exclusive of allowance for funds	4,904	23,611	28,515
Total	$8,974	$43,204	$52,178

The above estimates for completion are based on the latest estimates of the project's cost furnished by PSNH. See also Note 10, "Contingencies — Seabrook" for a further discussion of this project.

(9) Construction — (continued)

One of the projects in which the Company had an ownership interest was the New England Power Company nuclear units originally planned for Charlestown, Rhode Island, at the site of the abandoned naval base. Efforts to obtain the site were unsuccessful, and the lead owner's parent company determined that the capacity from the units was not required to meet its system's fifteen year corporate plan. Accordingly, on December 17, 1979, the lead owner announced the cancellation of the project. In its most recent rate order, the Company has received approval from the MPUC to recover over a five year period its investment in the project, less any salvage credits.

(10) Contingencies

Seabrook. As discussed in Note 9 above, one of the jointly-owned generating stations in which the Company is participating is the nuclear generating plant being constructed in Seabrook, New Hampshire in which PSNH has a 50% ownership interest and acts as the principal or lead participant.

In response to the passage of a statute in New Hampshire prohibiting the inclusion of expenditures for construction work in progress in rate base, PSNH determined that it could not continue to finance a 50% interest in the Seabrook units, and in March 1979 it began efforts to reduce its ownership interest to 28%. PSNH's efforts have resulted in commitments only sufficient to reduce PSNH's interest to approximately 35%, which transactions can be consummated only after regulatory approvals of all purchases are obtained. The Company has received the necessary regulatory approvals for its additional 1.8% interest. However, regulatory proceedings with respect to some of the other purchasers' interests have been delayed, and PSNH has indicated that the required approvals might not be obtained before January 1981, or later. In the meantime, PSNH is attempting to continue to finance its 50% ownership interest in the Seabrook project.

Construction of the Seabrook units 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 and has been opposed consistently by a number of intervening groups. Opposition to the project has included demonstrations at the Seabrook site. The project also has been plagued by lengthy delays which have resulted in greatly increased costs. Court appeals and administrative proceedings are continuing, and further appeals and proceedings are possible.

The Company cannot predict whether PSNH's financing problems will be resolved, nor can it predict what effect those financing problems or further administrative or court decisions or regulatory actions may have upon PSNH's ability to complete the project or upon the cost of the project. See "Business — Properties and Power Supply — Future Power Sources" for additional information concerning the Seabrook nuclear units and the Company's participation therein.

Other. See "Pending Legal Proceedings" for a discussion of the Indian cases and proceedings involving IMC Chemical Group, Inc.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Maine Yankee Atomic Power Company:

We have examined the balance sheet and statement of capitalization of Maine Yankee Atomic Power Company (a Maine corporation) as of December 31, 1979, and the related statements of earnings, changes in common stock investment and sources of funds for acquisition of nuclear fuel and construction of electric property for the four years 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 financial statements referred to above present fairly the financial position of Maine Yankee Atomic Power Company as of December 31, 1979 and the results of its operations and its sources of funds for acquisition of nuclear fuel and construction of electric property for the four years then ended, in conformity with generally accepted accounting principles consistently applied during the periods and on a basis consistent with the preceding year.

Arthur Andersen & Co.

Boston, Massachusetts,
February 6, 1980.

MAINE YANKEE ATOMIC POWER COMPANY

STATEMENT OF EARNINGS

(Dollars in Thousands except Per Share Amounts)

	12 Months Ended September 30, 1980 (Unaudited)	Year Ended December 31, 1979	1978	1977	1976	1975
Electric Operating Revenues	$81,919	$68,867	$70,373	$65,659	$58,860	$61,731
Operating Expenses						
Fuel (Notes 1 and 11)	21,651	15,319	17,411	14,863	11,686	14,538
Operation	18,566	14,193	10,684	8,394	6.884	7,230
Maintenance (Note 1)	4,342	2,544	4,496	3,556	1,433	1,917
Depreciation and Amortization (Notes 1 and 11)	8,333	8,279	8,173	8,087	8,029	7,736
Taxes						
Federal and State Income (Note 2)	7,510	7,864	8,703	9,058	8,578	8,192
Local Property	3,752	3,750	4,094	4,222	3,800	2,839
Total Operating Expenses	64,154	51,949	53,561	48,180	40,410	42,452
Operating Income	17,765	16,918	16,812	17,479	18,450	19,279
Other Income (Expenses)						
Allowance for Other Funds Used —						
For Nuclear Fuel (Note 1)	1,236	1,547	1,341	1,047	1,136	844
During Construction (Note 1)	228	76	50	50	31	114
Other	(212)	(168)	(63)	(31)	(15)	(33)
Income Before Interest Charges	19,017	18,373	18,140	18,545	19,602	20,204
Interest Charges						
Long-Term Debt (Notes 4 and 5)	14,144	13,307	11,534	11,502	11,616	12,527
Other	1,126	150	(8)	23	781	441
Allowance for Borrowed Funds Used —						
For Nuclear Fuel (Note 1)	(3,382)	(2,602)	(1,023)	(674)	(561)	(378)
During Construction (Note 1)	(377)	(133)	(90)	(90)	(59)	(193)
	11,511	10,722	10,413	10,761	11,777	12,397
Net Income	7,506	7,651	7,727	7,784	7,825	7,807
Dividends on Preferred Stock	948	1,001	1,025	1,083	1,122	1,122
Earnings Applicable to Common Stock	$ 6,558	$ 6,650	$ 6,702	$ 6,701	$ 6,703	$ 6,685
Shares of Common Stock Outstanding	500,000	500,000	500,000	500,000	500,000	500,000
Earnings per Share of Common Stock	$13.120	$13.300	$13.404	$13.402	$13.406	$13.370
Dividends Declared per Share of Common Stock	$13.000	$13.250	$13.400	$13.404	$13.405	$13.380

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

MAINE YANKEE ATOMIC POWER COMPANY

BALANCE SHEET

(Dollars in Thousands)

ASSETS

	September 30, 1980 (Unaudited)	December 31, 1979
ELECTRIC PROPERTY, at Original Cost (Notes 4 and 11)	$240,186	$240,061
Less: Accumulated Depreciation and Amortization (Notes 1 and 11)	59,729	54,105
	180,457	185,956
Construction Work in Progress (Note 8)	13,969	8,951
Net Electric Property	194,426	194,907
NUCLEAR FUEL, at Original Cost (Notes 1 and 11)		
Nuclear Fuel in Reactor	74,346	52,564
Nuclear Fuel — Spent	51,814	42,557
Nuclear Fuel — Stock	4,895	35,679
	131,055	130,800
Less: Accumulated Amortization —		
Original Cost	86,181	76,443
Permanent Disposal, Net	21,680	15,401
	23,194	38,956
Nuclear Fuel in Process (Note 8)	48,410	40,394
Net Nuclear Fuel	71,604	79,350
Net Electric Property and Nuclear Fuel	266,030	274,257
CURRENT ASSETS		
Cash (Note 3)	205	139
Accounts Receivable	6,294	6,474
Materials and Supplies, at Average Cost	3,667	3,503
Prepayments	2,322	949
Total Current Assets	12,488	11,065
DEFERRED CHARGES AND OTHER ASSETS (Note 1)	3,952	1,783
	$282,470	$287,105

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

MAINE YANKEE ATOMIC POWER COMPANY

BALANCE SHEET

(Dollars in Thousands)

STOCKHOLDERS' INVESTMENT AND LIABILITIES

	September 30, 1980 (Unaudited)	December 31, 1979
CAPITALIZATION (See Separate Statement)		
Common Stock Investment	$ 67,074	$ 66,857
Redeemable Preferred Stock	12,286	13,070
Long-Term Debt	103,237	105,923
Other Long-Term Debt	30,300	33,450
Total Capitalization	212,897	219,300
CURRENT LIABILITIES		
Notes Payable to Banks (Note 3)	—	3,925
Current Sinking Fund Requirements (Note 4)	717	1,822
Accounts Payable	6,081	3,412
Bank Checks Outstanding	99	—
Dividends Payable	1,855	1,919
Accrued Interest and Taxes	8,179	2,739
Other Current Liabilities	87	47
Total Current Liabilities	17,018	13,864
DEFERRED CREDITS		
Accumulated Deferred Income Taxes (Note 2)	42,325	45,048
Unamortized Investment Tax Credits (Note 2)	7,894	7,522
Unamortized Gains on Reacquired Debt (Note 1)	2,336	1,371
Total Deferred Credits	52,555	53,941
COMMITMENTS AND CONTINGENCIES (Note 8)		
	$282,470	$287,105

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

MAINE YANKEE ATOMIC POWER COMPANY

STATEMENT OF CAPITALIZATION

(Dollars in Thousands)

	September 30, 1980 (Unaudited)	December 31, 1979
COMMON STOCK INVESTMENT		
Common Stock, $100 Par Value, Authorized and Outstanding 500,000 Shares	$ 50,000	$ 50,000
Other Paid-in Capital	16,805	16,805
Capital Stock Expense	(262)	(281)
Gain on Cancellation of Preferred Stock	255	110
Premiums on Preferred Stock	184	196
Retained Earnings	92	27
	67,074	66,857
REDEEMABLE PREFERRED STOCK — 7.48% SERIES, $100 Par Value, Authorized 170,000 Shares, Outstanding 122,855 at September 30, 1980 and 130,700 Shares at December 31, 1979 (Note 6)	12,286	13,070
Less: Current Sinking Fund Requirements	—	—
	12,286	13,070
LONG-TERM DEBT (Note 4)		
First and General Mortgage Bonds		
Series A — 9.10% due May 1, 2002	55,717	58,161
Series B — 8½% due May 1, 2002	37,604	38,911
Series C — 7⅝% due May 1, 2002	10,792	10,842
Less: Current Sinking Fund Requirements	(717)	(1,822)
Unamortized Debt Discount, Net of Premium	(159)	(169)
	103,237	105,923
OTHER LONG-TERM DEBT (Note 5)		
Notes Payable to MYA Fuel Company	30,300	33,450
Total Capitalization	$212,897	$219,300

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

MAINE YANKEE ATOMIC POWER COMPANY

STATEMENT OF CHANGES IN COMMON STOCK INVESTMENT

(Dollars in Thousands)

	Shares	Amount at Par Value	Other Paid in Capital	Retained Earnings	Total
Balance — December 31, 1974	500,000	$50,000	$16,653	$ 6	$66,659
Add (Deduct)					
Net Income	—	—	—	7,807	7,807
Cash Dividends Declared on —					
Common Stock	—	—	—	(6,690)	(6,690)
Preferred Stock	—	—	—	(1,122)	(1,122)
Capital Stock Expense	—	—	14	—	14
Balance — December 31, 1975	500,000	50,000	16,667	1	66,668
Add (Deduct)					
Net Income	—	—	—	7,825	7,825
Cash Dividends Declared on —					
Common Stock	—	—	—	(6,703)	(6,703)
Preferred Stock	—	—	—	(1,122)	(1,122)
Capital Stock Expense	—	—	14	—	14
Balance — December 31, 1976	500,000	50,000	16,681	1	66,682
Add (Deduct)					
Net Income	—	—	—	7,784	7,784
Cash Dividends Declared on —					
Common Stock	—	—	—	(6,702)	(6,702)
Preferred Stock	—	—	—	(1,083)	(1,083)
Redemption of Preferred Stock	—	—	75	—	75
Capital Stock Expense	—	—	13	—	13
Balance — December 31, 1977	500,000	50,000	16,769	—	66,769
Add (Deduct)					
Net Income	—	—	—	7,727	7,727
Cash Dividends Declared on —					
Common Stock	—	—	—	(6,700)	(6,700)
Preferred Stock	—	—	—	(1,025)	(1,025)
Capital Stock Expense	—	—	13	—	13
Balance — December 31, 1978	500,000	$50,000	$16,782	$ 2	$66,784

(Continued on following page)

MAINE YANKEE ATOMIC POWER COMPANY

STATEMENT OF CHANGES IN COMMON STOCK INVESTMENT

(Continued)

(Dollars in Thousands)

	Shares	Amount at Par Value	Other Paid in Capital	Retained Earnings	Total
Balance — December 31, 1978	500,000	$50,000	$16,782	$ 2	$66,784
Add (Deduct)					
Net Income	—	—	—	7,651	7,651
Cash Dividends Declared on —					
Common Stock	—	—	—	(6,625)	(6,625)
Preferred Stock	—	—	—	(1,001)	(1,001)
Redemption of Preferred Stock	—	—	35	—	35
Capital Stock Expense	—	—	13	—	13
Balance — December 31, 1979	500,000	$50,000	$16,830	$ 27	$66,857
12 Months Ended September 30, 1980					
(Unaudited)					
Balance — September 30, 1979	500,000	$50,000	$16,825	$ 34	$66,859
Add (Deduct)					
Net Income	—	—	—	7,506	7,506
Cash Dividends Declared on —					
Common Stock	—	—	—	(6,500)	(6,500)
Preferred Stock	—	—	—	(948)	(948)
Redemption of Preferred Stock	—	—	145	—	145
Capital Stock Expense	—	—	12	—	12
Balance — September 30, 1980	500,000	$50,000	$16,982	$ 92	$67,074

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

MAINE YANKEE ATOMIC POWER COMPANY

STATEMENT OF SOURCES OF FUNDS FOR ACQUISITION OF NUCLEAR FUEL AND CONSTRUCTION OF ELECTRIC PROPERTY

(Dollars in Thousands)

	12 Months Ended September 30, 1980	Year Ended December 31, 1979	1978	1977	1976	1975
	(Unaudited)					
FUNDS PROVIDED						
Internal Sources						
From Operations						
Net Income	$ 7,506	$ 7,651	$ 7,727	$ 7,784	$ 7,825	$ 7,807
Amortization of Nuclear Fuel	21,651	15,319	17,411	14,863	13,240	15,029
Fuel Settlement Credit	—	—	—	—	(1,554)	(491)
Depreciation and Amortization	8,333	8,279	8,173	8,087	8,029	7,736
Deferred Income Taxes and Investment Tax Credit, Net	(964)	6,918	7,583	8,868	8,413	8,192
Allowance for Other Funds Used for Nuclear Fuel and During Construction	(1,464)	(1,623)	(1,391)	(1,097)	(1,167)	(958)
	35,062	36,544	39,503	38,505	34,786	37,315
Less:						
Sinking Fund Requirements:						
Long-Term Debt	4,577	4,850	5,555	5,626	4,483	4,172
Preferred Stock	794	626	—	1,304	—	—
Dividends on Preferred Stock	948	1,001	1,025	1,083	1,122	1,122
Dividends on Common Stock	6,500	6,625	6,700	6,702	6,703	6,690
Other, Net	1,437	505	46	(139)	(1,208)	(463)
	20,806	22,937	26,177	23,929	23,686	25,794
(Increase) Decrease in Working Capital, Exclusive of Notes Payable to Banks and Sinking Fund Requirements						
Cash and Receivables	(269)	425	(616)	(1,054)	1,519	994
Other Current Assets	621	(466)	(66)	(587)	(598)	(618)
Other Current Liabilities	3,380	(533)	(7,776)	12,075	(4,354)	(6,178)
	3,732	(574)	(8,458)	10,434	(3,433)	(5,802)
Net Available from Internal Sources	24,538	22,363	17,719	34,363	20,253	19,992
External Sources						
Increase (Decrease) in Notes Payable						
MYA Fuel Company	4,700	15,800	8,750	(11,950)	20,850	—
Banks	(1,100)	3,925	—	(200)	(5,700)	(3,100)
Series A Debentures	—	—	—	—	(15,000)	—
Net Available from External Sources	3,600	19,725	8,750	(12,150)	150	(3,100)
	$28,138	$42,088	$26,469	$22,213	$20,403	$16,892
FUNDS USED FOR ACQUISITION OF NUCLEAR FUEL AND CONSTRUCTION OF ELECTRIC PROPERTY						
Acquisition of Nuclear Fuel	$20,786	$35,244	$25,732	$20,968	$19,543	$12,786
Allowance for Other Funds Used for Nuclear Fuel	(1,236)	(1,547)	(1,341)	(1,047)	(1,136)	(844)
Construction of Electric Property	8,816	8,467	2,128	2,342	2,027	5,064
Allowance for Other Funds Used During Construction	(228)	(76)	(50)	(50)	(31)	(114)
	$28,138	$42,088	$26,469	$22,213	$20,403	$16,892

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

MAINE YANKEE ATOMIC POWER COMPANY

NOTES TO FINANCIAL STATEMENTS
(Including Notes to Unaudited Periods)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company: The Company owns and operates a pressurized-water nuclear-powered electric generating plant with a current net capacity of approximately 830 megawatts electric. The plant commenced commercial operation on January 1, 1973. The following New England electric utilities own all of the Company's common stock:

Sponsor/Participant	Ownership Interest
Central Maine Power Company	38%
New England Power Company	20
The Connecticut Light and Power Company	8
Bangor Hydro-Electric Company	7
Maine Public Service Company	5
Public Service Company of New Hampshire	5
Cambridge Electric Light Company	4
Montaup Electric Company	4
The Hartford Electric Light Company	4
Western Massachusetts Electric Company	3
Central Vermont Public Service Corporation	2
Total	100%

For a period of thirty years, commencing on January 1, 1973, in accordance with the Power Contracts and, subject to certain limitations, each participant shall receive its entitlement percentage of plant output and is obligated to pay its entitlement percentage of the Company's total costs, including a return on invested capital regardless of the level of operation of the plant.

Regulation: The Company is subject to the regulatory authority of the Federal Energy Regulatory Commission (FERC), the Nuclear Regulatory Commission (NRC) and the Public Utilities Commission of the State of Maine (PUC) as to accounting, operations and other matters.

Depreciation and Maintenance: Depreciation is provided using a remaining life method designed to fully depreciate electric plant on a straight-line basis over the period ending May 1, 2002.

Because of economic and regulatory uncertainties, the Company does not presently provide for nuclear plant decommissioning costs. The Company is currently studying the many alternative methods of decommissioning and the various funding options but cannot now predict what method of decommissioning will be adopted or its cost, which could be significant using present technology.

Minor renewals and betterments are charged to maintenance expense unless the item constitutes a retirement unit, in which case the new unit is charged to electric plant. At the time depreciable properties are retired, the original cost, plus cost of removal, less salvage, of such property is charged to the accumulated provision for depreciation.

An accounting policy is being adopted by the Company to defer and amortize over a five year period the costs of unusual and irregular recurring studies and inspections. This is in response to

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

recent events and orders requiring the Company to undertake significant analyses of specified operating and design procedures and equipment.

Amortization of Nuclear Fuel: The cost of nuclear fuel in the reactor, plus the estimated cost of disposal of that nuclear fuel, is amortized to Fuel Expense based on the ratio of energy produced during the period to the estimated total core capability with a corresponding credit to Accumulated Amortization.

Prior to June 10, 1977, the Company's estimated cost of disposal of nuclear fuel was based on estimates of the cost of reprocessing, less salvage. Through May 1976, nuclear fuel salvage values and reprocessing costs were based on the estimated market values and costs of reprocessing at the time that the fuel was expected to be removed from the reactor. From June 1, 1976 through June 9, 1977, nuclear fuel salvage values and reprocessing costs were based on the estimated market values and reprocessing costs at the time of reprocessing.

As a result of federal energy proposals and other indications of a developing national policy with respect to the disposition of nuclear fuel, the Company changed its assumptions as to the cost and the manner of disposal of nuclear fuel. Commencing June 10, 1977, the Company began providing for permanent storage rather than reprocessing of spent fuel. The Company's estimate of the cost of permanent storage was based on a study by the NRC. Specifically the disposal estimate provided was at a rate of $100/kilogram of uranium (KGU) originally contained in the assemblies in 1977 dollars escalated at 8% a year to the time of discharge from the reactor.

Beginning in March 1980 the Company's cost estimate for permanent disposal of Nuclear Fuel in Reactor was increased to $130/KGU originally contained in the assemblies, expressed in 1978 dollars, escalated at 8% per year to the time of permanent disposal (currently estimated to be 1988). The disposal cost for fuel in reactor is billed, based on generation, over the period that the fuel is consumed. Through 1988 the Company is adjusting the disposal reserve collected for Spent Fuel to reflect the current disposal cost estimate. This adjustment which amounts to approximately $40,000,000 is being recovered based on electric generation from March 1980 through 1988.

This estimate of the cost of permanent disposal ($130/KGU) is based on a report issued by the Department of Energy in July 1978. This report estimated the cost for permanent storage to be $117/KGU originally contained in the assemblies (in 1978 dollars). This estimate did not include the cost of transportation to the disposal center, which has been estimated by the Company to be $13/KGU contained in the assemblies.

The estimate of cost of disposal of nuclear fuel is subject to a number of uncertainties including the timing of available storage capacity, the extent of future inflation, regulatory requirements and the cost of future services, all of which may require periodic revisions in future nuclear fuel amortization rates. However, the Company believes that its estimate is reasonable.

Allowance for Funds Used During Construction and Allowance for Funds Used for Nuclear Fuel (AFC): The Company records the net cost of borrowed funds and a reasonable return on other

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

funds used to finance construction and nuclear fuel acquisition programs. The amount of the allowance recorded is determined by multiplying the average monthly dollar balance of Construction Work In Progress (CWIP) and Nuclear Fuel In Process and Stock (NFIPS) by rates related to the cost of the capital used to finance the respective additions. The following table contains the weighted average rates used during the twelve months ended September 30, 1980 and for the most recent five annual periods:

	AFC on CWIP	AFC on NFIPS
Twelve Months Ended September 30, 1980	7.30%	8.71%
1979	7.40	7.68
1978	7.60	7.00
1977	7.87	6.98
1976	8.07	7.21
1975	8.46	7.35

Unamortized Gain or Loss on Reacquired Debt: Gains and losses on bonds reacquired to satisfy sinking fund requirements of First Mortgage Bonds have been deferred and are being amortized to income over the remaining original terms of the applicable series as prescribed by the Uniform System of Accounts of the FERC.

2. INCOME TAX EXPENSE

The components of Federal and state income taxes reflected in the statements of income are as follows:

	12 Months Ended September 30, 1980	Year Ended December 31, 1979	1978	1977	1976	1975
	(Unaudited)	(Dollars in Thousands)				
Federal:						
Current	$6,402	$ 602	$ 625	$ 134	$ —	$ —
Deferred and Investment Tax Credits, Net	(51)	6,076	6,831	7,594	7,410	7,042
	6,351	6,678	7,456	7,728	7,410	7,042
State:						
Current	2,072	344	495	56	165	—
Deferred	(913)	842	752	1,274	1,003	1,150
	1,159	1,186	1,247	1,330	1,168	1,150
Total Federal and state income taxes	$7,510	$7,864	$8,703	$9,058	$8,578	$8,192

MAINE YANKEE ATOMIC POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)
(Including Notes to Unaudited Periods)

2. Income Tax Expense — (Continued)

The Company provides deferred taxes for the tax effects of timing differences between pre-tax accounting income and taxable income. Prior to 1975 the Company did not provide fully for the tax effect of timing differences and beginning in 1976 is providing additional deferred taxes to recognize the tax effect of these differences. These additional deferred taxes are recoverable under the terms of the power contracts described in Note 1.

Investment tax credits are deferred and amortized over the life of the assets giving rise to such credits. At December 31, 1979 the Company had available a carryover of unused investment tax credits of approximately $5,800,000 to be applied to reduce Federal income taxes.

The Company had provided for, and deducted for tax purposes, certain costs associated with nuclear fuel reprocessing and permanent storage. In the recent examination of the Company's Federal income tax returns for years 1973 through 1977, the Internal Revenue Service examining agent disallowed the current deduction of these costs. The Internal Revenue Services position was sustained at the Appelate level which resulted in the Company fully utilizing the $5,800,000 of investment tax credit available as of December 31, 1979 and paying additional Federal and state income tax assessments cumulative through 1979 of $2,728,530 exclusive of interest. These assessments had no effect on total income tax expense because the Company had provided income taxes for the effects of all timing differences.

The following table reconciles the statutory income tax rate to a rate determined by dividing the total Federal income tax expense by income before that expense.

	12 Months Ended September 30, 1980 (Unaudited)	1979	1978	1977	1976	1975
Statutory Federal income tax rate	46.0%	46.0%	48.0%	48.0%	48.0%	48.0%
(Increase) Reductions in taxes resulting from:						
Deferred taxes not provided on certain timing differences	2.9	2.9	2.8	2.7	.9	—
Amortization of investment tax credit	(6.0)	(4.7)	(3.8)	(2.9)	(2.2)	(2.0)
Other	2.9	2.4	2.1	2.0	1.9	1.4
Calculated rate	45.8%	46.6%	49.1%	49.8%	48.6%	47.4%

MAINE YANKEE ATOMIC POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

(Including Notes to Unaudited Periods)

3. NOTES PAYABLE TO BANKS

The Company had bank lines of credit totaling $29,000,000 as of September 30, 1980, the majority of which requires an annual fee of ½ to ⅝ of 1% of the line. With respect to $28,000,000 of the lines there are no compensating balance requirement, the remaining $1,000,000 requires a compensating balance of 10% of the line or 20% of borrowing whichever is greater.

The Company had lines of credit at December 31, 1979 totaling $14,000,000. With respect to $13,000,000 of the line, there is a required annual fee of ⅝ of 1%. The compensating balance requirement for the remaining $1,000,000 is 10% of the line or 20% of outstanding borrowings, whichever is greater. Certain information related to these lines is as follows for the twelve months ended:

	September 30, 1980 (Unaudited)	December 31, 1979
	(Dollars in Thousands)	
Total lines of credit	$29,000	$14,000
Borrowings outstanding	—	3,925
Average daily outstanding borrowings	5,322	1,148
Highest level of borrowings	13,656	9,300
Annual interest rate at end of periods	13.00%	15.25%
Average annual interest rate	16.60%	15.40%

4. FIRST MORTGAGE BONDS

The annual sinking fund requirements of the First Mortgage Bonds currently outstanding amount to $4,775,000 for each of the years 1980 through 1984. Bonds repurchased amounted to $4,212,000 at September 30, 1980 and $3,436,000 at December 31, 1979.

Under the terms of the Indenture securing the First Mortgage Bonds, substantially all electric plant of the Company is subject to a first mortgage lien.

5. MYA FUEL COMPANY

On August 26, 1976, the Company entered into a Loan Agreement covering the issuance of up to $35,000,000 principal amount of promissory notes to MYA Fuel Company, a subsidiary of BSC Holdings, Inc. BSC is owned by a partnership composed of partners of Goldman, Sachs & Co. Certain information related to this loan arrangement is as follows for the twelve months ended:

	September 30, 1980 (Unaudited)	December 31, 1979
	(Dollars in Thousands)	
Promissory notes outstanding	$30,300	$33,450
Average daily outstanding borrowings	32,704	28,252
Highest level of borrowings	34,250	34,250
Annual interest rate at end of periods	12.45%	14.18%
Effective average annual interest rate	15.12%	13.33%

5. MYA Fuel Company — (Continued)

The Loan Agreement provides that, in the absence of an Event of Default (as defined) or occurrence of a Terminating Event (as defined) the arrangement will extend to May 1, 2002, unless terminated by either party upon proper notice. The Company must provide 90 days written notice while MYA Fuel Company must give at least three years written notice. In order for the arrangement to extend beyond August 26, 1981, the PUC must extend its present approval of the arrangement.

6. Redeemable Preferred Stock

The Company may redeem, in whole or in part, any of the 7.48% Series Preferred Stock upon not less than thirty nor more than fifty days' notice at $107.11 per share on or before December 31, 1982, and at amounts decreasing to $100.00 thereafter; in each case plus accrued dividends.

Beginning in 1978, 6,000 shares must be redeemed and cancelled annually, at par, and at the election of the Company an additional 6,000 shares may be redeemed and cancelled, at par, on each redemption date. The optional provision is not cumulative.

Preferred Stock repurchased and not cancelled amounted to 9,145 shares at September 30, 1980 and 7,300 shares at December 31, 1979.

7. Retirement Income Plan

The Company has two noncontributory retirement income plans which cover substantially all full-time employees. The Company's policy is to fund pension costs accrued on an annual basis, including amounts sufficient to amortize unfunded prior service costs over 30 years.

The plan expense approximated $219,000 for the twelve months ended September 30, 1980, $182,000 for the year 1979, $130,000 for the year 1978, $121,000 for the year 1977, $86,000 for the year 1976 and $72,000 for the year 1975.

Accumulated benefits and net assets for the pension plans as of January 1, 1980 are shown below:

Actuarial present value of accumulated plan benefits:	
Vested	$173,000
Nonvested	166,000
	$339,000
Net assets available for benefits	$913,000

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.25%.

8. Commitments and Contingencies

Nuclear Fuel: The Company anticipates nuclear fuel expenditures of $26,749,000 for 1980 (exclusive of AFC) and $85,144,000 for the period 1981 through 1984 (exclusive of AFC).

The Company has contracted for the purchase of all of its uranium concentrate requirements through 1983. In addition the Company has a contract with a uranium supplier for the purchase of up to 1.3 million pounds of uranium concentrates. Deliveries of these concentrates are scheduled to begin in 1981 and end in 1992, but delivery is contingent upon the commercial operation of a processing facility which is currently under construction. The Company has not included fuel expenditures or deliveries for this contract in the information presented above. The impact on expenditures for the 1981 through 1984 period could amount to $25,422,000 and the uranium concentrate requirements could be fulfilled through 1986 if contracted deliveries are fulfilled.

The Company has conversion contracts through 1983 and has a contract with the Department of Energy for enrichment services through 2002. Its fabrication requirements are covered through 1983, with a current contract option for two additional years. It has no contractual arrangement for reprocessing or permanent storage of spent fuel. The Company is expanding its on-site spent fuel storage facility to provide capacity to store such fuel through 1984 while maintaining a full core discharge capability. In addition, in September 1979 the Company filed with the NRC a proposed change in its operating license relating to increasing its existing spent fuel storage capacity by providing more compact fuel storage. An intervenor has requested a hearing. The Company cannot predict the scope of that proceeding, its duration or its outcome. If the proposed change is not approved, the Company will have to develop alternative plans which would involve further approval by the NRC.

Construction: The Company anticipates construction expenditures to amount to $10,000,000 for 1980 including $3,000,000 towards a $6,300,000 contract commitment for the purchase of a spare turbine rotor.

Price-Anderson: The 1975 amendments to the Price-Anderson Act changed the public liability insurance requirements for the nuclear industry. Since August 1, 1977, each reactor licensee is required to carry $160 million of primary public liability insurance, supplemented by a mandatory industry-wide program of self insurance. Under the program, in the event of a nuclear incident at any operating reactor in the United States, each licensee could be assessed up to $5 million with a limit of two assessments per reactor owned per calendar year in the event of more than one incident.

Three Mile Island: The events during the spring of 1979 at the Three Mile Island Nuclear Unit No. 2 in Pennsylvania ("TMI") resulted in damage to the TMI plant and release of radioactivity into the environment and caused widespread concern about the safety of nuclear generating plants. The incident also prompted a rigorous reexamination of safety-related equipment and operating pro-

8. Commitments and Contingencies — (Continued)

cedures in all nuclear facilities by their owners and the NRC. The commission formed by President Carter to investigate and report on the causes of the TMI incident issued its report on October 30, 1979, recommending a number of changes in NRC organization and practices, licensing of nuclear plants, plant operating practices, operator training and other safety-related matters and on January 13, 1980, an NRC-commissioned report containing similar recommendations was released. As a result, the NRC has promulgated numerous requirements, including both near-term modification and longer-term design changes. The Company has made the modifications required to date by the NRC, but cannot predict what further modifications will be required, their cost, or their effect on the operation of the Maine Yankee plant.

9. Anti-nuclear Referendum

The Company owns the only nuclear power generating plant in Maine. By a referendum vote held on September 23, 1980, the Maine electorate rejected, by a margin of 59% to 41%, proposed legislation calling for termination of current and future nuclear power generation in Maine.

MAINE YANKEE ATOMIC POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)
(Including Notes to Unaudited Periods)

10. Unaudited Quarterly Financial Data

Unaudited quarterly financial data pertaining to the results of operations are shown below:

	Quarter Ended			
	March 31	June 30	September 30	December 31
1980	(Dollars in Thousands Except Per Share Amounts)			
Electric Operating Revenues	$18,911	$24,065	$19,678	
Operating Income	4,297	4,718	4,546	
Net Income	1,921	1,837	1,836	
Earnings Per Share of Common Stock	3.35	3.22	3.21	
1979				
Electric Operating Revenues	$16,592	$15,324	$17,686	$19,265
Operating Income	4,334	4,234	4,145	4,205
Net Income	1,933	1,930	1,876	1,912
Earnings Per Share of Common Stock	3.35	3.35	3.26	3.34
1978				
Electric Operating Revenues	$17,082	$17,179	$17,160	$18,952
Operating Income	4,219	4,052	4,148	4,393
Net Income	1,932	1,930	1,931	1,934
Earnings Per Share of Common Stock	3.35	3.35	3.35	3.35
1977				
Electric Operating Revenues	$14,707	$15,471	$18,296	$17,185
Operating Income	4,322	4,325	4,442	4,390
Net Income	1,956	1,947	1,939	1,942
Earnings Per Share of Common Stock	3.35	3.35	3.35	3.35

11. Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

The following supplementary information is supplied in accordance with the requirements of the Statement of Financial Accounting Standards No. 33 for the purpose of providing certain information about the effect of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar-amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than the general rate of inflation. The current cost of nuclear generating plant

11. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (UNAUDITED) — (Continued)

is estimated based on an engineering study of the current cost (per megawatt) of replacing the present generating plant.

Nuclear fuel used in generation has been restated from historical cost using current market prices of uranium, conversion, enrichment and fabrication. Nuclear-fuel expense was developed by dividing the estimated current cost of the in-reactor fuel by the expected generation of the core times the actual generation produced during the year 1979.

Depreciation expense for the current cost of productive capacity was developed by applying the depreciable rate to the current cost value adjusted by the ratio of average historical cost to year-end historical cost.

Since only historical costs are deductible for income tax purposes, the income tax expense in the historical cost financial statements is not adjusted.

Under the rate-making practices prescribed by the regulatory commissions to which the Company is subject, only the depreciation of historical cost of utility property is included in the cost of service used to establish the Company's rates. Therefore, the cost of plant and nuclear fuel stated in terms of constant dollars or current cost that exceeds the historical cost of plant is not presently recoverable in rates, and is reflected as a reduction to net recoverable costs. While the rate-making process gives no recognition to the current cost of replacing property, plant and equipment, based on past practices the Company believes it will be allowed to earn on and recover the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statement of Income from Operations Adjusted for Changing Prices, the reduction of utility plant and nuclear fuel to net recoverable cost should be offset by the gain from the decline in purchasing power of net amounts owed as shown below. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant, equipment and nuclear fuel. Since the depreciation on utility plant and amortization of nuclear fuel is limited to amounts based on historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

11. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (UNAUDITED) — (Continued)

STATEMENT OF INCOME FROM OPERATIONS ADJUSTED FOR CHANGING PRICES
For the Year Ended December 31, 1979
(Dollars in Thousands)

	Conventional Historical Cost	Constant Dollar Average 1979 Dollars	Current Dollar Average 1979 Dollars
Operating Revenues	$68,867	$68,867	$ 68,867
Operation and Maintenance	16,737	16,737	16,737
Fuel Expense	15,319	18,147	28,518
Depreciation and Amortization	8,279	13,692	26,299
Taxes	11,614	11,614	11,614
Interest Charges	10,722	10,722	10,722
Other, Net	(1,455)	(1,455)	(1,455)
Income (Loss) from Operations (excluding reduction to net recoverable amount)	$ 7,651	$ (590)	$(23,568)
Increase in specific prices (current cost) of plant and Nuclear Fuel held during the year*		$ —	$ 92,831
Reduction to net recoverable amount		(24,833)	(11,875)
Effect of increase in general price level		—	(82,811)
Net		(24,833)	(1,855)
Gain from decline in purchasing power of net amounts owed		24,666	24,666
		$ (167)	$ 22,811

*At December 31, 1979, current cost of Plant and Nuclear Fuel, net of accumulated depreciation and amortization was $704,512, while historical costs or net cost recoverable through rates was $274,257.

MAINE YANKEE ATOMIC POWER COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)
(Including Notes to Unaudited Periods)

11. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (UNAUDITED) — (Continued)

FIVE YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES
(In Thousands of Average 1979 Dollars)

	Years Ended December 31,				
	1975	1976	1977	1978	1979
Operating Revenues	$83,253	$75,051	$78,646	$78,296	$ 68,867
Historical Cost Information Adjusted for General Inflation					
Loss from operations excluding reduction to net recoverable amount					$ (590)
Loss from operations per common share (after preferred dividend requirement)					$ (3.18)
Current Cost Information					
Loss from operations excluding reduction to net recoverable amount					$(23,568)
Loss from operations per common share (after preferred dividend requirement)					$ (49.14)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable amount					$ (1,[illegible]5)
General Information					
Net assets at year end at recoverable amount					$ 63,222
Gain from decline in purchasing power of net amounts owed					$ 24,666
Cash dividends per common share	$18.045	$17.092	$16.055	$14.909	$ 13.250
Average Consumer Price Index	161.2	170.5	181.5	195.4	217.4

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Maine Electric Power Company, Inc.:

We have examined the balance sheet of Maine Electric Power Company, Inc. (a Maine corporation) as of December 31, 1979, and the related statements of earnings, changes in common stock investment and changes in financial position for the four years 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 financial statements referred to above present fairly the financial position of Maine Electric Power Company, Inc., as of December 31, 1979, and the results of its operations and its changes in financial position for the four years then ended, all in conformity with generally accepted accounting principles consistently applied during the periods and on a basis consistent with the preceding year.

Arthur Andersen & Co.

Boston, Massachusetts,
February 6, 1980.

MAINE ELECTRIC POWER COMPANY, INC.

STATEMENT OF EARNINGS

(Dollars in Thousands Except Per Share Amounts)

	12 Months Ended September 30, 1980 (Unaudited)	Year Ended December 31, 1979	1978	1977	1976	1975
Electric Operating Revenues	$103,758	$98,122	$59,860	$72,758	$35,144	$16,242
Operating Expenses						
Purchased Power (Note 1)	100,971	95,368	57,181	69,936	32,134	13,327
Operation	221	206	182	195	192	159
Maintenance (Note 1)	184	153	44	45	203	103
Depreciation (Note 1)	735	735	736	735	735	730
Taxes						
Federal and State Income (Note 2)	139	162	197	221	214	212
Local Property and Other	213	217	229	239	258	245
Total Operating Expenses	102,463	96,841	58,569	71,371	33,736	14,776
Operating Income	1,295	1,281	1,291	1,387	1,408	1,466
Other Income and Deductions, Net	117	112	74	51	23	37
Income Before Interest Charges	1,412	1,393	1,365	1,438	1,431	1,503
Interest Charges						
Long-Term Debt (Note 3)	1,010	1,056	1,127	1,192	1,224	1,298
Other	254	182	74	73	25	14
Total Interest Charges	1,264	1,238	1,201	1,265	1,249	1,312
Net Income	$ 148	$ 155	$ 164	$ 173	$ 182	$ 191
Weighted Average Number of Shares of Common Stock Outstanding	12,345	12,923	13,677	14,413	15,149	15,885
Earnings Per Share of Common Stock	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00
Dividends Declared Per Share of Common Stock	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 15.10

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

MAINE ELECTRIC POWER COMPANY, INC.

BALANCE SHEET
(Dollars in Thousands)

ASSETS	September 30, 1980 (Unaudited)	December 31, 1979
ELECTRIC PROPERTY, at Original Cost (Notes 1 and 3)	$18,617	$18,617
Less: Accumulated Depreciation (Note 1)	7,033	6,482
	11,584	12,135
CURRENT ASSETS		
Cash (Note 4)	2,025	129
Temporary Investments, at Cost which approximates market value	—	275
Accounts Receivable —		
Associated Companies	2,160	1,165
Other	9,598	3,852
Other Current Assets	175	154
Total Current Assets	13,958	10,575
DEFERRED CHARGES	84	94
	$25,626	$22,804

STOCKHOLDERS' INVESTMENT AND LIABILITIES	September 30, 1980 (Unaudited)	December 31, 1979
CAPITALIZATION		
Common Stock Investment		
Common Stock, $100 Par Value, Authorized 20,000 Shares, Outstanding 11,733 and 12,467 respectively	$ 1,173	$ 1,247
Retained Earnings	—	—
Total Common Stock Investment	1,173	1,247
Series A 9¼% First Mortgage Bonds due in Annual Installments through August 1, 1996 — Less Current Sinking Fund Requirements (Note 3)	9,900	10,560
Total Capitalization	11,073	11,807
CURRENT LIABILITIES		
Current Sinking Fund Requirements (Note 3)	584	660
Notes Payable — Banks	2,075	—
Accounts Payable		
Associated Companies	23	90
Other	111	468
Dividends Payable	36	37
Accrued Purchased Power	9,320	7,547
Accrued Interest and Taxes	436	466
Total Current Liabilities	12,585	9,268
DEFERRED CREDITS		
Accumulated Deferred Income Taxes (Note 2)	1,786	1,696
Unamortized Investment Tax Credits (Note 2)	10	10
Unamortized Gain on Reacquired Debt (Note 1)	172	23
Total Deferred Credits	1,968	1,729
COMMITMENTS AND CONTINGENCIES (Notes 5 and 6)		
	$25,626	$22,804

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

MAINE ELECTRIC POWER COMPANY, INC.

STATEMENT OF CHANGES IN COMMON STOCK INVESTMENT

(Dollars in Thousands)

	Shares	Amount at Par Value	Capital Stock Expense	Retained Earnings	Total
Balance December 31, 1974	16,192	$1,619	$ (3)	$ 49	$1,665
Add (Deduct)					
Net Income	—	—	—	191	191
Dividends Declared	—	—	—	(240)	(240)
Redemption of Stock	(736)	(74)	—	—	(74)
Balance December 31, 1975	15,456	1,545	(3)	—	1,542
Add (Deduct)					
Net Income	—	—	—	182	182
Dividends Declared	—	—	—	(182)	(182)
Redemption of Stock	(736)	(73)	—	—	(73)
Balance December 31, 1976	14,720	1,472	(3)	—	1,469
Add (Deduct)					
Net Income	—	—	—	173	173
Dividends Declared	—	—	—	(173)	(173)
Redemption of Stock	(736)	(74)	—	—	(74)
Capital Stock Expense	—	—	3	—	3
Balance December 31, 1977	13,984	1,398	—	—	1,398
Add (Deduct)					
Net Income	—	—	—	164	164
Dividends Declared	—	—	—	(164)	(164)
Redemption of Stock	(736)	(73)	—	—	(73)
Balance December 31, 1978	13,248	1,325	—	—	1,325
Add (Deduct)					
Net Income	—	—	—	155	155
Dividends Declared	—	—	—	(155)	(155)
Redemption of Stock	(781)	(78)	—	—	(78)
Balance December 31, 1979	12,467	$1,247	$ —	$ —	$1,247
12 Months Ended September 30, 1980 **(Unaudited)**					
Balance September 30, 1979	12,467	$1,247	$ —	$ —	$1,247
Add (Deduct)					
Net Income	—	—	—	148	148
Dividends Declared	—	—	—	(148)	(148)
Redemption of Stock	(734)	(74)	—	—	(74)
Balance September 30, 1980	11,733	$1,173	$ —	$ —	$1,173

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

MAINE ELECTRIC POWER COMPANY, INC.

STATEMENT OF CHANGES IN FINANCIAL POSITION

(Dollars in Thousands)

	12 Months Ended September 30, 1980 (Unaudited)	Year Ended December 31, 1979	1978	1977	1976	1975
Funds Provided						
From Operations						
Net Income	$ 148	$ 155	$ 164	$ 173	$ 182	$ 191
Depreciation	735	735	736	735	735	730
Deferred Income Taxes and Investment Tax Credit, Net	119	140	186	213	132	159
	1,002	1,030	1,086	1,121	1,049	1,080
Funds Used						
Plant Construction and Replacement	—	—	—	9	23	87
Sinking Fund Requirements of Long-Term Debt	736	660	660	600	720	660
Dividends on Common Stock	148	155	164	173	182	240
Redemption of Common Stock	74	78	73	74	73	74
Other	(161)	(23)	(5)	(11)	(12)	(29)
	797	870	892	845	986	1,032
Increase (Decrease) in Working Capital, exclusive of sinking fund requirements	$ 205	$ 160	$ 194	$ 276	$ 63	$ 48
Increase (Decrease) in Working Capital, exclusive of sinking fund requirements —						
Cash, Receivables and Temporary Investments	$ 153	$2,730	$ (421)	$1,058	$4,982	$(1,076)
Other current Assets	(2)	7	4	(4)	44	13
Notes Payable	(775)	—	—	65	(65)	—
Other Current Liabilities	829	(2,577)	611	(843)	(4,898)	1,111
	$ 205	$ 160	$ 194	$ 276	$ 63	$ 48

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

MAINE ELECTRIC POWER COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

(Including Notes to Unaudited Periods)

1. Summary of Significant Accounting Policies

The Company: The Company owns and operates a 345,000 volt transmission interconnection, completed in 1971, extending from Wiscasset, Maine to the Canadian border at Orient, Maine, where it connects with a line of The New Brunswick Electric Power Commission (New Brunswick) under a 25-year Interconnection Agreement. Under a Participation Agreement which also terminates in 1996, all costs of the Company (including a return on invested capital), to the extent not met by transmission revenues, are paid by the participating utilities (Participants), which include most of the larger companies in New England and a group of publicly-owned systems. Under a Power Purchase Agreement, New Brunswick is providing to the Participants over the interconnection up to 400,000 kilowatts of base load power for a ten-year period ending October 31, 1986.

The following is a list of those companies that currently purchase power from the Company and their respective entitlements:

Participant	Percent of Entitlement
Bangor Hydro-Electric Company	2.395%
Boston Edison Company	16.250
Boylston Municipal Light Department	.030
Central Maine Power Company	10.274
Danvers Municipal Light Department	.371
Eastern Maine Electric Co-operative, Inc.	2.583
Fitchburg Gas and Electric Company	.770
Maine Public Service Company	.844
Marblehead Municipal Light Department	.170
Middleborough Municipal Light Department	.769
Middleton Municipal Light Department	.056
Montaup Electric Company	5.792
New England Power Company	22.500
Newport Electric Corporation	2.260
Peabody Municipal Light Department	.546
Public Service Company of New Hampshire	26.250
Shrewsbury Municipal Light Department	.275
Union River Co-op	.005
Vermont Electric Power Company, Inc.	7.509
Wakefield Municipal Light Department	.268
West Boylston Municipal Lighting Department	.083
Total	100.000%

MAINE ELECTRIC POWER COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)
(Including Notes to Unaudited Periods)

1. Summary of Significant Accounting Policies — (Continued)

The following Maine electric utilities own all of the Company's Common Stock:

Sponsor	Ownership Interest
Central Maine Power Company	78.15%
Bangor Hydro-Electric Company	14.19
Maine Public Service Company	7.49
Woodland Water and Electric Company	.17
Total	100.00%

Regulation: The Company is subject to the regulatory authority of the Federal Energy Regulatory Commission and the Public Utilities Commission of the State of Maine as to operations, accounting and other matters.

Depreciation and Maintenance: Depreciation is provided using the straight-line method at rates designed to fully depreciate all properties over the period ending July 1, 1996.

Minor renewals and betterments are charged to maintenance expense, unless the item constitutes a retirement unit, in which case the new unit is charged to electric plant. At the time depreciable properties are retired, the original cost, plus cost of removal, less salvage, of such property is charged to the accumulated provision for depreciation.

Unamortized Gains and Losses: Gains and losses on bonds reacquired to satisfy sinking fund requirements are deferred and amortized over the remaining original term of the Series A Bonds.

2. Income Tax Expense

The components of Federal and state income taxes reflected in the statement of income are as follows:

	12 Months Ended September 30, 1980	Year Ended December 31, 1979	1978	1977	1976	1975
	(Unaudited)	(Dollars in Thousands)				
Federal:						
Current	$ 20	$ 21	$ 10	$ 8	$ 71	$ 45
Deferred	103	121	162	183	112	131
Investment Tax Credit, Net	(1)	—	(1)	1	2	8
	122	142	171	192	185	184
State:						
Current	—	1	1	—	11	8
Deferred	17	19	25	29	18	20
	17	20	26	29	29	28
Total Federal and state income taxes	$139	$162	$197	$221	$214	$212

NOTES TO FINANCIAL STATEMENTS — (Continued)
(Including Notes to Unaudited Periods)

2. Income Tax Expense — (Continued)

The Company provides deferred Federal and state income taxes for the tax effects of timing differences between pre-tax accounting income and income subject to tax. The deferred provision represents principally the tax effects arising from the use of accelerated depreciation for income tax purposes which currently exceeds the amounts provided in the accounts. Investment tax credits are deferred and amortized over the lives of the related properties.

The following table reconciles the statutory Federal income tax rate to a rate determined by dividing the total Federal income tax expense by income before that expense.

	Twelve Months Ended September 30, 1980 (Unaudited)	1979	1978	1977	1976	1975
Statutory Federal income tax rate	46.0%	46.0%	48.0%	48.0%	48.0%	48.0%
Difference in tax expense:						
Depreciation and Amortization for accounting purposes not allowed for tax purposes	8.1	7.6	6.7	6.2	5.9	5.8
Other	(8.9)	(5.8)	(3.6)	(1.6)	(3.5)	(4.7)
Calculated rate	45.2%	47.8%	51.1%	52.6%	50.4%	49.1%

3. First Mortgage Bonds

Under the terms of the Indenture securing the First Mortgage Bonds substantially all electric property of the Company is subject to a first mortgage lien.

The annual sinking fund requirement for First Mortgage Bonds is $660,000.

4. Compensating Balances

The Company had lines of credit at September 30, 1980 totaling $10,400,000, including $8,400,000 of lines of credit available at December 31, 1979. The additional $2,000,000 has no compensating balance requirement but has an annual fee of 3/8 of 1% of the line with interest at either prime plus 3/4 of 1% or the London Interbank Borrowing Rate plus 3/4 of 1%, whichever is lower.

The Company had lines of credit at December 31, 1979 totaling $8,400,000. With respect to $1,400,000, the average compensating balance is 15% of outstanding borrowings. The average compensating balance requirement for $2,500,000 is 10% of the line or 20% of outstanding borrowings, whichever is greater. With respect to $1,500,000 the compensating balance requirement is 2% of the line plus 13% of outstanding borrowings. With respect to the remaining $3,000,000 there is no compensating balance requirement but an annual fee of 5/8 of 1% of the line with interest between 110% and 115% of prime.

MAINE ELECTRIC POWER COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)
(Including Notes to Unaudited Periods)

4. Compensating Balances — (Continued)

Certain information related to these lines is as follows for the twelve months ended:

	September 30, 1980 (Unaudited)	December 31, 1979
	(Dollars in Thousands)	
Total lines of credit	$10,400	$8,400
Borrowings outstanding	$ 2,075	$ —
Average daily outstanding borrowings	$ 1,481	$1,179
Highest level of borrowing	$10,250	$8,150
Annual interest rate at end of periods	13.00%	—
Average annual interest rate	15.76%	13.65%

5. Commitments and Contingencies

Two actions have been brought in the United States District Court for the District of Maine, Northern Division, by the United States of America against the State of Maine, one on behalf of the Passamaquoddy Tribe and the other on behalf of the Penobscot Nation of Indians. Each seeks damages of $150 million for alleged wrongs by the State in respect of Indian lands. It is possible that the complaints may be amended to assert claims with respect to the land itself or to seek damages, including damages from the present owners of the land, or both. Approximately 69% of the Company's electric properties are located in the territory which may be involved in the claims.

The Attorney General of the United States has obtained a stay of the proceedings to permit development of a comprehens[illegible]ative proposal for resolving the problems underlying the litigation and various extra-judici[illegible]nt proposals are being explored by the parties.

In October, 1980, the President of the United States signed into law federal legislation which extinguishes the land claims of the Passamaquoddy Tribe and Penobscot Nations. However, the extinguishment is contingent upon an appropriation of $81,000,000 by the United States Congress. The Company is unable to predict when or whether such appropriation will be made.

6. Power Supply

In July, 1980, The New Brunswick Electric Power Commission advised the Company that it would be required to raise its charges to the Company for oil used to generate electric energy for the Company under a 400,000 KW unit power purchase agreement expiring in 1986. The increase would result from the reduction or elimination of compensation granted by the Canadian government for imported oil but only as applied to oil imported to generate energy for Canadian export and not for consumption in Canada. The increase in fuel charges would significantly increase the cost of power under the unit power agreement. The Company and the participating New England utilities have filed a complaint against the New Brunswick Commission in the United States District Court for the District of Maine seeking a declaration that the Company may terminate the unit power agreement if the proposed increase in fuel charges is implemented as proposed. The Company is unable to predict the outcome of such proceeding at this time.

No dealer, salesman or any other person has been authorized to give any information or to make any representations not 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 by any of the Underwriters. This Prospectus does not constitute an offer of any securities other than those to which it relates or an offer to sell, or a solicitation of an offer to buy, those to which it relates in any jurisdiction to any person to whom it is not lawful to make such offer or solicitation in such jurisdiction. The delivery of this Prospectus at any time does not imply that the information herein is correct as of any time subsequent to its date.

TABLE OF CONTENTS

250,000 Shares

Bangor Hydro-Electric Company

Common Stock

PROSPECTUS

December 1980

Smith Barney,
Harris Upham & Co.
Incorporated

Seabrook FSAR
Section O. Exh. 1

CHAIRMAN
Ralph H. Gelder

COMMISSIONERS
Diantha A. Carrigan
Lincoln Smith

STATE OF MAINE
PUBLIC UTILITIES COMMISSION
242 State Street
State House Station 18
Augusta, Maine 04333
(207) 289-3831

August 8, 1980

Robert S. Briggs, Esq.
Vice President and
Manager
Bangor Hydro-Electric Co.
33 State Street
P.O. Box 932
Bangor, Maine 04401

Re: BANGOR HYDRO-ELECTRIC COMPANY. Proposed Increase in Rates, Docket No. 80-38.

Dear Mr. Briggs:

Enclosed please find Order on the above-captioned matter.

Sincerely,

M K Feener

Michael K. Feener
Secretary

MKF/kdm

Enclosure

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

August 8, 1980

ORDER

BANGOR HYDRO-ELECTRIC COMPANY
Re: Proposed Increase
In Rates

Docket No. 80-38

GELDER, Chairman; SMITH and CARRIGAN, Commissioners

On February 25, 1980, the Bangor Hydro-Electric Company filed, under 35 M.R.S.A. §64 a proposal to increase its rates. Pursuant to 35 M.R.S.A. §69, these proposed rates have been suspended for a period of up to eight months from march 26, 1980. The alternate hearings procedure (65-407 C.M.R. 11.6 (I)) has been applied to these proceedings and the direct testimony and exhibits of the Bangor Hydro-Electric Company ("BHE") were filed on March 21, 1980. On April 29, 1980, a prehearing conference was held to consider petitions to intervene, to rule on such motions as the parties might bring before the Commission, and to discuss scheduling, discovery and other procedural matters. Petitions to intervene from IMC Chemicals, Inc., Combac, Inc., St. Regis Paper Company, and the Town of Bar Harbor were granted on May 28, 1980, by the Examiners.

In response to a Motion to Bifurcate and Institute Investigation filed by the Commission Staff on April 28, 1980, the Commission on May 22, 1980, issued a Notice of Investigation, establishing a separate investigation of the cost of service and rate design of the Bangor Hydro-Electric Company. This investigation, established under the separate Docket No. 80-108, raises no new issues but allows full consideration to be given both to the standards enumerated in Section 111 of the Public Utility Regulatory Policies Act of 1978, 16 U.S.C. §2621 and to other rate design issues. The consulting assistance required by the Commission Staff, and the complexity of the issues to be addressed, make it likely that such an investigation will extend beyond the nine-month duration of a Section 69 proceeding. In the Examiners' Procedural Order No. 2 , the rate design investigation was consolidated with this rate case for the purpose of compiling a record, with the understanding that Docket No. 80-108 might later be severed, in order to continue the rate design investigation after the revenue requirement issues had been resolved in Docket No. 80-38. The Examiners also established a procedural separation of revenue requirement and rate design issues in the consolidated proceedings, in order that revenue requirement issues could be tried separately, in advance of

the rate design case. Hearings on the revenue requirement portion of the case commenced in Bangor on June 9, 1980, and continued on June 10 and 11 at the Commission's offices in Augusta.

At the June 9 hearing, the parties presented to the Commission a Stipulation Agreement, bearing a date of May 22, 1980, and setting forth an agreement on the appropriate rate design to be employed at the close of the Section 69 proceeding (80-38), in order that the rate design case could be heard separately, after the close of the revenue requirement proceeding. As the Examiners had recognized in the Procedural Order on May 28, such an agreement by the parties makes it unnecessary for the Commission to decide whether it could lawfully segregate revenue requirement issues for early decision while rate design questions remain outstanding. The Stipulation Agreement resolves the rate design issue, for the purposes of the revenue requirement phase of these proceedings, by providing that the revenue level found reasonable for the Company shall be collected, pending the conclusion of the rate design phase of the cases, "without any change in the Company's existing rate structure." Because all parties have agreed that the status quo may be preserved with respect to rate design while the revenue requirement is increased, the Section 69 proceeding may lawfully be disposed of as soon as the revenue requirement issues have been resolved, leaving for the conclusion of the rate design investigation any changes in the manner in which costs of service are allocated to the various customers of the Company. In light of this Stipulation, it is possible to reach a decision in Docket No. 80-38 without hearing rate design evidence, which will be reserved for further hearings in Docket No. 80-108. The rate design stipulation is attached hereto as Exhibit A. Because the rate design issues are complex and ought to be resolved after thorough analysis, we approve of the parties' willingness to preserve the existing rate structure until a full hearing of the cost of service and rate design issues can be completed. Accordingly, we approve and accept Exhibit A as the basis for the design of rates filed in this §69 proceeding.

Cross-examination of the direct case of Bangor Hydro-Electric on revenue requirement issues was completed during the week of June 9, and cross-examination of the direct cases of the Staff and Intervenors on revenue requirement were eventually scheduled to commence on July 21, 1980. Prior to the hearings on the Staff and Intervenor cases, however, the Commission was informed by the parties that agreement had been reached on all issues having any bearing upon the Company's

reasonable revenue requirement, with the exception of issues relating to the fuel adjustment clause to be implemented under 35 M.R.S.A. §131 and 65-407 C.M.R. 34. The Commission received an unsigned draft of a Stipulation Agreement dated July 17, 1980, several days in advance of the scheduled hearing. The July 21 hearing, was, therefore, devoted to an explanation of the Stipulation by the parties in response to inquiries from the Commission and the Examiners. The pre-filed direct testimony of John G. Peters and Nancy MacDonald on behalf of the Staff was admitted into the record for the purpose of clarifying the Staff's basis for entering into the Stipulation Agreement, but no cross-examination of that testimony was conducted, and it was understood that the testimony was admitted at that time only for the limited purpose of explaining the Stipulation Agreement. Many of the items of agreement set forth in the Stipulation had already been orally stipulated during the course of hearings on BHE's direct case. Those issues, and others discussed in the written agreement, are resolved in a manner essentially consistent with the direct case prefiled by the Staff.

At hearing, Examiner Libby identified an issue that had not been addressed by any of the parties. He inquired as to the treatment of the tax benefits of accelerated depreciation on post-1970 replacement property, for Federal Income Tax expense purposes. In response to this inquiry, the parties agreed to flow through those benefits, in accordance with prior Commission policy. A revised Stipulation, dated July 22, 1980, reflected that additional downward adjustment to the Company's revenue requirement, along with a number of minor corrections and revisions to the original draft. On July 24, 1980, the Commission received a memorandum prepared by the Staff as an explanation of the rationale underlying the Staff's agreement to the provisions of the written settlement of the case.

Signed copies of the July 22 Stipulation Agreement have been received from all parties to this case. The record of the hearings and the other communications to be found in the file for this case make it clear that the parties engaged in extensive and thorough discovery and negotiation prior to entering into this comprehensive settlement of Bangor Hydro-Electric Company's request for an increase in rates. Having examined the Stipulation with great care, and having also considered the Staff's memorandum and the responses made by the parties to the Commission's inquiries at hearing, we find that the Stipulation Agreement of July 22, 1980, represents a complete and fair resolution of all issues bearing upon the Company's revenue requirement, with the exception of

the reasonable cost of fuel and purchased power, which is to be considered in the implementation of the fuel adjustment rate under 35 M.R.S.A. §131. Accordingly, we accept and approve this Stipulation Agreement, attached hereto and incorporated herein as Exhibit B, and we find it to be just and reasonable.

Following the hearing at which the revenue requirement Stipulation Agreement was considered, the parties also engaged in negotiations concerning the reasonable fuel adjustment rate to be applied to kilowatt hours sold by the Company, in accordance with 35 M.R.S.A. §131 and 65-407 C.M.R. 34. Pursuant to Section 131, the Commission is required in this proceeding to implement a new fuel adjustment rate, consistent with its regulations promulgated for that purpose. Because this is the first general rate adjustment to take place since the enactment of the present version of Section 131, the Commission is at this time placing in effect the fuel adjustment mechanism prescribed by Chapter 34 of its rules. This task is greatly simplified, however, because BHE has had in effect since January of this year transitional fuel adjustment rates that very closely parallel the fuel adjustment mechanism now required to be implemented. Indeed, the Company has presented its supporting data for this fuel adjustment in a manner consistent with the transitional fuel adjustment proceedings that have already been completed for this Company.

On July 25, 1980, the Staff, with the knowledge of all other parties, presented orally the results of negotiations on the fuel adjustment rate. The Staff reported that the parties had reached agreement on the proper method for calculating the fuel adjustment rate. The parties had agreed that computations filed by the Company represented reasonable projections and calculations of fuel costs for the coming twelve months, except that further downward adjustments should be made to reflect (1) an extension of the anticipated termination date for the Federal Entitlement Program from April 1 to June 1, 1981, and (2) the use of an anticipated sales growth rate of 2%, rather than the 3% originally assumed by the Company in its computations.*

---

* The agreement also provided that the calculations to adjust for low hydro-electric generation be reviewed to assure that they assume such low output only for 1980 and not for 1981. This review resulted in no change in the Company's figures, however.

The Commission gave its approval to the principles underlying a settlement of the fuel adjustment issue on the terms described by Staff, finding them to be consistent with the principles applied to the projection of fuel costs during the transitional period, a period during which we have had an opportunity to develop our understanding of the proper operation of a projected fuel adjustment clause. Our approval was conditioned upon the fact that all parties, including those who had not actively participated in the fuel adjustment negotiations, would in fact consent to this settlement, and conditioned further upon our examination of the calculated results of this agreement. We have now received confirmation that all parties consent to this stipulated fuel adjustment.

On July 31, 1980, the Bangor Hydro-Electric Company filed with the Commission a fourteen page set of Exhibits, attached hereto as Exhibit C, which sets forth the calculation of the fuel cost adjustment in accordance with the agreement of the parties. We have examined these calculations and find them to be just and reasonable. Accordingly, we find that the reasonable fuel cost adjustment for the twelve-month period ending July 31, 1981, is $.01260 per kilowatt hour, as shown on line four of page one of Exhibit C, attached hereto.

To this amount, as the parties agreed, an adjustment must be added to allow for the recoupment of Maine Yankee replacement power costs in accordance with our temporary rate orders in Docket U. #3360. Our temporary rate order in that Maine Yankee investigation calls for the recovery of those costs over a period ending December 31, 1980. Accordingly, that adjustment will cease to be applicable at the end of 1980. Of course, the Maine Yankee adjustment may be altered or eliminated prior to that time, depending upon our final decision in U. #3360. In this proceeding, however, we will set the fuel adjustment rate on the basis of the situation as it presently exists, and we will thus assume, for the purpose of this proceeding only, that the present temporary order will remain in effect. Accordingly, for the period from the date of this order until December 31, 1980, the total fuel adjustment rate will be $.01377 per kilowatt hour, as shown on page 1 of Exhibit C.

On August 4, 1980, the Commission received from BHE a revised schedule of rates and revised schedules containing Sections 12-F and 12-I of the terms and conditions of the Company. The Commission has examined these rates and revised rules and regulations, and finds them to comply with all provisions of the stipulated settlement of this case, to which we have already given our approval. The schedules filed by the

Company on February 25, 1980, are inconsistent with the approved just and reasonable settlement of this case, and we therefore find them to be unjust and unreasonable and will order that they shall not take effect. The rates received by the Commission on August 4, 1980, bearing an effective date of August 6, and an issue date of August 5, 1980, and more fully and particularly described in the ordering paragraphs below, are just and reasonable and shall become effective for service rendered on or after August 8, 1980. We note, however, that the fuel cost adjustment rate sheet, Section 12-I of the Company's terms and conditions, simply states the dollar amount per kilowatt hour of the fuel cost adjustment that will be in effect until December 31, 1980, i.e. $.01377 per kilowatt hour, which reflects the reasonable fuel cost adjustment plus the special Maine Yankee adjustment made pursuant to U. #3360. While this sheet gives ratepayers adequate notice of the rate to be charged for the coming months, it does not display the fuel adjustment rate that has been approved for the period following December 31, 1980 and continuing until the end of the first one year fuel adjustment period. Therefore, the Company should immediately file a revision of this sheet, to clarify the effect of our order in this proceeding, by showing not only the fuel cost adjustment to be in effect until December 31, 1980, but also the lower adjustment rate that will be charged for service rendered beginning on January 1, 1981.

The Stipulation Agreement and the numbered Appendices attached thereto provide a complete statement of the adjustments made to arrive at the rates approved herein. We find that the Staff memorandum further illuminates the rationale underlying that stipulation, and we accordingly include that memorandum as part of our decision; it is attached hereto as Exhibit D.

Included in the Company's proposed rates of February 25, 1980, were numerous revisions to its terms and conditions. Those revisions have not been specifically addressed in the settlement that is approved herein, but they do not bear upon the determination of a revenue requirement. Accordingly, consideration of those terms and conditions may be reserved for the ongoing rate design investigaion being conducted under Docket No. 80-108. That investigation will continue for the purpose of completing a thorough examination of the Company's cost of service, rate design, and associated terms and conditions of service. While the record in Docket No. 80-38 has been closed with the receipt of agreement on all revenue requirement issues, the record compiled thus far in the consolidated proceedings will remain a part of the investigation in Docket No. 80-108, which will continue until a

proper resolution of the rate structure issues has been made. The Company has also stated in in a cover letter to its rate filing of August 4, 1980, that it will file a voluntary dismissal of its temporary rate relief petition if the rates filed pursuant to the stipulation are approved. Such a voluntary dismissal will dispose of Docket No. 80-43 without any additional action on our part.

The July 22 Stipulation provides for a deferred resolution of certain revenue requirement issues, based upon this Commission's decision in other issues in other cases now pending before it. Exhibit B, page 2. Specifically, the proper rate base treatment of unrecovered replacement power costs associated with Docket No. U. #3360 is to be determined after a final decision has been rendered in that proceeding. For the purposes of this Stipulation, the parties have excluded those costs from rate base but have agreed that an amount equal to the average monthly balance between the time of a decision and December 31, 1981, shall be restored to rate base if the decision in U. #3360 determines that the replacement power purchasing practices of BHE during the shutdown were reasonable. Exhibit B, Page 2 paragraph II (A)(2), and Appendices 1 and 2.

Similarly, the parties have agreed that amounts associated with investments for correction of a noise problem at Wyman Unit #4 shall be given the same rate base treatment in this case that the Commission decides upon in Central Maine Power Company's pending permanent rate increase application, Docket No. 80-25 Exhibit B, page 3, paragraph II(A)(6). In this instance, however, the parties have agreed to include those costs in the rate base, pending a decision. Accordingly, a downward adjustment would be made if the Commission decides to exclude some portion of those costs from rate base. Expenses relating to salt water intrusion at Wyman Unit #4 have been excluded from BHE's expense calculations in this settlement, with the proviso that those expenses will be treated consistently with the Commission's decision in Docket No. 80-25. Exhibit B, page 6, paragraph II(B)(5). Again, an upward adjustment may be required if those costs are ultimately allowed in rates in the Central Maine Power Company case.

The parties have made these special reservations of three issues that are being litigated in other cases in order to "avoid the expense and delay of duplicate litigation of identical questions of law and fact." This is a reasonable effort to promote economy in proceedings before this agency, and we find it acceptable, in light of the fact that Central Maine Power Company is the lead owner of the Wyman #4 Unit, and that Bangor Hydro-Electric Company is a

party to U. #3360 and thus is able to protect its own interests in connection with that matter. Provision must be made, however, for the further adjustment of Bangor Hydro-Electric Company's rates, even prior to the resolution of rate structure issues, depending upon the outcome of the Maine Yankee and Central Maine Power proceedings. We find that the stipulated results reflected in the appendices to Exhibit B are just and reasonable at the present time, subject to any upward or downward adjustments that the results in U. #3360 and #80-25 may require. The Bangor Hydro-Electric Company will immediately be placed on the service list for Docket No. 80-25, and BHE will be expected to file any required adjustments to its rates, for review and approval by the Commission in a supplemental order, within ten days after the entry of a final order in either U. #3360 or 80-25.

Accordingly, the Commission orders:

1. That the revised schedules of rates, rules and regulations filed by the Bangor Hydro-Electric Company on February 25, 1980, with an effective date of March 26, 1980, and more particularly designated below, are unjust and unreasonable and shall not become effective. The schedules herein found unjust and unreasonable and hereby disallowed consist of rate sheets designated as Class A-1, 15th revision, Class B-1, 13th revision, Class B-2, 10th revision (cancellation), Class B-3, 8th revision (cancellation), Class C-1, 13th revision, Class D-1, 13th revision (cancellation), Class D-2, 13th revision, Class D-3, 8th revision, Class D-4, 10th revision, Class D-5, 9th revision, Class E-2, 11th revision (cancellation), Class G-1, 18th revision, Class G-2, 7th revision, Class G-3, 2nd revision (cancellation); and revised sections 1-A, 1-B, 1-B-2, 1-D, 2-C, 2-D, 2-E, 2-F, 2-G, 2-H, 3-B, 3-C, 3-D, 3-E, 3-F, 3-G, 3-H, 3-I, 3-J, 3-K, 3-L, 4-D, 4-F, 4-G, 4-H, 5-G, 5-H, 5-I, 5-K, 5-L, 6-B, 6-C, 6-D, 7-C, 8-H, 9-F, 9-G, 12-B, 12-C through 12-F, 12-G, 12-H, 12-I, and 12-J of the Bangor Hydro-Electric Company's terms and conditions.

2. That the above designated proposed revisions to the Company's terms and conditions shall be further considered by the Commission in its ongoing rate design investigation of Bangor Hydro-Electric Company, under Docket No. 80-108.

3. That the Schedule of revised rates, rules and regulations filed by Bangor Hydro-Electric Company on August 4, 1980, bearing an effective date of August 6, 1980, and an issue date of August 5, 1980, and more particularly described immediately below, are just and reasonable and shall become effective for service rendered on and after August 8, 1980, provided, however, that the Bangor Hydro-Electric Company shall, within ten days after the entry of any final order in this Commission's Docket No. U. 3360 or its Docket No. 80-25, file such further revisions to its rates, tolls, charges, rules and regulations as may be necessary in order to comply with the requirements and provisions of the Stipulation Agreement attached hereto and incorporated herein as Exhibit B. Such filed revisions will be reviewed for consistency with the settlement approved herein and shall become effective upon a finding by the Commission that they are in compliance with this Order. The tariff revisions filed on August 4, 1980, found just and reasonable herein and allowed to become effective hereby, consist of rate sheets designated as Class A, 16th revision, Class B-1, 14th revision, Class B-2, 11th revision, Class B-3, 9th revision, Class C-1, 14th revision, Class D-1, 14th revision, Class D-2, 14th revision, Class D-3, 9th revision, Class D-4, 11th revision, Class D-5, 10th revision, Class E-2, 12th revision, Class G-1, 19th revision, Class G-2, 8th revision, and Class G-3, 3rd revision; and sections 12-B through 12-I of the terms and conditions of the Bangor Hydro-Electric Company. On its official copies of each and every sheet of the above-described revisions, the Company shall alter the effective date to read August 8, 1980. The Secretary shall immediately inscribe the same change upon the copies of those sheets that have been officially filed with this Commission.

4. That the Bangor Hydro-Electric Company shall comply with all orders, directions, requirements, conditions, and other provisions contained in the body of this Order or in Exhibits A and B hereto.

5. That the Secretary shall send copies of this Order to:

Robert S. Briggs, Esq.
Vice President and
General Manager
Bangor Hydro-Electric Co.
33 State Street
P.O. Box 932
Bangor, Maine 04401

John Supranovich
Executive Director
COMBAT, Inc.
189 Exchange Street
Bangor, Maine 04401

Harold C. Pachios, Esq.
Preti, Flaherty, & Beliveau
443 Congress Street
Portland, Maine 04111

Peggy Wells Dobbins, Esq.
St. Regis Paper Company
150 East 42nd Street
New York, New York 10017

Edward E. Ainsworth
Town Manager
Town of Bar Harbor
Municipal Office
Bar Harbor, Maine 04609

David H. Moskovitz, Esq.
and Jane S. Bradley, Esq.
Staff Attorneys
Maine Public Utilities Commission
242 State Street
State House Station 18
Augusta, Maine 04333

and to those interested persons, not parties to the proceeding, whose names also appear upon the service list for this case.

6. That the record in this case be closed, but that the record in Docket No. 80-108, which has to date been consolidated herewith for the purposes of compiling a record , shall remain open for the purpose of receiving further evidence relating to the justness and reasonableness of the structure and design of the rates, tolls, charges, rules and regulations of Bangor Hydro-Electric Company.

Dated at Augusta, Maine this 8th day of August, 1980.

BY ORDER OF THE COMMISSION

Michael K. Feener
Michael K. Feener
Secretary

A true copy.
Attested: Michael K Feener
Michael K. Feener, Secretary

COMMISSIONERS VOTING FOR: Smith
Carrigan

COMMISSIONER DISSENTING: Gelder*

* Chairman Gelder's dissenting opinion will be issued separately.

Review of this Order by the Commission may be requested under Section 6(N) of the Commission's Rules of Practice and Procedure (65-407C.M.R.11) within 20 days of the date of this Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

Review by the Law Court may be requested by filing, within 30 days of the date of this Order, a Notice of Appeal with the Secretary of the Commission, pursuant to 35 M.R.S.A. Sec. 303, and the Maine Rules of Civil Procedure, Rule 73 et seq.

Additional court review of constitutional issues or issues involving rates may be had by filing a complaint with the Clerk of the Law Court and with the Secretary of the Commission, both within 30 days of the date of this Order, pursuant to 35 M.R.S.A. Sec. 305.

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

BANGOR HYDRO-ELECTRIC COMPANY
Re: Proposed Increase in Rates

Docket No. 80-38

May 22, 1980

STIPULATION AGREEMENT

WHEREAS, Bangor Hydro-Electric Company filed with this Commission on March 21, 1980 a proposed increase in rates pursuant to 35 M.R.S.A. § 64 and a petition for temporary rate relief pursuant to 35 M.R.S.A. § 311; and

WHEREAS, proceedings on the Company's request for temporary rate relief as well as the Staff's motion to dismiss that petition filed on April 28, 1980 have been deferred by agreement of the parties for action at a future date; and

WHEREAS, the Commission Staff has moved for an order governing the proceedings conducted under 35 M.R.S.A. §69 to hear all revenue requirement issues (Phase I) separately from all other issues investigated thereunder and in any related proceedings (Phase II); and

WHEREAS, the Commission Staff has moved for the institution of an investigation under 35 M.R.S.A. §296 of matters relevant to rate design;

Now, therefore, in consideration of the foregoing the parties hereby agree as follows:

1. That the Public Utilities Commission should bifurcate the proceedings under 35 M.R.S.A. §69 so that revenue requirement issues may be heard separately from all other issues.

2. That at the conclusion of Phase I, the Commission should issue an Order determining the revenue level found by the Commission to be just and reasonable and authorizing Bangor Hydro-Electric Company to file new rates to collect the amount so determined; should said amount reflect revenues additional to the Company's present revenue level, such additional amounts shall be collected without any change in the Company's existing rate structure.

3. That at the conclusion of Phase II of the proceeding, Bangor Hydro-Electric Company's rates shall be revised to be consistent with the Commission's Phase II Order.

The Parties further agree that the purpose of this Stipulation is the voluntary resolution of rate design issues pending determination of Phase II of this case and that nothing herein shall be binding upon them in subsequent proceedings involving Bangor Hydro-Electric Company or any other proceeding pending before the Commission or the Law Court of the State of Maine.

Dated at Augusta, Maine, this twenty-second day of May, 1980.

* ____________________________
Jane S. Bradley, Esq.
Public Utilities Commission
Staff Attorney

* ____________________________
David H. Moskovitz, Esq.
Public Utilities Commission
Staff Attorney

* ____________________________
Robert S. Briggs, Esq.
Attorney for Bangor Hydro-Electric Company

* ____________________________
Harold C. Pachios, Esq.
Attorney for IMC Chemicals, Inc.

* ____________________________
Margaret W. Dobbins, Esq.
Attorney for St. Regis Paper Company

* ________________________________
Edward E. Ainsworth
Town Manager, Town of B:r
Harbor, Maine

* ________________________________
John Supranovich
Attorney for COMBAT, Inc.

* Separate executed copies have been received from each party and are on file in case.

EXHIBIT B

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

July 22, 1980

STIPULATION AGREEMENT

BANGOR HYDRO-ELECTRIC COMPANY
Re: Proposed Increase In Rates

Docket No. 80-38

BANGOR HYDRO-ELECTRIC COMPANY
Re: Petition for Temporary Rate Relief

Docket No. 80-43

I. INTRODUCTION

Pursuant to Rule 6(G)(2) of the Rules of Practice and Procedure of the Maine Public Utilities Commission, the undersigned parties to the above-captioned proceeding hereby enter this Stipulation embodying thei·· Agreement with respect to issues relating to the revenue requirement portion of this case. This Agreement was reached during negotiations between Bangor Hydro-Electric Company (hereinafter the Company), the Commission Staff (hereinafter the Staff), and IMC Chemicals, Inc. to which all parties were invited but in which not all chose to participate. With the exception of matters relating to the implementation of a fuel clause, this Agreement disposes of all issues pertinent to the revenue portion of this proceeding

The parties make this Stipulation with the understanding that it shall be presented to the Commission for its approval. The Agreements contained herein are conditioned upon such approval and are made without prejudice to the parties' rights to raise any issue, whether or not addressed herein, in any future rate proceeding and, if this Stipulation is not approved by the Commission, in this rate proceeding. In the event that the Commission not approve this Stipulation, it shall be void and neither this Agreement nor any part thereof shall be offered or introduced as evidence in any rate proceeding.

II. ADJUSTMENT PROVISIONS

As discussed more fully herein in relation to specific adjustments, the parties have agreed in certain instances only to the method of treatment of such items, while the actual

figures must await determination at a future date. This particularly involves matters related to the cost of fuel, which the parties have agreed will be determined shortly before the end of the revenue portion of this proceeding.

The parties have also agreed that treatment of certain adjustments proposed either by the Commission Staff or the Company be the same as that found appropriate by the Commission in certain other proceedings now pending before it in which such issues are also being litigated. In so doing, the parties seek to avoid the expense and delay of duplicate litigation of identical questions of law and fact where it is agreed that the interests of the parties hereto will be advanced by the respective parties in the other proceedings.

Accordingly, the parties agree as follows:

A. RATE BASE ITEMS

1. Calculation of Rate Base. The Company's rate base shall be computed on the basis of 13 month-end amounts for a period beginning on December 31, 1978, and ending December 31, 1979. The revised figures are contained in Appendix 1 attached hereto.

2. Deferred Fuel - Maine Yankee Shutdown. Inclusion in rate base of the unrecovered costs for replacement power during the Maine Yankee shutdown (3/79 - 6/79) shall depend upon the Commission's decision in Docket U. 3360, P.U.C. Re: Investigation into Items to be Included in Fuel Adjustment Charges as a Result of the Shutdown of the Maine Yankee Atomic Power Station. Should the Commission determine in that proceeding that the Company's practices regarding replacement power were imprudent or unreasonable, the Company's unrecovered balance of the fuel costs shall be excluded from rate base. If the Commission finds that these costs were reasonably incurred by the Company, the average monthly unrecovered balance shall be included in rate base.

Appendix 1 does not include this figure in its calculations. If it is later determined that those amounts should be included, however, the rate base figure for such costs net of tax shall be the average monthly balance during the period beginning the month after such determination is made and ending December 31, 1981. The average monthly balances are shown in Appendix 2.

3. Unrecovered Fuel from Pre-1980 Fuel Clause. The amount in rate base representing this item has been changed to reflect the average monthly unrecovered balance (net of tax)

over the period beginning September 1, 1980 and ending December 31, 1981. This amount is $1,129,011.

4. Materials and Supplies. The Company proposed an upward adjustment to Materials and Supplies for the purpose of reflecting more current costs for its fuel inventory. The parties now agree that increased fuel costs are sufficiently accounted for in the Staff attrition analysis as revised herein and that the adjustment proposed by the Company should therefore be removed from rate base.

It is further agreed that the 66% of non-fuel inventory which constitutes materials and supplies used for construction shall be excluded from rate base. *The amount of materials and supplies to be included in rate base shall be $1,901,681.

5. Capital Requirements of PURPA. It is agreed that all capital items to be obtained for compliance with the requirements of PURPA shall not be included in rate base.

6. Wyman Unit #4. Amounts associated with investments made in Electric Plant for correction of a noise problem with Wyman Unit #4 shall receive the same rate base treatment as the Commission determines proper for Central Maine Power Company in the pending matter of Central Maine Power Co., Re: Proposed Increase in Rates, Docket No. 80-25. Because the costs associated with this problem have not yet been identified, they are included in the rate base calculations of electric plant appearing on Appendix 1 herein.

7. Land Held for Future Use. Land held for future use is not included in the Company's calculation of rate base and will not be so included.

---

*

Although the parties recognize that there may be a question as to the appropriate treatment of such items, notwithstanding the Commission decision in Re Bangor Hydro-Electric Company, 16 PUR 4th 244 (November 1, 1976), rather than litigate this question in this proceeding, the parties have agreed to continue to exclude construction related materials from rate base. The Company will attempt to resolve this issue by filing a request for an advisory ruling sometime in the near future. In the meantime, it is agreed that no rate base treatment shall be given to such materials and supplies nor will the amount of inventory be reduced to such an extent as to jeopardize the adequacy of service to customers.

8. New England Power Company Nuclear Units. It is agreed that the Company's investment in the cancelled NEPCO nuclear units be excluded from rate base.

9. Underrecovery from 1980 Fuel Clause. The parties agree to the inclusion in rate base of an amount of $432,925, representing the underrecovery of fuel costs resulting from the January 1980 fuel clause. This amount was calculated on the basis of the average monthly balance (net of tax) for the period beginning September 1, 1980 and ending December 31, 1981. This adjustment was proposed during the oral testimony of Mr. O'Sullivan on June 9, 1980 and was not included in the Company's pre-filed direct case.

10. Working Capital.

a. Computation in general. It is agreed that, in addition to any specific changes discussed below with respect to working capital, three days shall be added to the lead day figures on Company Exhibit 0-2-2 for all items except purchased power (lines 1 and 9) and O & M labor (line 2).*

b. Purchased Power. The amount of $200,000 representing decommissioning costs for Maine Yankee shall be subtracted from the computation of working capital for purchased power. Also subtracted from the computation of this item shall be $3,900 for Maine Yankee lobbying expenses. An upward adjustment has been made to reflect revisions in purchased power expenses as discussed in Paragraph II.B.6. herein. In light of these changes, the working capital figure for this item now is $347,176.

c. O & M Non-Labor. It is agreed that amounts representing uncollectible revenues and trimming expenses should be subtracted from the computation of working capital calculation for this category. 90 days should be added to the Company's lead days calculation for Pension Costs changing that lead day figure from 256 to 346. With all of these adjustments, including the addition of 3 lead days as discussed in subparagraph a. above, the appropriate figure for working capital on this category as shown on Appendix 3 is $(36,023).

---

* It should be noted that Exhibit JP-9 submitted with the pre-filed testimony of Staff witness John Peters contains an error to the extent that 3 days was added to the working capital lead days calculation for labor expenses. The correct figure appears on Appendix 3 attached hereto.

d. PURPA Expenses. The Company shall receive a working capital allowance for only those PURPA expenses associated with Phase IA of its program.

It is further agreed that Phase IA expenses will be separated into labor and non-labor categories with the appropriate lead days applied thereto. Working capital for PURPA labor expenses is $7,034 and PURPA non-labor is $(198).

e. Fuel Costs. The parties agree that at a later time in the course of these proceedings, a new forecasted 12-month period will be reviewed for the purpose of implementing a new fuel adjustment clause. The projected fuel costs resulting from that implementation will replace the present figures on lines 8 and 9 of Appendix 3.

f. Sales Tax. Lead days for this item shall be changed by adding 24.26 days to the 13-day figure now used, resulting in a total figure of 30.26, including the 3 additional days discussed in subparagraph a. above. The adjusted working capital requirement for sales tax will be $31,641.

g. Federal Income Taxes. It is agreed that amounts attributable to the Company's test year deferred Federal Income Taxes, $762,073, which was originally included in its working capital calculation, be removed therefrom. The revised working capital figure for income tax is $(84,356).

h. Property Taxes. The Company calculated lead days for the payment of property taxes on the basis of an April 1 to March 31 period, the midpoint being October 1. The parties now agree that the working capital allowance shall be calculated on the basis of a calendar year, the midpoint of which is July 1. This changes the Company's original lead days figure from 2.7 to 105.65, resulting in a revised working capital allowance figure for that item in the amount of $(163,856).

B. OPERATING EXPENSE ITEMS

1. P.U.C. Assessment. An amount of $10,668 shall be added to test year operating expenses to reflect a full year's P.U.C. assessment. This adjustment does not appear in the Company's original pre-filed testimony but was discussed by Mr. O'Sullivan in his oral direct testimony on June 9, 1980, at which time he submitted Exhibit O-1-A reflecting this amount.

2. Depreciation. The Company's proposed adjustment to its depreciation expense shall be deleted. Instead, the

parties agree that increased depreciation expense is reflected in the attrition analysis performed by the Commission Staff, as set forth in the pre-filed testimony of Nancy J. MacDonald and amended herein.

3. PURPA Expenses. The Company's operating expenses for PURPA activities shall be adjusted to reflect only those expenses associated with Phase IA of those requirements. Expenses associated with Phases succeeding IA are taken into account through the Staff's attrition analysis as discussed below.

4. Test Year Maintenance. The parties agree to the Company's pro forma upward adjustment of $40,000 to operating expenses for an intensified tree-trimming program. The parties also agree to normalize test year expenses resulting from excessive storm damage by downward adjustments of $10,000 to distribution and $10,000 to transmission maintenance expenses. The combined effect of all of these trimming and storm damage adjustments is an increase to adjusted test year maintenance in the amount of $20,000.

5. Wyman Unit #4. Because the matter of expenses relating to the saltwater intrusion problem in Wyman Unit #4 will be litigated in the Central Maine Power case, Docket No. 80-25, the parties agree that the Commission determination of that issue in Docket No. 80-25 will govern the disposition of that issue in this proceeding. Costs associated with this expense are not included in the expense calculations reflected in the appendices attached hereto.

6. Purchased Power Expense. The parties agree that Maine Yankee lobbying expenses in the amount of $3,900 shall be excluded from the Company's original figure for purchased power expense. Also removed from this figure, pending Commission determination of the Central Maine case, Docket 80-25, will be $200,000 for Maine Yankee decommissioning costs. The parties agree to accept the same treatment of the decommissioning expense as the Commission finds just and reasonable in that case.

It is further agreed that test year purchased power expense shall be adjusted upward by $492,000 to reflect known changes in the capacity component of this expense resulting primarily from the Company's contract with Boston Edison which provides for an additional ten megawatts of power to be purchased in November of 1980.

In view of the foregoing agreements, the adjusted test year purchased power expense shall be $8,061,038.

7. Cancelled NEPCO Units. The parties agree to the amortization of the loss of the investment, including amounts attributable to AFUDC, over a period of five years. The amount to be amortized annually shall be $213,904. Such amount differs from Company Exhibit 0-2-3 as a result of the sale of the associated uranium enrichment contract for $6,230,000 instead of the $4,000,000 estimated by the Company.

8. The parties agree to flow through the benefits of accelerated depreciation on post 1970 replacement property.

C. OPERATING INCOME

1. Revenue Loss. The parties recognize that the Company will experience a revenue loss of $433,880 as a result of the closing of IMC Chemical's chlorate plant. It is agreed, therefore, that test year revenues be adjusted to reflect this loss. As with certain other adjustments discussed herein, this item does not appear in the Company's pre-filed testimony, but was discussed by Mr. O'Sullivan in his oral testimony on June 9, 1980, and was reflected in Exhibit 0-1-A submitted on that date.

D. ATTRITION

The Staff's attrition analysis as set forth in the pre-filed testimony of Nancy J. MacDonald is revised to remove all considerations of increases in purchased power expenses. Changes in the cost of purchased power are discussed in Paragraph II.B.6 above. The analysis is also revised to specifically include $150,000 of PURPA expenses to be incurred for phases subsequent to IA. It is further agreed that the estimated anual growth rate for operating revenues shall be changed from 3.5% to 2.48%. These modifications to Ms. MacDonald's testimony result in a revised attrition factor of .38% and a revised retail attrition figure of $492,779. These calculations are reflected on Appendix 5, pages 1, 2, and 3.

E. RATE OF RETURN

The parties agree that the fair rate of return shall be 10.65% as calculated in Appendix 6.

III. EMPLOYEE DISCOUNTS

Although no adjustments to operating expenses will be made for costs associated with employee discounts, the Company agrees to phase out this program over a reasonable period of

time and to submit to the Commission its plan for accomplishing this.

IV. CONCLUSION

Based upon the foregoing adjustments to the Company's test year, it is agreed that, pending the outcome of Dockets 80-25 and U. 3360, and the establishment of a new fuel adjustment clause, the Company's retail revenue deficiency is reflected on Appendix 7. The parties further agree that upon Commission approval of this Stipulation and a revised Fuel Clause, the Company be allowed immediately to file rates generating operating revenues sufficient to cover this deficiency. Agreement between the parties as to rate design and allocation of the revenue requirement among customers was reached earlier in this proceeding and is set forth in a Stipulation Agreement signed by all parties and filed with the Commission on June 9, 1980.

IN WITNESS WHEREOF, the undersigned parties have caused this Stipulation Agreement to be executed by their duly authorized attorneys, and this Stipulation Agreement is hereby respectfully submitted to the Commission for its consideration.

* ______________________________
David H. Moskovitz, Esq.
Public Utilities Commission
Staff Attorney

* ______________________________
Jane S. Bradley, Esq.
Public Utilities Commission
Staff Attorney

* ______________________________
Robert S. Briggs, Esq.
Attorney for Bangor Hydro-Electric Co.

* ______________________________
Harold C. Pachios, Esq.
Attorney for IMC Chemical, Inc.

* ______________________________________
Margaret W. Dobbins, Esq.
Attorney for St. Regis Paper Company

* ______________________________________
Edward E. Ainsworth
Town Manager, Town of Bar Harbor, ME

* ______________________________________
John Supranovich
Executive Director
Combat Inc.

* Separate executed copies have been received from each party and are on file in case

BANGOR HYDRO-ELECTRIC COMPANY

RATE BASE

(13 MONTH AVERAGE ENDING 12/31/79)

			AMOUNT $
1	ELECTRIC PLANT (SDR 2-2)		$ 90,265,655*
2	LESS: ACCUMULATED DEPRECIATION		(31,432,741)
3	NET ELECTRIC PLANT		58,832,914
4	INVESTMENT IN MAINE YANKEE		4,742,618
5	INVESTMENT IN MAINE ELECTRIC POWER		187,567
6	MATERIALS AND SUPPLIES		1,901,681
7	WORKING CAPITAL		2,571,786
8	UNRECOVERED FUEL FROM PRE 1980 FUEL CLAUSE		1,129,011
9	UNDER-RECOVERED FUEL FROM FUEL CLAUSE IN-APRIL 1980		432,925
	LESS: NON-INVESTOR SUPPLIED CAPITAL		
10	CUSTOMER DEPOSITS	$ 81,358	
11	DEFERRED FEDERAL INCOME TAXES DEPRE.	2,777,517	
12	TOTAL NON-INVESTOR SUPPLIED CAPITAL		$ (2,858,875)
13	RATE BASE		$ 66,939,627

*Includes the Investment in the Muffler Equipment Wyman #4

BANGOR HYDRO-ELECTRIC
COMPUTATION OF AMOUNTS OF DEFERRED FUEL
DUE TO M.Y.A. SHUTDOWN 3/79 - 6/79*

MONTH	RATE/MONTH	ESTIMATED KWH (RETAIL)	RECOVERY	MONTH END BALANCE	AVERAGE MONTHLY BAL.
July '80				610,058	
August	.00117	100,400,000	(117,468)	492,590	551,324
Sept.	.00117	103,300,000	(120,861)	371,729	432,160
Oct.	.00117	102,800,000	(120,276)	251,453	311,591
Nov	.00117	105,400,000	(123,318)	128,134	189,794
Dec.	.00117	108,800,000	127,296	0	64,067

*These figures may require revision at the time of the decision in U. #3360 to update the monthly balances in accordance with the Company's actual experience in KWH sales.

REVISED WORKING CAPITAL ALLOWANCE
LEAD/LAG METHOD

		TEST YEAR AS ADJUSTED	OTHER WC ITEMS	DAILY AMOUNT	REVENUE LAG DAYS	LEAD DAYS	NET (LEAD) LAG DAYS	NET (LEAD) LAG DAYS COL. 6 - 3 DAYS	CASH REQUIRED COL. (7 x 3)
1	PURCHASED POWER	$8,061,038	$	$22,085	54.59	38.87	15.72	SAME	$ 347,176
2	O & M LABOR	4,864,854		13,328	54.59	8.70	45.89	SAME	611,522
3	O & M NON-LABOR	3,254,436		8,916	54.59	55.72	(1.13)	(4.13)	(36,823)
4	STATE & MUNICIPAL PROPERTY TAXES	1,106,433		3,031	54.59	105.65	(51.06)	(54.06)	(163,856)
5	EMPLOYMENT TAXES	361,874		991	54.59	23.74	30.85	27.85	27,599
6	FEDERAL & STATE INCOME TAXES	910,810		2,495	54.59	85.40	(30.81)	(33.81)	(84,356)
7	PURPA EXPENSES - LABOR	59,881		164	54.59	8.70	45.89	42.89	7,034
	PURPA EXPENSES - NON-LABOR	17,431		48	54.59	55.72	(1.13)	(4.13)	(198)
8	FUEL - BHE GENERATION		6,761,000	18,523	54.59	15.40	39.19	36.19	670,347
9	FUEL - PURCHASED POWER		26,971,000	73,893	54.59	38.87	15.72	SAME	1,161,600
10	SALES TAXES		806,000	2,208	54.59	37.26	17.33	14.33	31,641
11	WC REQUIRED								$2,571,786

BANGOR HYDRO-ELECTRIC COMPANY
PRO-FORMA INCOME STATEMENT
TEST YEAR ENDED 12/31/79

	TEST YEAR AS ADJUSTED PER COMPANY	ADJUSTMENTS DEBIT	ADJUSTMENTS CREDIT	PRO-FORMA TEST YEAR
OPERATING INCOME:				
BASE REVENUE	$27,163,920	(1) $433,880	$ -	$26,730,040
FUEL CHARGE REVENUES	-	-	-	-
CUMULATIVE EFFECT OF UNBILLED REV.	-	-	-	-
	$27,163,920	$433,880	$	$26,730,040
OPERATING EXPENSES:				
FUEL FOR GENERATION	$ -	$ -	$ -	$ -
PURCHASED POWER	7,772,938	(2) 492,000	(2) 203,900	8,061,038
STEAM OPERATION	574,760	-	-	574,760
HYDRO ELECTRIC OPERATION	534,006	-	-	534,006
INTERNAL COMBUSTION OPERATION	68,892	-	-	68,892
TRANSMISSION OPERATION	489,642	-	-	489,642
DISTRIBUTION OPERATION	939,964	-	-	939,964
CUSTOMER ACCOUNTING & COLLECTION	947,529	-	-	947,529
GENERAL AND ADMINISTRATIVE	2,986,279	(3) 10,668	-	2,996,947
STEAM MAINTENANCE	416,276	-	(7) 10,651	405,625
HYDRO ELECTRIC MAINTENANCE	276,529	-	-	276,529
INTERNAL COMBUSTION MAINTENANCE	33,274	-	-	33,274
TRANSMISSION MAINTENACE	144,855	-	(4) 10,000	134,855
DISTRIBUTION MAINTENANCE	1,244,827	-	(4) 10,000	1,234,827
	$16,429,771	$502,668	$234,551	$16,697,888
DEPRECIATION	$ 2,904,659	$ -	(5) $ 90,118	$ 2,814,541
UNCOLLECTIBLE REVENUE	218,231	-	-	218,231
INTEREST ON CONSUMER DEPOSITS	2,903	-	-	2,903
STATE AND MUNICIPAL TAXES	1,464,876	-	-	1,464,876
EMPLOYMENT TAXES	361,874	-	-	361,874
AMORTIZATION OF NEPCO	223,541	-	(8) 9,637	213,904
PURPA EXPENSES	257,280	-	(6) 179,968	77,312
OPERATING EXPENSES	$21,863,135	$502,668	$514,274	$21,851,529
NET OPERATING INCOME BEFORE TAXES	$ 5,300,785			$ 4,878,511
INCOME TAXES	$ 2,477	(9) $(67,352)		$ (64,875)
NET OPERATING INCOME	$ 5,298,308		(10) $ 11,921	$ 4,955,307

(1) Adjusts Revenue Associated with Sale of IMC Plant ($433,880)
(2) To Remove $200,000 Decommissioning Costs & $3,900 Below the Line Expenses for Purchased Power
(3) To Relfect P.U.C. Assessment
(4) To Reflect Increased Efficiency/Decreased Maintenance Due to Increased Trimming
(5) To Remove Depreciation Update Per Company
(6) To Remove Everything Except Phase 1A
(7) Wyman #4 Salt Water Problem $5353 ÷ 50.26% = $10,651
(8) To Reflect Increase in Sale Price of Uranium Enrichment Contract
(9) Per Page 2
(10) To Reflect Flow Through on Post 70 Replacement Property

BANGOR HYDRO-ELECTRIC COMPANY
INCOME TAX CALCULATION ON
TEST YEAR EARNINGS

TEST YEAR OPERATING INCOME (AS ADJUSTED) BEFORE TAXES		$4,878,511
INTEREST EXPENSE - L.T.D.	$2,757,125	
- S.T.D.	1,332,210	(4,089,335)
1979:		
PERMANENT DIFFERENCES BETWEEN BOOK AND TAXABLE INCOME		(385,287)
TIMING DIFFERENCES BETWEEN BOOK AND TAXABLE INCOME WHERE DEFERRED TAXES ARE NOT CALCULATED		(233,120)
EXCESS OF BOOK DEPRECIATION OVER TAX DEPRECIATION FOR PRE 1970 ASSETS PREVIOUSLY FLOWED THROUGH		14,015
FEDERAL TAXABLE INCOME		$ 184,784
1979:		
EXCESS OF TAX DEPRECIATION OVER BOOK FOR POST '69 ASSETS FLOWED THROUGH FOR STATE TAXES		$(1,531,497)
STATE TAXABLE INCOME		$(1,346,713)
STATE TAX @ .0495		(1,238)
@ .0693		
		(91,595)
FEDERAL TAX 1st $100,000		26,750
REMAINDER		81,704
PLUS AMORTIZATION OF I.T.C.		(80,496)
PRO FORMA INCOME TAXES		$ (64,875)
INCOME TAXES PER COMPANY		2,477
ADJUSTMENT		$ (67,352)

BANGOR HYDRO-ELECTRIC COMPANY
A[illegible]IS OF ATTRITION
DECEMBER [illegible] 1979 - AUGUST 31, 1981

(A)	(B)	Test Year Adjusted to (C)	Amount $ (D)		Annual Rate % (E)	Compound Factor (F)	Amount Adjusted to 8/31/81 (G)	
1.	Operating Revenues							
2.	Base Revenues	12/31/79	$30,717,110		2.48	1.0416	$31,994,686	
3.	Other Revenues	-	289,058		1.00	1.0000	289,058	
4.	Fuel Billed and Unbiled	-	-					
5.	Total		$31,006,168				$32,283,746	
6.	Operating Expenses							
7.	Fuel	-	-					
8.	Purchased Power - Energy	-	-					
9.	- Capacity	12/31/79	$ 8,061,038		1.00	1.0000	$ 8,061,038	
10.	Depreciation	12/31/79	2,814,541		8.00	1.1020	3,101,624	
11.	Wages	12/31/80	5,190,378		8.00	1.0527	5,463,911	
12.	Fringe Benefits	12/31/80	804,550		11.00	1.0721	862,558	
13.	Payroll Taxes	12/31/79	361,874		12.00	1.2079	437,108	
14.	State and Municipal Taxes	12/31/79	1,464,876		2.00	1.0336	1,514,096	
15.	Other O & M Expenses	12/31/79	3,154,272		8.00	1.1369	3,736,092	
16.	Total Operating Expense BIT		$21,851,529				$23,176,427	
17.	Income Taxes - State and Federal		$ 2,062,071			$(99,250)	$ 1,962,821	
18.	Net Operating Income		$ 7,092,568				$ 7,144,498	
19.	Rate Base							
20.	Production and Transmission Plant		$52,354,080		2.50	1.0420	$54,552,951	
21.	Distribution, General & Intangible Plant		37,911,575		7.00	1.1194	42,438,217	
22.	Acumulated Depreciation		(31,432,741)		6.50	1.1107	(34,912,345)	
23.	Unrecovered Fuel (Pre-1980 - $1,129, 011; 1980 - $432,925)		1.561.936		1.00	1.0000	1,561,936	
24.	Deferred Income Taxes		(2,777,517)		20.00	1.3551	(3,763,813)	
25.	Other Rate Base Items		8,979,551		4.80	1.0813	9,709,5[illegible]	
26.	Total		$66,596,884	10.65%			$69 586,534	
27.	Rate of Return							
28.	Attrition							10.27%
29.	Revenue Required							.38

30. [1]$2,126,946 Tax due to Revenue Increase & (64,875) (Current tax applicable to adjusted test year)
31. [2]Derived
32. [3]$3,586,092 ($3,154,272 x 1.1369) + $150,000 (PURPA)

*The revised fuel figures to which the parties have agreed affect working capital amounts now in rate base resulting in an increased revenue requirement for the Company. However, because the parties have agreed to a retail attrition amount of $492,779, the figures used in this attrition analysis will not be adjusted to reflect the effects of the fuel filing, and the amount designated here as "Other Rate Base Items" will remain unchanged for purposes of this case.

BANGOR HYDRO-ELECTRIC COMPANY
ANALYSIS OF ATTRITION
REVENUE REQUIRED

	Test Year Adjusted	Amount Adjusted to 8/31/81
Rate of Return	10.65%	10.27%
Attrition		.38
Required Return - Attrition (.0388 x 69,586,534)		$264,429
Revenue Deficiency - Attrition (: .5026)		526,122
Adjust to Reflect Revenue Growth from the Test Year (: 1.0416)		505,109
Portion Allocated to Resale (x .02441)		(12,330)
Retail Revenue Deficiency - Attrition Portion		$492,779

BANGOR HYDRO-ELECTRIC COMPANY
ANALYSIS OF ATTRITION
COMPUTATION OF INCOME TAXES

	Amount
Net Before Tax Operating Income - Test Year	$9,154,639
Net Before Tax Operating Income - Attrition Year	9,107,319
Change in Before Tax Operating Income	(47,320)
Adjustments to Operating Income for Tax Purposes	
Increase in Interest Expense[1]	152,210
Change in Taxable Income	199,530
State Income Tax @ .0693	13,827
Federal Income Tax @ .46	85,423
Total Income Taxes	99,250

[1]Increase in Interest Expense

Growth in Rate Base	$2,989,650
Debt Component (amt. x Debt Ratio=.4389)	1,312,157
Estimated Cost (amt. x .116)	152,210

BANGOR HYDRO-ELECTRIC COMPANY

WEIGHTED AVERAGE COST OF CAPITAL

	PROPORTION OF TOTAL CAPITAL	CAPITAL COSTS	WEIGHTED COSTS
Short-Term Debt	.1154	14.68%	1.69%
Long Term Debt	.4389	7.99	3.51
Preferred Stock	.1238	7.62	.94
Common Equity	.3219	14.00	4.51
Weighted Average Cost of Capital			10.65%

BANGOR HYDRO-ELECTRIC COMPANY
INCREASED REVENUE REQUIREMENT

RATE BASE	$66,939,627
RATE OF RETURN	.1065
RETURN REQUIRED	7,129,070
TEST YEAR RETURN AS ADJUSTED	4,955,307
DEFICIENCY	2,173,763
INCOME TAXES	2,151,273
REVENUE REQUIREMENT	4,325,035
APPLICABLE TO SALES FOR RESALE (2.441%)	105,574
APPLICABLE TO RETAIL SALES	4,219,461
RETAIL ATTRITION AMOUNT	$ 492,779
TOTAL RETAIL REVENUE DEFICIENCY	$ 4,712,240

EXHIBIT C

BANGOR HYDRO - ELECTRIC COMPANY

ELECTRIC LIGHT AND POWER — PUBLIC SERVICE — SERVING EASTERN MAINE

RECEIVED
1980 JUL 31 AM 9 37
MAINE PUBLIC UTIL. COMM

33 State Street, P.O. Box 932, Bangor, Maine 04401 Tel. 207-945-5621

July 30, 1980

Michael K. Feener, Secretary
Maine Public Utilities Commission
242 State Street State House Station 18
Augusta, ME 04333

Re: Docket No. 80-38, 80- 43
<u>Revised Fuel Filing</u>

Dear Mike,

Please find enclosed a complete new fuel adjustment filing package, reflecting the adjustments called for by the agreement of the parties embodied in Jane Bradley's letter of July 29.

Very truly yours,

Robert S. Briggs, Esq.
Vice President & General Counsel

RSB:B

Enc.

c.c. All parties
Hearing Examiner & Commissioners

RECEIVED
1980 JUL 31 AM 9 37
MAINE PUBLIC
UTIL. COMM.

BANGOR HYDRO-ELECTRIC COMPANY

CALCULATION OF FUEL COST ADJUSTMENT
12-MONTH PERIOD ENDING JULY 31, 1981

1.	Projected Unit Fuel Cost (F)	$0.02602
+ 2.	Reconciliation Factor (A)	$0.00408
- 3.	Base Rate Unit Fuel Cost (B)	$0.01750
4.	Fuel Cost Adjustment	$0.01260
5.	Maine Yankee Replacement Cost Adjustment	$0.00117
6.	Total Fuel Cost Adjustment*	$0.01377

* Applicable through December 31, 1980

July 30, 1980

BANGOR HYDRO-ELECTRIC COMPANY

12-MONTH FUEL COST CALCULATION
12 MONTH PERIOD ENDING JULY 31, 1981

1. Projected Fuel Cost	
Fuel for Generation (Gp)	$ 6,761,000
+ Fuel Component of Purchased Power (Pp)*	26,971,000
- Fuel Attributable to Energy for Resale (Rp)**	(750,000)
- Incremental Fuel for Non-Firm Sales (Np)	0
	$32,982,000
2. Projected KWH Sales	
Maine Jurisdictional (Sp)	1,267,700,000
- Non-Firm Sales (Xp)	0
	1,267,700,000
3. Projected Unit Fuel Cost, 1 ÷ 2	$0.02602

* Includes adjustment of +$1,136,000 for below normal hydro

**Based upon projected 12 month sales of 29,300,000 KWH for wholesale and 1,267,700,000 KWH for retail and a loss factor of .984

BANGOR HYDRO-ELECTRIC COMPANY

FUEL AND PURCHASED ENERGY COST ADJUSTMENT
FOR BELOW NORMAL HYDRO

1.	Normal hydro-electric generation in storage, July 15, 1980	=	81,524 MWH
2.	Actual hydro-electric generation in storage, July 15, 1980	=	49,076 MWH
3.	Below normal storage	=	32,448 MWH
	Estimated replacement energy rate	=	35 mills/KWH
5.	Estimated replacement energy cost	=	$1,136,000

BANGOR HYDRO-ELECTRIC COMPANY

FUEL AND PURCHASED ENERGY COSTS
AUGUST 1980-JULY 1981

	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	TOTAL
Fuel for Generation													
Wyman #4	513,000	511,000	630,000	674,000	640,000	655,000	586,000	537,000	543,000	367,000	0	0	5,651,000
Graham Station	81,000	41,000	41,000	41,000	82,000	41,000	84,000	85,000	43,000	43,000	43,000	44,000	669,000
ICU's	42,000	43,000	22,000	22,000	23,000	46,000	47,000	24,000	24,000	49,000	49,000	50,000	441,000
SUB-TOTAL	636,000	595,000	693,000	737,000	745,000	742,000	717,000	641,000	610,000	459,000	92,000	94,000	6,761,000
Purchases													
Maine Yankee	249,000	241,000	249,000	241,000	249,000	249,000	225,000	249,000	121,000	0	161,000	249,000	2,483,000
Mystic #7	459,000	483,000	710,000	886,000	973,000	937,000	728,000	895,000	776,000	653,000	721,000	975,000	9,196,000
Coleson Cove	111,000	85,000	90,000	121,000	125,000	120,000	113,000	120,000	137,000	145,000	147,000	147,000	1,461,000
New Brunswick	0	0	0	0	0	0	0	102,000	511,000	460,000	0	0	1,073,000
NEPOOL	1,021,000	852,000	761,000	633,000	1,051,000	1,007,000	786,000	525,000	773,000	1,899,000	1,933,000	1,467,000	12,758,000
SUB-TOTAL	1,840,000	1,661,000	1,810,000	1,881,000	2,398,000	2,313,000	1,852,000	1,891,000	2,318,000	3,157,000	3,012,000	2,838,000	26,971,000
TOTAL	2,476,000	2,256,000	2,503,000	2,618,000	3,143,000	3,055,000	2,569,000	2,532,000	2,928,000	3,616,000	3,104,000	2,932,000	33,732,000
Net Energy for Load	116,300	108,500	115,400	117,500	132,100	133,700	114,700	119,500	111,000	112,600	109,600	115,500	1,406,400
Mills/KWH	21.29	20.79	21.69	22.28	23.79	22.85	22.40	21.19	26.38	32.11	28.32	25.39	23.98

BANGOR HYDRO-ELECTRIC COMPANY

PROJECTED GENERATION AND NEPOOL PURCHASES
AUGUST 1980 - JULY 1981

SOURCE	ESTIMATED OWN LOAD, MWH	ESTIMATED GENERATION, MWH	Estimated NEPOOL Purchases, MWH		
			ECONOMY	SCHEDULED OUTAGE	TOTAL
Hydro	239,600	239,600	0	0	0
Wyman #4	108,200	126,600	(18,400)	0	(18,400)
Graham	210,700	16,000	194,700	0	194,700
Diesel	2,900	6,400	(3,500)	0	(3,500)
SUBTOTAL	561,400	388,600	172,800	0	172,800
Maine Yankee	465,400	400,500	0	64,900	64,900
Mystic #7	279,700	229,800	49,900	0	49,900
Coleson Cove	69,700	56,100	13,300	300	13,600
New Brunswick	30,200	30,200	0	0	0
SUBTOTAL	845,000	716,600	63,200	65,200	128,400
TOTAL	1,406,4[illegible]	1,105,200	236,000	65,200	301,200

BANGOR HYDRO-ELECTRIC COMPANY

PROJECTED ENERGY SALES
AUGUST 1980 - JULY 1981

ENERGY SALES IN MEGAWATT-HOURS

MONTH	RETAIL	WHOLESALE	NON-FIRM	TOTAL
August 1980	100,400	2,500	0	102,900
September	103,300	2,300	0	105,600
October	102,800	2,500	0	105,300
November	105,400	2,500	0	107,900
December	108,800	2,500	0	111,300
January 1981	115,600	3,100	0	118,700
February	114,900	2,600	0	117,500
March	113,300	2,600	0	115,900
April	104,700	2,200	0	106,900
May	102,400	2,300	0	104,700
June	98,800	2,000	0	100,800
July	97,300	2,200	0	99,500
TOTAL	1,267,700	29,300	0	1,297,000

BANGOR HYDRO-ELECTRIC COMPANY

PROJECTED UNIT FUEL COST ESTIMATES
ASSUMPTIONS LIST

1. Energy sales growth will be approximately (1.1%) in the 12 month projection period versus the 12 month historical period. Excluding IMC, energy sales growth will be approximately 2.0%.

2. Unit fuel prices will escalate as indicated on page 8.

3. Scheduled outages and forced outage rates will be as follows:

Unit	Scheduled Outage Period	Forced Outage Rate, %
Maine Yankee	4/25/81-6/13/81	11.3
Mystic #7	5/9/81 and 9/12/81-9/26/81	10.0
Wyman #4	6/27/81-8/01/81	20.0
Coleson Cove 1	4/04/81-5/23/81	9.1
Coleson Cove 2	10/10/81-10/31/81	9.1
Coleson Cove 3	6/06/81-6/27/81	9.1
Graham 3	6/20/81	1.2
Graham 4	4/19/81-4/26/81	1.9
Graham 5	4/05/81-4/12/81	2.3

4. Scheduled outage loader costs will average 30 mills/KWH.

5. NEPOOL Savings will average 4 mills/KWH of economy purchases.

6. Maine Yankee fuel price will average 6.2 mills/KWH.

7. Hydro reduction will occur uniformly over August - December period.

BANGOR HYDRO-ELECTRIC COMPANY

PROJECTED UNIT FUEL COSTS

SOURCE

MONTH	WYMAN 4	MYSTIC 7	COLESON COVE	GRAHAM	ICU's
Aug., 1980	$26.43/bbl.	$23.72/bbl.	$12.73/bbl.	$21.30/bbl.	$39.16/bbl.
Sept.	$26.43/bbl.	$23.72/bbl.	$12.73/bbl.	$21.30/bbl.	$39.16/bbl.
Oct.	$27.84/bbl.	$25.09/bbl.	$14.43/bbl.	$22.27/bbl.	$40.10/bbl.
Nov.	$27.84/bbl.	$25.09/bbl.	$14.43/bbl.	$22.27/bbl.	$40.10/bbl.
Dec.	$27.84/bbl.	$25.09/bbl.	$14.43/bbl.	$22.27/bbl.	$40.10/bbl.
Jan., 1981	$29.33/bbl.	$26.53/bbl.	$19.34/bbl.	$23.28/bbl.	$41.07/bbl.
[illegible]	$29.33/bbl.	$26.53/bbl.	$19.34/bbl.	$23.28/bbl.	$41.07/bbl.
Mar.	$29.33/bbl.	$26.53/bbl.	$19.34/bbl.	$23.28/bbl.	$41.07/bbl.
Apr.	$30.89/bbl.	$28.06/bbl.	$21.91/bbl.	$24.34/bbl.	$42.06/bbl.
May	$30.89/bbl.	$28.06/bbl.	$21.91/bbl.	$24.34/bbl.	$42.06/bbl.
June	$33.54/bbl.	$30.71/bbl.	$24.29/bbl.	$26.99/bbl.	$42.06/bbl.
July	$34.35/bbl.	$31.45/bbl.	$24.88/bbl.	$27.64/bbl.	$43.08/bbl.

BANGOR HYDRO-ELECTRIC COMPANY

CALCULATION OF RECONCILIATION ADJUSTMENT
12 MONTH PERIOD ENDING JULY 31, 1981

A. Transitional Fuel Cost Recovery	
1. Retail Net Unrecovered Fuel Cost, Dec. 31, 1979	$4,032,545
2. Retail Recovery of (1) through July 31, 1980	746,482
3. Net Unrecovered, July 31, 1980	3,286,063
4. Portion of (3) to be Recovered in Period*	1,359,750
B. Current Period Fuel Cost Recovery	
1. Unrecovered Retail Fuel Cost**, July 31, 1980	$3,809,432
C. Total Reconciliation Adjustment	$5,169,182
D. Projected KWH Sales - Maine Jurisdictional	1,267,700,000
E. Reconciliation Adjustment Factor, C ÷ D	0.00408

* Based upon ratio of current period months to remaining months in recovery period (12/29) or 41.38%

** See Page 11.

BANGO'. HYDRO-ELECTRIC COMPANY

RECOVERY OF FUEL CLAUSE
TRANSITIONAL FUEL COSTS
1980

MONTH	RETAIL KWH SALES	RETAIL* FACTOR	RETAIL RECOVERY	ACCUM. RECOVERY
January	108,965,149	$0.00097	$105,696	$105,696
February	119,898,281	0.00097	116,301	221,997
March	114,884,367	0.00097	111,451	333,448
April	110,234,197	0.00097	106,927	440,375
May	100,540,208	0.00102	102,551	542,926
June	97,155,370	0.00105	102,013	644,939
July**	94,900,000	0.00107	101,543	746,482

* Includes working capital credit adjustment

** Estimated

BANGOR HYDRO-ELECTRIC COMPANY

CURRENT PERIOD RETAIL FUEL RECOVERY
JANUARY - JULY, 1980

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY***	TOTAL
Fuel Cost	$3,773,863	$4,487,953	$4,674,131	$1,997,709	$1,914,297	$2,928,045	$2,343,000	$22,118,998
MWH Sales								
Retail	108,965	119,898	114,884	110,234	100,540	97,155	94,900	746,576
Wholesale	2,630	2,637	2,637	2,205	1,966	2,084	2,600	16,759
TOTAL	111,595	122,535	117,521	112,439	102,506	99,239	97,500	763,335
Fuel Costs								
Retail*	$3,686,346	$4,392,916	$4,570,929	$1,959,159	$1,878,166	$2,867,540	$2,281,520	$21,636,576
Fuel Revenue								
Retail**	$2,511,215	$2,666,253	$2,534,400	$2,437,206	$2,420,555	$2,613,601	$2,643,914	$17,827,144
Unrecovered	$1,175,131	$1,726,663	$2,036,529	($478,047)	($542,389)	$253,939	($362,394)	$3,809,432

* Based upon relative monthly KWH sales and loss factor of .984
** Excludes M/Y and transitional recovery
*** Estimated

BANGOR HYDRO-ELECTRIC COMPANY

BASE RATE UNIT FUEL COST
TEST YEAR ENDED DECEMBER 31, 1979

1. Test Year Fuel Cost	
Fuel for Generation (Gt)	$ 2,635,068
+ Fuel Component of Purchased Power (Pt)*	20,730,421
- Fuel Attributable to Energy for Resale (Rt)**	(526,919)
- Incremental Fuel for Non-Firm Sales (Nt)	(120,002)
	$22,718,568
2. Test Year KWH Sales	
Maine Jurisdictional (St)	1,301,137,342
- Non-Firm Sales (Xt)	2,836,100
	1,298,301,342
3. Base Rate Unit Fuel Cost, 1 ÷ 2	$0.01750

* Excludes $5,484,688 of deferred fuel expense

**Based upon test year sales of 30,613,089 KWH for wholesale and 1,298,301,242 KWH for retail and loss factor of .984

BANGOR HYDRO-ELECTRIC COMPANY

CALCULATION OF MAINE YANKEE REPLACEMENT POWER COST
ADJUSTMENT FACTOR

1.	Unrecovered Maine Yankee Replacement Cost, July 31, 1980	$610,058
2.	Projected Retail KWH Sales, August, 1980 - December. 1980	520,700,000
3.	Maine Yankee Replacement Cost Factor, 1 ÷ 2	$0.00117

BANGOR HYDRO-ELECTRIC COMPANY

RECOVERY OF FUEL CLAUSE
MAINE YANKEE RECOVERY

MONTH	RETAIL KWH SALES	RETAIL FACTOR	RETAIL RECOVERY	ACCUMULATED RECOVERY
January	108,965,149	$0.00108	$117,682	$2,021,381
February	119,898,281	0.00108	129,490	2,150,871
March	114,884,367	0.00108	124,075	2,274,946
April	110,234,197	0.00108	119,053	2,393,999
May	106,540,208	0.00111	118,260	2,512,259
June	97,155,370	0.00113	120,391	2,632,650
July*	94,900,000	0.00114	108,186	2,740,836

Maine Yankee Unrecovered = $3,350,894 - $2,740,836 = $610,058

* Estimated

EXHIBIT D

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

July 24, 1980

RECEIVED
1980 JUL 24 PM 4:22
MAINE PUBLIC
UTIL. COMM.

BANGOR HYDRO-ELECTRIC COMPANY
Re: Proposed Increase in Rates

Docket No. 80-38

BANGOR HYDRO-ELECTRIC COMPANY
Re: Petition for Temporary
Rate Relief

Docket No. 80-43

MEMORANDUM OF
COMMISSION STAFF

I. INTRODUCTION

The Commission Staff hereby submits this memorandum in support of the Stipulation Agreement presented orally to the Commission at a hearing held on July 21, 1980. The purpose of this memorandum is to present the Commission Staff explanation and rationale underlying its agreement to the specific stipulated provisions contained therein. It was the Staff's basic principle throughout the negotiations that it would not accept a result less favorable to the ratepayer than it could reasonably expect to achieve in a fully litigated proceeding.

II. ADJUSTMENT PROVISIONS

A. RATE BASE ITEMS

1. Calculation of Rate Base. In its original filing, the Company computed its rate base on the basis of average balances for a period of twelve months. The Staff recommended and the Company agreed to the recomputation of the rate base on the basis of 13 month-end amounts for the period beginning December 31, 1978 and ending on December 31, 1979. Consistent with current Commission practice, this method affords a more accurate measure of average rate base during the test year by reflecting the balance in existence on January 1, 1979 - the first day of the test year - all the way through to the last day of the test year - December 31, 1979.

2. Deferred Fuel - Maine Yankee Shutdown. The position of the Commission Staff in the matter of U. #3360 is that certain practices of Bangor Hydro and other part owners of Maine Yankee Atomic Power Station were imprudent and unreasonable. That matter is still pending before the Commission. To avoid the unnecessary duplication of effort in litigating the same issues in this rate case, the parties agreed to rely on the Commission's determination of that issue in U. #3360. Pending such a determination by the Commission, no rate base treatment will be allowed.

Should U. #3360 be decided favorably to the Company, the calculation of the amount to be included in rate base is designed to collect only those carrying costs incurred after the Commission's decision through the expected life of these rates (December 31, 1981).[1]

3. Unrecovered Fuel from Pre-1980 Fuel Clause. The last two transitional fuel clauses implemented for Bangor Hydro-Electric have provided for a return on the unrecovered fuel from pre-1980 clauses. This allowance is consistent with what was done in those two proceedings, but permits the Company to recover only those carrying costs associated with amounts unrecovered as of September 1, 1980.[2]

4. Materials and Supplies.

a. Fuel. It its original filing the Company proposed a pro forma upward adjustment to its test year fuel inventory to reflect more current costs. The Staff took the position that this proposed adjustment as well as several others discussed below were similar to a partial attrition adjustment, and as such should be rejected. The parties agreed that this type of an adjustment would be subsumed within an attrition analysis, and the Company withdrew the adjustment.

b. Construction Materials, and Supplies. Through cross-examination of the Company's witness, Jack O'Sullivan,

---

1) The Staff has used December 31, 1981, as the end point of this amortization period because it preceives this period to be the likely extent of the rates set in this proceeding. Our analysis of the Company's direct case and Staff Exhibits reveals that the Company will be experiencing significant growth in its capitalization in the next 2 years due primarily to its buy-in of Seabrook. In view of this, the Staff concluded that the Company will most probably require new rates at the end of 1981 to cover this increased financing.

After the decision in U. #3360 the figures on Appendix 2 to the Stipulation will most likely require slight revision to reflect actual KWH sales experienced by the Company and the revised fuel costs resulting from the new fuel clause.

2) The period of amortization was chosen on the same basis as that described in footnote 1 above.

it was established that 66% of the non-fuel inventory was characterized as construction-related materials. The Commission held in the last Bangor Hydro-Electric rate case that such items must not be included in rate base.

The Company has brought to the attention of the Commision Staff certain difficulties arising from the application of the Commission's prior ruling. Because items such as utility poles and wire presently fall within the definition of construction-related materials and supplies on which the Company can earn no return, it may be forced to reduce the level of its inventory of these items. This may prevent the Company from utilizing the beneficial prices attendant with bulk purchases and, with the diminished supply, may also seriously impair its ability to respond promptly to requests for line extensions. The Company indicates that these results contravene prudent management practice and may affect the adequacy of customer service primarily by lengthening the time customers must wait for line extensions.

The Staff recognizes that there may be some legitimacy to the Company's arguments and that this problem may result from an unclear definition of what was contemplated by the Commission in its use of the term "construction-related materials and supplies". The prior Bangor Hydro-Electric rate case affords no illumination, and although the issue of construction-related materials and supplies was raised, it appears to have not been extensively ligitigated at that time.

Nevertheless, for the purposes of negotiation the Commission Staff would not stipulate to a result inconsistent with the Commission's prior ruling. It thus suggested that the Company bring the facts of the actual impact of this rate base treatment to the attention of the Commission through the procedure of an advisory ruling.

5. <u>Capital Requirements of PURPA</u>. In response to a Staff Data Request, the Company provided descriptions of its plans for compliance with PURPA requirements and the schedule for implementing such plans. From this the Staff determined that all capital items associated with these requirements would be required sufficiently in the future to not warrant inclusion of the costs therefor in rate base. The parties agreed.

6. <u>Wyman Unit #4</u>. The parties have agreed that amounts associated with investments made in electric plant for correction of a noise problem with Wyman Unit #4 shall receive the same rate base treatment as the Commission determines proper for Central Maine Power Company in Docket No. 80-25.

Because the Staff understands that this issue has been reviewed in the Central Maine case, it seems reasonable to avoid duplicate litigation of this issue. This is especially so inasmuch as Central Maine Power is the lead participant in that unit, and it would be CMP's witnesses who most likely would be needed to testify on that issue. To avoid their having to testify in two separate proceedings or to avoid the complications arising from consolidation of the Bangor Hydro proceeding with Central Maine for purposes of that issue, the Staff feels that efficiency would best be served by applying to the instant case the Commission's ruling on that matter in the Central Maine case.

7. Land Held for Future Use. In its 1979 annual report to the Federal Energy Regulatory Commission, the Company indicated that it has no land held for future use. Upon inquiry the Staff ascertained that the Company does have land held for future use, but that it is reflected on the FERC report under non-utility property.

Although by listing it under the category of non-utility property, this land held for future use would receive no rate base treatment, the Commission Staff included this provision in the Stipulation for purposes of clarifying the parties' understanding with regard to this fact.

8. Cancelled NEPCO Units. The Company's investment in the cancelled NEPCO nuclear units is excluded from rate base. The Staff has agreed, however, to allow as an expense the amortization of the unrecovered balance of this investment. Discussion of the Staff's rationale for the entire treatment of this item appears in Paragraph II.B.7. infra.

9. Underrecovery from 1980 Fuel Clause. The implementation of the January 1980 fuel clause resulted in an underrecovery of about $4,000,000 which is being amortized over a substantial period of time. The Staff has agreed to rate base treatment of the unamortized outstanding balance of this amount,[3] a treatment which allows the Company to recover the carrying costs associated with amounts unrecovered as of September 1, 1980.

Although the Staff does not question the fact that the Company is entitled to inclusion of such amounts in rate base,

---

3) The period of amortization was chosen on the same basis as that described in footnote 1 infra.

this case illustrates the difficulty presented by our inability to treat working capital for fuel within the context of a fuel adjustment proceeding under 35 M.R.S.A. §131. Although the rates set in a general rate adjustment proceeding may provide for carrying costs for fuel set under a fuel clause established therein, the life of those rates most likely will exceed the life of the fuel clause. The resulting underrecovery or overrecovery of working capital perpetuated by the endurance of the rates could be avoided if amounts for working capital were to be included as part of the calculations under the fuel clause. The Staff would urge the Commission to seek an amendment of 35 M.R.S.A. §131 to correct this problem.

10. Working Capital.

a. Computation in General. The Staff took the position that in addition to any other specific changes made with respect to working capital, three days must be added to the lead day figures on the Company's Exhibit 0-2-2 for all items except purchased power (lines 1 and 9) and O & M labor (line 2). The Company's lead/lag study computes the revenue lag from the time the utility's service is rendered to the time the Company receives payment for that service; it computes expense lead days, however, from the time the Company receives the service for which it is paying to the time not when the Company's payments are received by the vendor, but when its payments are mailed.

For purposes of consistency, three days should be added to all working capital expenses paid by mail in order to more accurately reflect the dates of receipt of payment and to bring the lead day calculations more in line with that of lag days. Because purchased power expenses are paid by wire and labor expenses are paid by hand delivery three days need not be added to lead day calculations of these items. The parties agreed to accept the Staff's position.

b. Purchased Power. The Stipulation provides for the exclusion of $200,000 from the computation of working capital for purchased power. This amount represents decommissioning costs for Maine Yankee. Assuming that the Company is billed for these costs in accordance with the most recent communications which the Company has received, it appears that payment of the costs will not commence until substantially after these rates are to go into effect. For this reason the Staff's position was that there is no need for working capital. The parties accept the Staff's position.

The Staff also argued that amounts billed to the Company by Maine Yankee for lobbying expenses should be excluded from the test year figures. The parties agreed to this adjustment.

c. O & M Non-Labor. The Company agreed to the removal of working capital allowance for uncollectible revenues. The Staff argued the position that because this is not a cash expense, there is no need for working capital.

The Staff, upon reviewing the Company's responses to data requests, ascertained that expenses for tree trimming would not be incurred for several months until after the rates were to go into effect. Because of the timing of this expense, sufficient amounts would be collected beforehand. The Staff thus took the position that there would be no need for working capital for this item. The parties accepted this position.

Subsequent to the filing of its prefiled testimony, the Company corrected an error in its lead day calculations for pension expenses to reflect a June 15 tax return filing date. This correction results in a lower working capital requirement, and the parties agreed to the adjustment.

d. PURPA and NECPA Expenses. The Company originally filed for working capital allowance for expenses associated with several phases of its PURPA and NECPA programs. Because of the timing of the various aspects of these programs, the Staff argued that working capital should be allowed for only Phase IA of the PURPA program but for no phases beyond that nor for any portion of the NECPA program. The parties agreed to the Staff's position. Although in its original filing the Company had consolidated all program expenses for its calculation of working capital, it became apparent from the data request responses that the expenses had both labor and non-labor components. The Company agreed to separate the Phase IA expenses into those two categories in order to apply the appropriate lead day figures and thus more accurately reflect the working capital needs for these expenditures. Each of these adjustments lower the working capital requirement for this item.

e. Fuel Costs. The parties have agreed to determine a working capital allowance for fuel expenditures on the basis of fuel costs determined under a revised fuel clause to be established prior to the conclusion of the revenue portion of this proceeding. Again it is important to note that the working capital allowance which the Company will collect through these rates will most likely outlive the fuel clause upon which it is based. Whether resulting in an underrecovery or overrecovery of working capital, this problem could be avoided by legislative amendment to the provisions of the fuel clause statute to allow the Commission to include working capital in the computation of fuel costs recovered thereunder.

f. Sales Tax. As initially filed, the lead days for this item were not measured from the midpoint of the time the services were rendered. The Staff's position was that the lead days should be measured from the midpoint of the billing period which would correspond to the time service was rendered. The parties agreed with the Staff and corrected the calculation to make it consistent with the method of computation used for all other working capital items. This adjustment lowered the working capital requirement.

g. Federal Income Taxes. Although the Company's original filing included in its working capital calculations the amounts attributable to deferred federal income taxes, the Company later corrected the figure by deleting those amounts. The Staff's research showed that the correction proposed by the Company was appropriate.

h. Property Taxes. The Company's original filing measured lead days for property taxes on the basis of an April 1 to March 31 period, the midpoint being October 1. It is the position of the Commission Staff that although taxes may be assessed on April 1, the towns are on a calander fiscal year and the taxes thus collected finance services rendered during the period of January 1 to December 31. The midpoint of this period is July 1. The parties agreed to accept the Staff's position.

B. OPERATING EXPENSE ITEMS

1. P.U.C. Assessment. The Company's original filing did not contain an expense item for the P.U.C. assessment. Although billed in the test year, it was not paid in the test year and was thus inadvertently omitted by the Company. The amount assessed for 1979 was for only one-half year. The parties thus agreed to include as an expense a full year's assessment for purposes of these rates.

2. Depreciation. The Company's original filing included pro forma adjustments to test year depreciation to account for anticipated general increases in this category of expense. The Commission Staff took the position that growth in this expense and in certain other expenses discussed herein would more appropriately be reflected in an attrition analysis. By eliminating any pro forma adjustment to this item and performing such an analysis, a consideration of growth in revenues could be accounted for as well and provide a balanced assessment of increased costs.

3. PURPA. As with depreciation, the Staff took the position that future PURPA expenses could best be incorporated into the overall calculation of growth in expenses as reviewed

through an attrition analysis. The Company agreed to the removal of its original pro forma adjustment for this item, and the Staff's attrition analysis includes a $150,000 amount of PURPA expenses in its calculation of expense growth.

4. Test Year Maintenance. In its original filing, the Company proposed an upward adjustment of $40,000 to reflect an intensified trimming program. The Staff's analysis of the Company's response to Staff Data Requests revealed that in the test year the Company experienced excessive maintenance expenses as a result of its previously inadequate tree trimming program. The Staff argued that this improvement in tree trimming should obviate the need for so high a maintenance expense. The Company agreed to a downward adjustment of $10,000 to both transmission and distribution maintenance categories.

5. Wyman Unit #4. The Staff took the position that the Commission determination in the Central Maine Power case on the issue of test year maintenance expenses associated with start up problems (salt water intrusion) should govern the treatment of this issue in the instant proceeding. The Staff's reasons for applying the decision in that case to this one are the same as those set forth in the discussion of the muffler issue in Paragraph II.A.6. above.

6. Purchased Power. As the prefiled testimony reflects, the Staff originally eliminated the Company's pro forma upward adjustment for increased purchased power and accounted for the growth in this expense through its attrition analysis. Subsequent to the prefiling of that testimony, the Staff learned that by virtue of certain contractual provisions with Boston Edison , the Company is committed to the purchase of an additional 10 megawatts from MYSTIC 7 in November of 1980. In light of this identifiable increase in purchased power, the Staff felt that a pro forma adjustment to purchased power would be more appropriate than treatment of this increase through an attrition analysis. It was thus agreed that a revision of the attrition analysis and income statement would be made accordingly.

7. New England Power Company Nuclear Units. The Company, through a joint ownership agreement with New England Power Company, invested in a proposed nuclear generating facility in Charlestown, Rhode Island. Inability to obtain the site subsequently necessitated the cancellation of the project.

Through discovery procedures and cross-examination of the Company's witness, Thomas Greenquist, the Staff reviewed the Company's analysis of its decision to participate in this project, which appears in the record as Staff Exhibit 2.11. Based upon that review the Staff has concluded that the Company's decision to invest in the project was not imprudent considering

the circumstances existing at the time the decision was made.

This situation raises the question of the extent to which investors or ratepayers should bear the burden of a cancelled or abandoned project. Whether the investors should receive a return of their investments and whether they should receive a return on their investments in such cases must be decided.

The approach to this problem varies widely, Bonbright, Principals of Public Utility Rates, New York (1961), pp. 213 - 214, and depending on the facts this Commission could elect to do either of the following: 1) disallow ratemaking treatment of the entire investment, thereby placing the entire burden on the investors and not allowing even a return of the investment, or; 2) provide both rate base treatment of the investment and recovery of the loss as an expense, thus placing the entire burden on the ratepayers, and allowing investors to receive both a return of and on their investment, or; 3) allocate the burden of the lost investment between both the ratepayer and the investor.

The Commission Staff took the position that under the facts of this case the burden should be shared. In prior cases, the Commission has held that the investors and ratepayers should share the gains made on the sale of utility property. Casco Bay Lines v. Public Utilities Commission,, 390 A.2d 483 (1978). It may likewise be argued that losses should be shared, assuming the investment had been prudently made.

The manner and extent to which these losses should be shared is a matter of Commission discretion. Case law reflects a wide range of treatment. See discussion in San Diego Gas & Electric Co., 31 PUR 4th 435 (June 5, 1979). For example, in that case the Commission disallowed rate base treatment of the investment, while allowing as an expense the amortization of the loss exclusive of AFUDC; in doing do, that Commission allowed only a return of the investment made in labor and materials and not the cost of capital. In contrast, other Commissions, while spreading the burden of the loss between the investor and ratepayer, have allowed the amortized loss as an expense, as well as carrying costs therefor. Re: Gasco, Inc., 27 PUR 4th 615 (December 21, 1978).

The Staff argued that the Company's investment in the NEPCO units should be excluded from rate base, thereby not allowing a return to investors on their capital for property which is not used and useful in utility service. We have also concluded, however, that the loss of the investment, including funds attributable to AFUDC, should be recovered as an expense amortized over a period of five years, thereby allowing the investors only a recovery of their investment. In light of what seems to be the prudency of the the Company's decision at the

time, the Staff believes this to be a reasonable allocation of the burden of the loss between the investors and ratepayers.

8. Post 1970 Replacement Property. Consistent with Commission policy, the Company has agreed to flow through the benefits of accelerated depreciation on post 1970 replacement property. It appears that the figure representing this item, which had not been calculated at the time of the hearing on the Stipulation Agreement, will be $11,120.

C. OPERATING INCOME

1. Revenue Loss. IMC Chemicals, Inc., was an active party to all negotiations resulting in the Stipulation Agreement and was able to confirm the Company's figures for the loss of revenue due to the closing of IMC's chlorate plant. This revenue loss was taken into account in the measurement of KWH sales for purposes of the Staff's attrition analysis.

D. ATTRITION

In its original filing the Company attempted to pro form certain expenses. The Staff argued that such adjustments (applied to fuel, depreciation and PURPA expenses) were not sufficiently identifiable in their magnitude to be treated as pro forma adjustments, and that such adjustments would result in double counting if considered in conjunction with an attrition analysis which the Staff would perform. The Company agreed to the removal of these adjustments.

The Staff then performed an attrition analysis. The basis of this analysis appears in the prefiled testimony of Staff witness Nancy J. MacDonald, and was revised for the reasons set forth in the body of the Stipulation. As discussed under purchased power expense above, this item was removed from the attrition analysis and $150,000 of PURPA expenses were specifically included in the calculation.

The only other revisions since the prefiling of the Staff's case was a change in the revenue growth rate. This change was made to more accurately reflect estimated growth in sales. The initial calculation of the expected growth rate in revenues utilized inconsistent data. Growth rates were developed for the 1979 - 1981 period. Actual sales data was used for 1979 and compared with forecast total energy data for 1980 and 1981. Since sales data does not contain losses and Company use, the base (i.e., 1979 data) was understated, thereby producing a higher forecast growth rate for the 1979 - 1980 period. The data was

also corrected to normalize for the sale of IMC's chlorate operations.

It is important to point out that the annual growth rate in revenues used in this revised attrition analysis is higher than the Company's actual experience of sales growth thus far this year. In fact, the Staff in its analysis has focused on the Compan,'s load forecast and present experience as opposed to historical trend in growth. This approach is consistent with that being utilized in other proceedings pending before this Commission.

The Staff recognizes that a change in the Company's rate design may affect the ratio between sales and revenues (presently 65%). In the absence of an analysis of likely changes in the rate design, we did not make any such adjustments. This approach is not unreasonable in light of the Stipulation of the parties regarding rate design during the pendency of Phase II of this proceeding (Docket No. 80-108) and the fact that resolution of Docket No. 80-108 may not occur until some time in early 1981. Even if the rate design portion of this case were resolved on a timely basis and all rates were flattened to produce a one-to-one correspondence between growth in sales and growth in revenues, a rate of growth in sales somewhat higher than the 2.48% utilized would have to be realized during the "attrition year" to produce the revenues used in the analysis. Given recent experience and the likelihood of some "elasticity" resulting from the new rate design, this appears to be highly unlikely.

E. RATE OF RETURN

The Staff's rationale for the rate of return agreed upon in this case is fully set forth in the prefiled testimony of Staff witness John Peters. It should be noted that Mr. Peters has utilized "dividends over period hence" as the numerator in the "yield" component of the discounted cash flow formula. Mr. Peters describes the form of the D.C.F. model he has chosen to use on page 9, equation 1. Since the D.C.F. model essentially states that the market price of any stock is equal to the present value of the expected future returns of the stock, he has used the expected dividend yield, i.e. in the first period, plus the growth in dividends per share in determining the cost of equity to the Company.

III. EMPLOYEE DISCOUNTS

The Staff argued and the Company agreed to phase out its program of employee discounts. It is understood that the purpose of eliminating such discounts it to promote conservation of

energy consistent with the policies enunciated by the federal government under the provisions of the Public Utilities Regulatory Act. 16 USC § 2611.

Respectfully submitted,

Jane S. Bradley

Jane S. Bradley, Esquire

D. H. Moskovitz

David H. Moskovitz, Esquire
Staff Attorneys
Public Utilities Commission

In Consultation With:

John Peters, Director of Finance
Nancy MacDonald, Financial Analyst
Merle MacDonald, Finance Division
David Deprey, Finance Division
John Leavitt, Chief Engineer - Electric
Norman Leonard, Electric Division

CANAL ELECTRIC COMPANY

UNITS NO. 1 AND NO. 2

SEABROOK NUCLEAR POWER STATION

SEABROOK, NEW HAMPSHIRE

Information furnished pursuant to §50.33
of Commission's Rules and Regulations with
respect to the particular Applicant named
above as part of Final Safety Analysis Report
and Operating License Application for the
above Units

July 1981

I. Organization and Control

(a) Name of Applicant

Canal Electric Company (Canal)

(b) Address of Applicant

675 Massachusetts Avenue
Cambridge, Massachusetts 02139

(c) Description of Business of Applicant

Canal, a wholly-owned subsidiary of Commonwealth Energy System, is a wholesale electric generating company located in Sandwich, Massachusetts. Canal's generating station consists of two oil-fired steam electric generating units: Canal Unit No. 1 with a rated capacity of 568 MW, wholly-owned by Canal; and Canal Unit No. 2, with a rated capacity of 584 MW, is jointly owned by Canal and Montaup Electric Company.

Canal generates and sells electricity at wholesale to other utilities under substantially identical life-of-the-unit power contracts. The capacity and energy of Unit No. 1 is purchased by Boston Edison Company, Montaup Electric Company, New England Power Company, Commonwealth Electric Company, and Cambridge Electric Light Company. The Company's entire one-half share of the net capability of Unit No. 2 is under obligation to Commonwealth Electric and Cambridge Electric, distribution subsidiaries of Commonwealth Energy System.

Canal is a member of the New England Power Pool (NEPOOL), whose central dispatching facility (NEPEX) coordinates the operating of essentially all of the generation and transmission facilities in New England. Canal is also a member of the Northeast Power Coordinating Council (NPCC).

Additional details of Canal's operations are contained in its Annual Report on From 10-K to the Securities and Exchange Commission included as an exhibit to this application. Canal proposes to purchase Commonwealth Electric's share (3.52317%) of the Seabrook Station No. 1 and No. 2 Units.

(d) Corporate Organization

Canal is a business corporation organized under the laws of Massachusetts on March 17, 1902 and as of April 30, 1981, had 1 domestic shareholder owning its 1,523,200 common shares.

(e) Corporate Officers and Directors

Officers

Chairman of Board and President	G. E. Anderson	P.O. Box 190, Cambridge, MA
Financial Vice President	E. G. Cheney	P.O. Box 190, Cambridge, MA
Executive Vice President - Electric Operations	J. V. Donovan	P.O. Box 190, Cambridge, MA
Vice President - Administration	A. S. Griffiths	P.O. Box 190, Cambridge, MA
Vice President - Customer Services	R. F. MacDonald	P.O. Box 190, Cambridge, MA
Vice President - Energy Supply	W. R. Smith	P.O. Box 190, Cambridge, MA
Vice President - Facilities Development	R. G. Velte	P.O. Box 190, Cambridge, MA
Vice President - Human Resources	R. E. Healey	P.O. Box 190, Cambridge, MA
Vice President - Rates	J. J. Tasillo	P.O. Box 190, Cambridge, MA
Treasurer	R. S. Parker	P.O. Box 190, Cambridge, MA
Comptroller	J. A. Whalen	P.O. Box 190, Cambridge, MA
Clerk	M. P. Sullivan	P.O. Box 190, Cambridge, MA

Directors

Charles T. Abbott	P.O. Box 190, Cambridge, MA
Gerald E. Anderson	P.O. Box 190, Cambridge, MA
Earl G. Cheney	P.O. Box 190, Cambridge, MA
Leland R. Crowell	P.O. Box 190, Cambridge, MA
Jeremiah V. Donovan	P.O. Box 190, Cambridge, MA
William R. Smith	P.O. Box 190, Cambridge, MA
Richard G. Velte	P.O. Box 190, Cambridge, MA
Burdette A. Johnson	P.O. Box 190, Cambridge, MA

All of the directors and principal officers of Canal are citizens of the United States of America. Canal in not owned, controlled or dominated by an alien, foreign corporation or foreign government.

II. Financial Qualifications

Under the Joint Ownership Agreement, Canal is responsible for its Ownership Share of the operation and maintenance cost of the Units which, when the pending transactions described herein have been consummated prior to commercial operation, will be 3.52317% of those costs, and a similar percentage of the ultimate cost of decommissioning the Units.

Based upon the estimates set forth above under Part IV of the General Information, Canal's share of these costs should amount to approximately \$5,285,000 and \$5,285,000 for the first five years of operations of Units 1 and 2, respectively; and approximately \$1,480,000 to \$3,030,000 for the decommissioning of the two Units. In addition, Canal's share of fuel expenses during the period would be \$18 074 000.

As evidence of its financial qualifications to meet those costs, Canal submits herewith:

(i) 1980 Annual Report to Stockholders (Parent company) (Exhibit A-1).

(ii) 1980 Annual Report on Form 10-K (Exhibit A-2).

(iii) 1981 Quarterly report on Form 10-Q (Exhibit A-3).

(iv) Prospectus, dated September 9, 1976 relating to $35,000,000 First and General Mortgage Bonds, Series B 8.85% due 2006 (Exhibit A-4).

III. Regulatory Agencies and Publications

(a) Regulatory Agencies

The following regulatory agencies have jurisdiction over the rates and services of Canal Electric Company:

Federal Energy Regulatory Commission
Washington, D.C. 20426

(b) The following publications are used by Canal for official notification and/or are otherwise appropriate for notices regarding these Units:

Barnstable Patriot
P.O. Box 1208
Hyannis, MA 02601

Barnstable Village Advertiser
P.O. Box 429
Osterville, MA 02655

Bourne Courier
P.O. Box 334
Buzzards Bay, MA 02532

Cape Cod Chronicle
641 Main Street
Chatham, MA 02633

Cape Cod Independent
3204 Cranberry Highway
Buzzards Bay, MA 02532

Cape Cod Journal
P.O. Box 627
Hyannis, MA 02601

Cape Cod News
P.O. Box 426
Orleans, MA 02653

Cape Cod Oracle
P.O. Box 426
Orleans, MA 02653

Cape Cod Times
319 Main Street
Hyannis, MA 02601

Cape Codder
P.O. Box 39
Orleans, MA 02653

Dartmouth Chronicle
450 State Road
Dartmouth, MA 02747

Duxbury Clipper
P.O. Box 1656
Duxbury, MA 02332

Edgartown Vineyard Gazette
P.O. Box 66
Edgartown, MA 02539

Falmouth Enterprise
P.O. Box 647
Falmouth, MA 02541

Falmouth Pennysaver
P.O. Box 548
Falmouth, MA 02541

Focus on Plymouth-Market Basket Messenger
71 Evergreen Street
Kingston, MA 02364

Kingston Independent
Box 13
Kingston, MA 02364

Kingston Voice
72 Main Street
Kingston, MA 02364

Marion Sippican Sentinel
P.O. Box 666
Marion, MA 02738

Marshfield Mariner
P.O. Box 682
Marshfield, MA 02050

Mattapoisett Presto Press
15 Mechanic Street
Mattapoisett, MA 02739

Middleboro Gazette
39 Wareham Street
Middleboro, MA 02346

New Bedford Portuguese Times
P.O. Box N-113
New Bedford, MA 02746

New Bedford Standard Times
555 Pleasant Street
New Bedford, MA 02742

Old Colony Memorial
P.O. Box 959
Plymouth, MA 02360

Patriot Ledger
13 Temple Street
Quincy, MA 02169

Provincetown Advocate
100 Bradford Street
Provincetown, MA 02657

Sandwich Village Broadsider
P.O. Box 695
Sandwich, MA 02563

Scituate Mariner
P.O. Box 202
Scituate, MA 02060

Scituate Mirror
100 Front Street
Scituate, MA 02066

Silver Lake News
P.O. Box 458
Pembroke, MA 02359

This Week on Martha's Vineyard
State Road
West Tisbury, MA 02575

Wareham Courier
85 Main Street
Wareham, MA 02571

West Tisbury Grapevine
State Road
West Tisbury, MA 02575

Yarmouth Sun
P.O. Box 1002
South Yarmouth, MA 02664

Yarmouthport Register
Lock Box C
Yarmouthport, MA 02675

Boston Globe
Boston, MA 02107

Boston Herald American
300 Harrison Avenue
Boston, MA 02106

Press Gallery
Room 456 - State House
Boston, MA 02133

Time Magazine
277 Dartmouth Street
Boston, MA 02116

Wall Street Journal
35 Congress Street
Boston, MA 02109

Associated Press
184 High Street
Boston, MA 02110

UPI
20 Ashburton Place
Boston, MA 02108

Newsweek
1918 Prudential Tower
Boston, MA 02199