Eastern Utilities Associates Annual Report 1980

The Company

Eastern Utilities Associates is the parent company for two retail electric companies, a wholesale generation and transmission company and a service company. The EUA System furnishes electric service to portions of southeastern Massachusetts and northern Rhode Island.

The name Eastern Utilities Associates is the designation of the Trustees for the time being under a Declaration of Trust dated April 2, 1928, as amended, and all persons dealing with Eastern Utilities Associates must look solely to the trust property for the enforcement of any claims against Eastern Utilities Associates as neither the Trustees, Officers nor Shareholders assume any personal liability for obligations entered into on behalf of Eastern Utilities Associates.

Highlights

	1980	1979	% Increase (Decrease)
		(Restated)	
Income, Earnings, Dividends:			
Consolidated Net Income	**$ 8,990,000**	$ 8,488,000	5.9%
Average Common Shares Outstanding	**5,525,320**	4,871,667	13.4%
Consolidated Earnings per Average Common Share	**$1.63**	$1.74	(6.3%)
Dividends Paid Per Share	**$1.60**	$1.60	
Sales and Customers:			
Total Operating Revenues	**$244,642,000**	$185,801,000	31.7%
Total Electric Sales (thousands of kwh)	**4,333,000**	4,115,000	5.3%
Customers, Year End	**225,867**	222,896	1.3%
Property and Plant:			
Net Utility Plant	**$314,263,000**	$289,559,000	8.5%
Construction Expenditures	**$ 34,939,000**	$ 30,498,000	14.6%

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To Our Shareholders:

EUA earnings for the year 1980 were $1.63 per average Common Share, compared to $1.74 for last year on a larger number of average shares outstanding. This decline in earnings was caused by the inflationary effects of the economy on all aspects of our business. In particular, we encountered extraordinarily high, short-term interest rates on bank borrowings coupled with no growth in kilowatthour sales to ultimate consumers.

Electric utilities that use oil to generate electricity continue to operate under difficult conditions, and the EUA System is no exception. During 1980, we used fuel oil to generate 84% of our electricity. The cost per barrel increased from $19 to a new high of $32 by year-end. Higher fuel costs together with extremely cold weather have caused a great number of high-bill complaints from customers. To lower the cost of fuel and reduce our dependency on imported oil, we are seeking the necessary permits needed to allow converting certain units to coal. The fuel savings in burning coal should permit the conversion costs to be recovered within three years, assuming that Environmental Protection Agency regulations can be revised so that we are not required to install scrubbers.

In the early 1970's the EUA System peak load and kilowatthour sales had an annual growth of 7%. After the oil embargo and the resulting higher cost of oil, our peak and sales have remained relatively constant for the last few years. We believe that the rate of growth can be contained through a combination of load management techniques and energy conservation because of higher costs. We are developing a program designed to keep our peak load growth at 1.5% per year and to increase our growth in kilowatthour sales by 2% a year to improve our load factor. At these growth rates, it becomes clear that until the late 1980's we do not need any additional generation above what we already are committed to support.

Last year your Trustees adopted as a major objective the strengthening of the financial position of the Association. An important element in this strengthening process consists of the reduction of bank borrowings with interest rates that fluctuate with the prime rate. In October 1980, Eastern Edison Company, our Massachusetts retail subsidiary, sold $15 million of Bonds and $15 million of Preferred Stock. In January 1981, Blackstone Valley Electric Company, our Rhode Island subsidiary, completed the sale of $30 million of Bonds. The proceeds from these long-term financings were utilized to reduce short-term debt to 9.7% of total capitalization — the lowest level since May 1973.

The ravaging effects of our inflationary economy, combined with past inadequate rate relief have prevented us from earning a satisfactory rate of return for our shareholders. In Massachusetts we have been granted an adjustment for expense erosion due to inflation while Rhode Island regulators in addition permitted an adjustment for capital attrition. These new adjustments, received in 1980, should permit our retail companies to improve their return in 1981. The Federal Energy Regulatory Commission (FERC), which controls about seventy-five percent of EUA System revenues, permitted new rates to go into effect in October 1980, based upon a negotiated settlement agreement arrived at with intervenors and FERC staff. Another request for an increase in wholesale rates was filed in December and was permitted by FERC to go into effect, subject to refund, in February 1981.

We must and will continue persistently to seek more equitable rate relief in order to raise the return on equity to help offset inflation's confiscation of shareholders' investment.

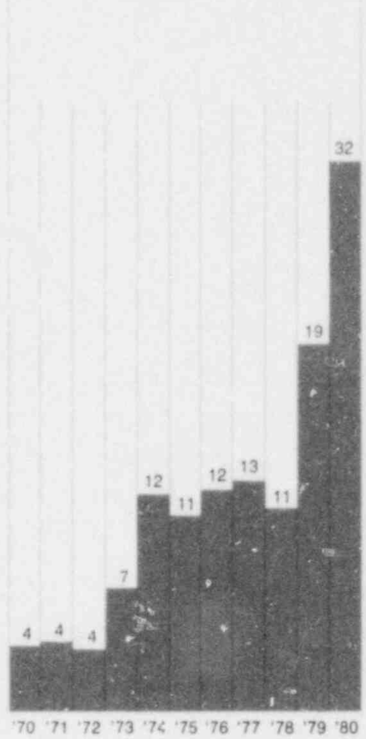
Very truly yours,

John F. G. Eichorn, Jr.

John F. G. Eichorn, Jr.
President

March 10, 1981

Residual Oil Prices at Year End
(Dollars Per Barrel)



Executive Officers (left to right) — Richard M. Burns, Comptroller; Donald G. Pardus, Vice-President and Treasurer; William F O'Connor, Secretary; John F. G. Eichorn Jr., President and Chief Executive Officer; Robert E. Maguire, Executive Vice-President and William R. Bisson, Vice-President.

Review of Operations

Earnings And Dividends
Consolidated Net Income for 1980 was slightly less than $9.0 million, up 5.9% over 1979. Earnings per average common share outstanding were $1.63, down 11¢ from the restated earnings of $1.74 earned in 1979 on fewer average shares.

The quarterly dividend paid in 1980 was maintained at 40¢ per share, the rate established during the first quarter of 1977. A substantial portion of the dividend payments during 1980 are considered a return of capital and will, therefore, not be treated as dividend income for Federal income tax purposes. Only 57.28% of the first quarterly dividend, and none of the remaining three quarterly dividends, should be reported as dividend income for 1980 tax purposes. A notice to that effect was sent to shareholders on January 30, 1981.

Revenues And Sales
Operating Revenues of $244.6 million in 1980 were up substantially from the prior year's $185.8 million. Wholesale and retail rate increases during the year added approximately $5.1 million to 1980's base revenues. The balance of the increase in Operating Revenues can be almost entirely attributed to the recovery of higher fuel costs through the operation of the adjustment clauses which provide a timely matching of revenues with increases in the costs of fuel.

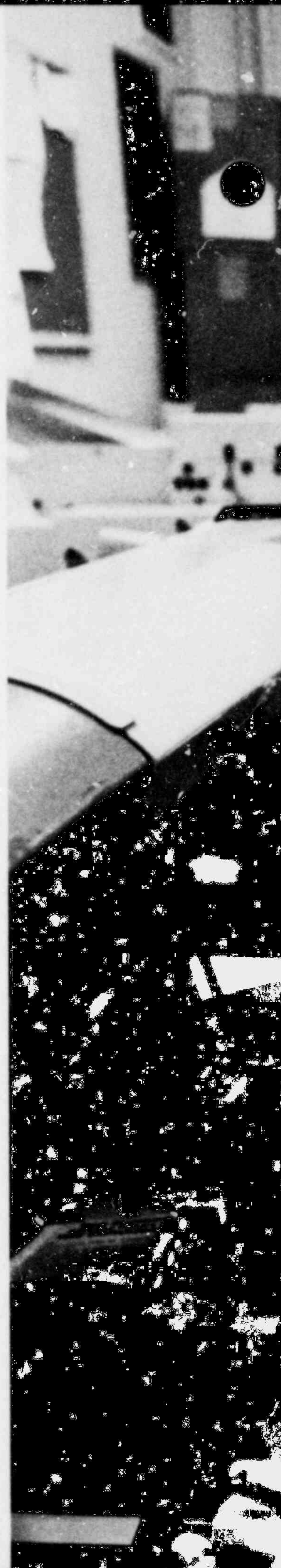
Primarily kilowatthour (kwh) sales in 1980, shown on the chart on page 5, remained virtually unchanged from 1979. However, there was a substantial increase in "unit contract sales." These are short-term sales of surplus generating capacity and enable EUA to make more effective use of its generating reserve.

Energy conservation, increased fuel costs, and rampant inflation inhibited kwh sales to residential, commercial and industrial customers in 1980. Retail sales were down slightly from last year. Were it not for the colder-than-normal weather experienced during the latter part of 1980, the level of kwh sales would have been down about 1% from the prior year. Based on current estimates for 1981, sales to residential, commercial and industrial customers are expected to remain at 1980 levels. Peak demand in the EUA System is expected to increase about 1% in 1981 — with a similar increase in the total number of customers.

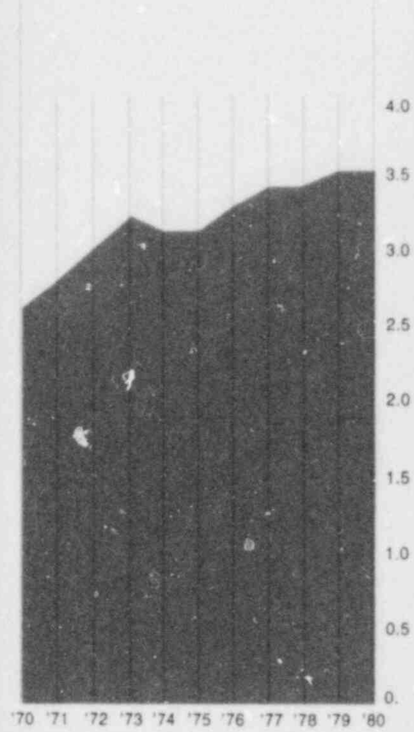
Expenses
The chart on page 3 depicts the dramatic increase in the cost of residual oil used by EUA to generate electricity. The 1980 range of $19 per barrel to $32 per barrel was largely responsible for the increase of $51 million in Fuel expense. In addition, Purchased Power expense increased by almost $4 million as a result of higher purchased electricity costs incurred by Montaup Electric Company, our generation and transmission subsidiary. These increased costs were not permitted to be recovered on a current basis under the wholesale rates which were in effect in 1980.

Maintenance and Other Operating Expenses were $37.6 million. The 1980 increase of $3.8 million over 1979 was 11.3%.

The chart on page 7 graphically illustrates the sharp escalation in the prime borrowing rate charged by lending institutions during 1980. The extraordinarily high interest rate was largely responsible for long-term and short-term debt charges increasing by $3.5 million over the prior year — to a total of $23.7 million in 1980. Permanent financing undertaken in 1980 has improved EUA's capital structure by substantially reducing the amount of debt with an interest rate which varies with the prime rate. This will minimize future effects of further wide fluctuations in the prime rate. A more detailed discussion follows in **Financing.**

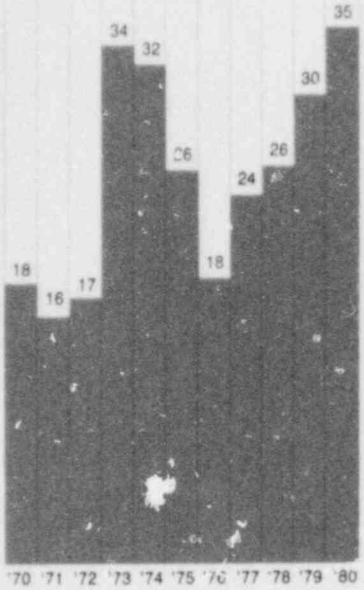


Total Primary Sales
(Billions — kwh)



Customer Information — "Customer Informational" bill inserts are processed through this inserting machine.

Electric Construction Expenditures
(Millions of Dollars)



Construction

Utility plant construction expenditures in 1980 were \$34.9 million, up \$4.4 million from the previous year. Transmission, distribution and non-generation expenditures amounted to \$14.4 million, an increase of \$3.4 million over 1979. Expenditures for other generation projects decreased by \$2.5 million in 1980. Expenditures for our shares of large generating units were \$20.4 million, up \$3.5 million from 1979. The construction of these units has been approved by the New England Power Pool, which provides for the coordinated planning of future facilities.

Projected construction expenditures for 1981 are expected to be substantially higher, with an estimated total requirement of \$52 million. Approximately \$17 million will be spent on non-generating projects. The bulk of the funds will be needed for the jointly-owned generating units which are now either under construction or still in the design or licensing phase. The table on page 7 lists our ownership interest in the major generating units in New England which are scheduled to come on-line prior to 1991.

Construction requirements for the five-year period 1981-1985 are presently estimated at \$241 million. Approximately \$84 million will be needed for transmission, distribution and other non-generation requirements, with an additional \$4 million for other generation projects and \$153 million for the jointly-owned generating units now under construction.

We expect about the same level of kilowatthour energy sales in 1981 compared with 1980. The "zero difference" reflects the net effect of more normal weather and continued energy conservation. Providing electricity for new customers, or serving additional energy requirements for existing customers, usually necessitates the construction of additional transmission and/or distribution facilities. The scheduled replacement of outmoded equipment also adds to our construction dollar requirements.

While present commitments for additional major generation involve only nuclear units, we are also examining, in concert with other members of the New England Power Pool, the economic feasibility of importing hydro-based electric energy from Canada. If the project proves feasible, it will require the construction of a major transmission line before power can be imported, probably no earlier than 1988.

Another significant project which is presently being proposed by a major industrial entrepreneur involves the construction of a New England Energy Park — a coal gasification plant which would convert coal to methanol and a medium-Btu gas which could be used to generate 600,000 kilowatts of electricity. Additional by-products of the coal gasification process will be low-Btu gas, sulfur, and slag — all of which have commercial value. A 4,300-acre site has been acquired and is located in our service area in southeastern Massachusetts. The proposed coal gasification plant will probably not be a reality until the latter part of this decade.

Nuclear

On October 30, 1980, the Massachusetts Department of Public Utilities (DPU) issued its long-awaited decision on the acquisition by Montaup Electric Company and others of additional ownership interests in the two Seabrook nuclear generating units under construction by the Public Service Company of New Hampshire. The DPU decision permits Montaup to increase its ownership participation from the original commitment level of 1.9% to a new level of 2.9%, rather than the 5% ownership proposed by Montaup. The DPU concluded that Montaup had not met its burden of proof with respect to its financing capabilities for a 5% ownership participation in the Seabrook project.

Northeast Utilities (NU) has announced the cancellation of two nuclear generating units to have been built in Montague, located in western Massachusetts. The EUA System has a 2% inerest in each of the cancelled units. While final costs associated with the cancelled NU project have not yet been fully established, we expect that the EUA System share will not be significant. We have applied for appropriate Federal regulatory approval to recover our portion of the total costs of the cancelled project, over a five-year period, commencing with the effective date of the Montaup wholesale rate increase application filed in December 1980.

Millstone No. 3, another nuclear unit sponsored by NU, has been under construction for some time now and is scheduled for completion in 1986. The EUA System has a 4.01%

EUA Generating Units Scheduled Through 1990

Unit Name	Location	Type	EUA System Interest %	EUA System Interest Thousands of Kilowatts
Seabrook No. 1	Seabrook, NH	Nuclear	2.9	33
Seabrook No. 2	Seabrook, NH	Nuclear	2.9	33
Millstone No. 3	Waterford, CT	Nuclear	4.01	46
Pilgrim No. 2	Plymouth, MA	Nuclear	2.15	25
TOTAL				137

ownership interest in this 1,150,000-kilowatt unit. We have made a review of our generating capability commitments and balanced them against a 2.5% average annual increase in kilowatthour energy requirements over the next 10 years. We are attempting to reduce our ownership interest in this unit by offering to sell half of our 4.01% interest to any interested utility or combination of utilities. The resultant 2% level of ownership, combined with existing generating units and other generating units under construction, will provide sufficient capacity to enable the EUA System to meet estimated load and reserve requirements through 1985. The slight deficits in capacity during the latter part of this decade can be met with new peaking units, reactivation of Montaup's "mothballed" units, short-term purchase of capacity from another utility, or a combination of these sources.

The modification of our participation in nuclear-based generation does have a beneficial effect since external financing requirements will be lower with less Common Share dilution, and a better capital structure will result.

We continue to support the electric utility industry's funding of the Nuclear Safety Analysis Center, the Institute for Nuclear Power Operations and other allied efforts. The Three Mile Island incident of March 1979 prompted a rigorous re-examination of safety-related equipment and operating procedures in all nuclear facilities. While several modifications have been required of the nuclear units operating in New England, these modifications were designed to enhance the high standards of safety already inherent in the construction and operation of the units.

Financing

The revised Dividend Reinvestment and Common Share Purchase Plan which was made available in February 1980 has been enthusiastically received by our shareholders. At year-end, more than 16% of the shareholders, by means of their participation in the Plan, had invested almost $1.7 million in cash payments and reinvested dividends during 1980. These additional equity funds were utilized in our on-going construction program.

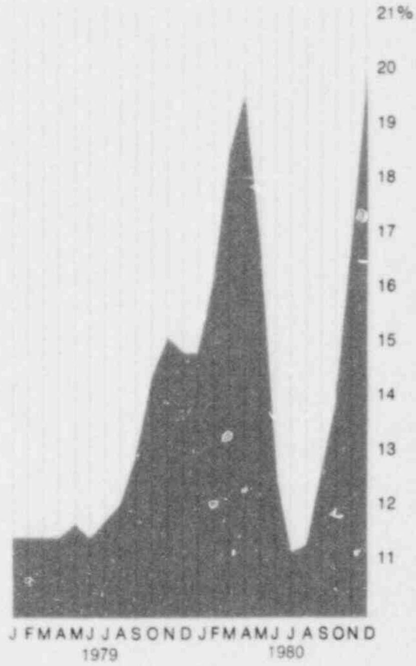
On October 16, Eastern Edison Company, our Massachusetts retail subsidiary, sold, via competitive bidding, $15 million in 10-year First Mortgage and Collateral Trust Bonds with an interest rate of 14¼%, and $15 million of 15.48% Preferred Stock. The proceeds were utilized to reduce short-term bank borrowings by $25 million and to reduce an Eastern Edison Term Loan due in 1985 by $5 million. At the end of October, Eastern Edison had no outstanding short-term bank borrowings.

On January 16, 1981, Blackstone Valley Electric Company, our Rhode Island retail subsidiary, completed the private placement of $30 million 15-year First Mortgage Bonds with an interest rate of 14¼%. The proceeds were utilized to repay all of Blackstone's short-term bank borrowings.

The Eastern Edison and Blackstone long-term financings enabled the EUA System to reduce outstanding consolidated short-term debt to $31.5 million by December 31, the lowest level of short-term debt since May 1973.

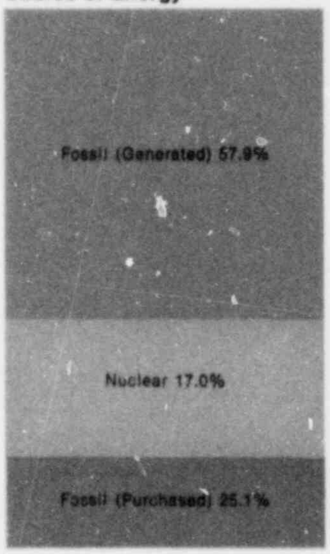
The interest charges on all short-term debt, as well as some of our long-term debt, are directly affected by fluctuations in the prime rate. The high level of our short-term debt, coupled with a prime rate which rose to unprecedented levels during 1980, had a significant, adverse impact on our earnings.

Average Prime Rate

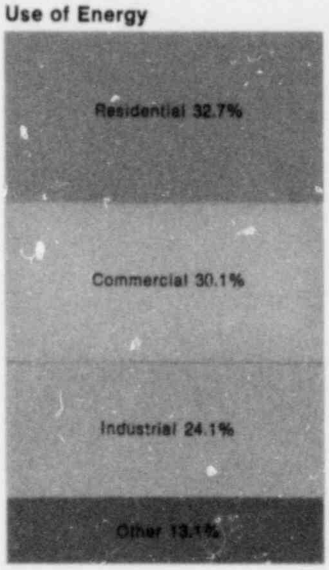


1980 Energy (kwh)
Primary Sales

Source of Energy



Use of Energy



Extended Hours — Customer Service Center hours have been extended to enhance and improve service to our customers.

The reduction in short-term debt has obviously reduced our exposure to the earnings erosion which would otherwise result from future increases in the prime rate. The effect of replacing short-term debt with long-term debt, preferred stock and common stock has been the resultant strengthening of EUA's capital structure. Total long- and short-term debt for the EUA System at the end of 1974 was 73% of total capitalization. At the end of 1980, total debt had declined to just under 60% of total capitalization. Our goal is to achieve a capital structure in which long-term debt constitutes no more than approximately 50% of total permanent capitalization and short-term debt will be no more than 5% of total capitalization.

EUA presently plans to sell additional Common Shares, probably in the second quarter of 1981. In addition, Eastern Edison Company may issue $25 million in long-term debt and $10 million in preferred stock, in the second half of 1981. The successful implementation of the proposed 1981 financing is, of course, dependent upon a number of factors affecting general economic conditions, the market for securities, and investor perceptions of EUA's fiscal stability and prospects for continuing financial viability.

The Year In Review

1980 was particularly challenging as EUA addressed the problem of maintaining a proper balance between the needs of our customers and the needs of our shareholders. We have an obligation to provide to our customers a dependable, reliable supply of electricity at the lowest price consistent with a fair return to the investor. It may appear to some special-interest pressure groups that "lowest price to the customer" is in direct conflict with "fair return to the investor." While the two objectives do require a careful balancing, they are not incompatible and may, in fact, coexist peacefully.

The purchased power adjustment clauses in our retail rates, which enable us to recover increases in a more timely manner, are viewed by most customers with suspicion, resentment and lack of full understanding. We continue to meet with large groups of customers in an effort to promote better understanding on the subject of fuel charges.

The Governor of Massachusetts appointed a task force last July and charged it with developing specific fuel clause legislation which could be introduced in the Massachusetts legislature. The task force consisted of representatives from customers of the electric utilities, management of the electric utilities, the Department of Public Utilities, the Office of Energy Resources, and other interested groups. The task force presented a report to the Governor in December, with specific proposed legislation which had the concurrence of all members of the task force. It is expected that the legislation will be introduced early in 1981. While the basic thrust of the proposed legislation does not adversely affect the ability of electric utilities to properly and promptly recover fuel and purchased power expenses, it does impose a burdensome scrutiny of generating efficiencies and fuel purchasing policies.

The conversion of boilers in electric generating plants from oil-burning to coal-burning is an active and much-discussed topic in New England because of this region's dependence on imported oil for the generation of electricity. The high cost of this imported oil translates into intense customer dissatisfaction when they are asked to pay for a 50% increase in oil costs over a brief three- or four-month period.

The table on page 10 lists EUA's interest in existing generating sources. Montaup Electric Company's units, Somerset Nos. 5 and 6, have the ability to burn either coal or oil. When the units first became operational, they burned coal; but this was before the advent of present-day environmental restrictions on stack emissions and particulate contaminants. These units could burn coal within two weeks if there were no environmental restrictions. The cost of converting just Somerset No. 6, the larger and newer unit, to burn coal is estimated at $40 million (in 1984 dollars) including the cost of pollution control equipment to remove particulate contaminants. Montaup would still require a variance from the present "clean air" standards however, in order to remove objectionable stack emissions.

Last summer, we met with members of several Federal agencies in Washington, D.C., to discuss the feasibility of converting Somerset No. 6 to coal. Our position was then, and is now, that this is not a viable alternative. It would become feasible under either of the following alternatives:

1) defer, revise or rescind the environmental regulations which, in effect, require scrubbers to remove various

EUA Generating Units in Service

Unit	Type	Owner	In Service	Net Capability (thousands of kilowatts)	EUA System Interest* %	EUA System Interest* System Share (thousands of kilowatts)
Somerset Nos. 5, 6	Oil	Montaup Electric Company	1951-1959	198	100.0	198
Somerset Nos. J1, J2	Gas Turbine	Montaup Electric Company	1970-1971	48	100.0	48
Yankee Rowe	Nuclear	Yankee Atomic Electric Co.	1961	145	4.5	7
Connecticut Yankee	Nuclear	Conn. Yankee Atomic Power Co.	1968	575	4.5	26
Canal No. 1	Oil	Canal Electric Co.	1968	568	25.0	142
Canal No. 2	Oil	Canal Electric Co. & Montaup	1976	584	50.0	292
Vermont Yankee	Nuclear	Vt. Yankee Nuclear Power Corp.	1972	528	2.5	9
Maine Yankee	Nuclear	Maine Yankee Atomic Power Co.	1972	830	4.0	26
Pilgrim No. 1	Nuclear	Boston Edison Co.	1972	670	11.0	70
Cleary No. 9	Oil	City of Taunton, Mass.	1975	110	72.7	80
New Brunswick Nos. 1, 2, 3	Oil	New Brunswick Electric Power Commission	1976	400	6.41	26
Wyman No. 4	Oil	Central Maine Power Co.	1979	615	1.96	12

* Interest can be in any of the following forms: ownership, joint ownership, stock ownership, variable purchase contract, or "life of unit" purchase contract.

sulfur compounds, or,

2) Federal assistance in the form of a grant, or a low-interest loan, to soften the economic impact of the conversion cost on the ratepayers.

Without the variance to eliminate the need of a scrubber, or the grant, the conversion is not in the best interest of either our customers or shareholders because the amortization of the conversion costs will be greater than the estimated savings resulting from the price differential between coal and oil.

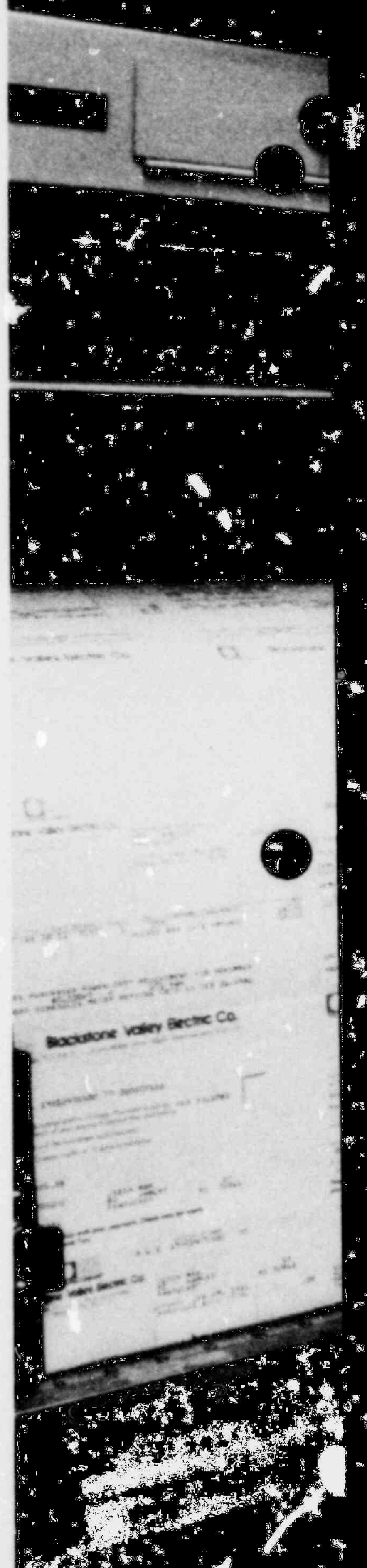
Several industrial customers are installing their own hydroelectric generating equipment in the expectation that it will produce a large portion of their electric energy requirements, and they may, on occasion, sell to us whatever electricity is produced in excess of their needs. These customers are considered "cogenerators" under the terms of the Public Utility Regulatory Policy Act enacted by Congress in 1978. The Act requires utilities to purchase such energy from cogenerators at a price usually referred to as the "avoided cost" to the utility.

Our Rhode Island retail subsidiary will spend about $3.7 million to reactivate its 84-year old hydro station which has been idle since 1971. The design rating of the plant will be just under 1,500 kilowatts. It is estimated that the average annual generation will be 6.2 million kilowatthours — enough electricity to supply about 1,300 or 1,400 homes when the plant comes on line in 1982.

The output of our hydro plant, combined with the estimated output of the hydro facilities proposed by our cogenerator customers, will be small compared with the output of a modern electric generating unit. Nevertheless, there will be a desirable, though largely symbolic, reduction in our dependence on costly foreign oil as a result of the operation of these hydroelectric units.

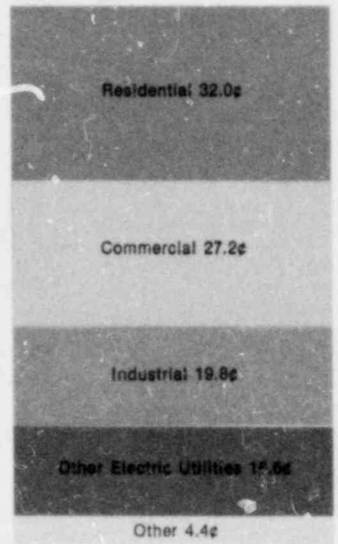
Our customer contact programs continue to emphasize the importance of energy conservation as a means of reducing our dependence on imported oil and as a means of controlling the size of electric bills received by our customers.

A computerized solar water-heating information program was offered to customers last summer. The program is designed to provide specific information to help customers decide whether or not solar

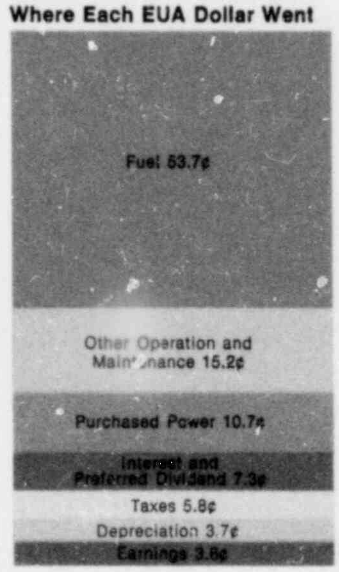


1980 Income Dollar

Where Each EUA Dollar Came From



Where Each EUA Dollar Went



Computerize Billing — A computer-oriented billing system enables us to prepare a customer's bill the same day the meter is read.

water heating is a viable option.

A Speakers' Bureau made up of volunteer employees continued activities during the year. The members of the Speakers' Bureau are available to communicate with clubs, organizations and other groups of customers on a variety of energy-related topics. The efforts of this group of dedicated employees, through the formal establishment of the "EUA Speakers Club", will be further intensified and expanded during 1981.

A variety of safety and educational services programs are offered on a broad range of subjects to all levels of school children, from primary grades through high school. We are also participating in the Energy Foundation, a pilot program sponsored by our regional trade association, the Electric Council of New England. This program is aimed at stimulating energy awareness among the students at several New England colleges. It is designed to offer a balanced approach to energy education.

The Energy Conservation Report, also known as "Report Card" billing, is an ongoing program which helps our customers to determine how successful they are in conserving energy. The electric bill shows each customer his average daily use of electricity in the current month compared to the average daily use for the same month a year earlier.

All customers are now able to participate in our Equalized Payment Plan — a new budget plan which spreads the annual cost of electricity over 12 equal monthly payments.

The normal hours of operation of our Customer Service Center — 8 a.m. to 5 p.m. from Monday through Friday — have been expanded to 7 a.m. to 7 p.m. on Monday through Thursday for greater hours of customer availability. Of course we will continue to process emergency calls around the clock — 7 days a week. The use of video terminals has been extended to other departments which deal directly with customers thereby making available, as a customer contact tool, complete up-to-date information on the status of customers' accounts.

As we mentioned in last year's Annual Report, the Residential Conservation Services Program — a part of the National Energy Conservation Policy Act of 1978 — directs state governmental agencies to provide comprehensive services to residential customers in the form of conservation information and energy audits. Massachusetts and Rhode Island have each sponsored the establishment of a non-profit corporation which will carry out the Federal and state mandates under the Residential Conservation Services Program. A nominal fee will be charged to the customer by each non-profit corporation for a residential energy audit. The bulk of the actual costs will be recovered in the form of a nominal surcharge added to customers' monthly bills by gas and electric utilities. The money is then forwarded to the appropriate non-profit corporation. The regulatory agencies in each state will review the accounting for the surcharge income and disbursements.

Installation of a SCADA system continued during 1980. SCADA — the acronym for "Supervisory Control and Data Acquisition" — is now scheduled to become operational in mid-1981 at a total cost of $5.[illegible] million. The centralized, computer-assisted monitoring of our generation, transmission and distribution facilities will enable us to replace a slower manual system, and reduce manpower too.

During 1980, we offered energy management seminars to our commercial and industrial customers, as well as the opportunity to take part in a National Energy Watch (N.E.W.) program quite similar to N.E.W. programs which have been available to residential customers in recent years. N.E.W. is a nationwide, investor-owned electric utilities' effort designed to promote conservation and to preserve our valuable fossil resources.

Four years ago, we phased out appliance merchandising activity because we felt it was no longer necessary or appropriate. Similarly we have now discontinued our appliance repair service. We continue to promote the concept of off-peak water heating, however, and will sell or rent electric water heaters to the fullest extent possible.

Extensive remodelling of an existing office facility, combined with a new structure to house certain operating department personnel, will permit our Massachusetts retail company to centralize most of its Brockton operations in a more convenient, cost-effective facility. The newly-renovated complex will be completed in early 1981 and will enable us to dispose of an outdated, inefficient structure.

Rates

The following table summarizes the major rate activities of our subsidiary companies during 1980:

	Applied For		Allowed	
	Annual Revenue (Millions of $)	Application Date	Annual Revenue (Millions of $)	Effective Date
Blackstone Valley Electric Co.	4.0	8-15-79	3.6	5-13-80
Eastern Edison Co.	9.6	5-15-80	5.4	11-26-80
Montaup Electric Co.				
M-5 Rate	10.7	7-11-80	9.1	12-1-80
M-6 Rate	9.0	12-19-80	7.9	2-19-81 (Subject to refund)

The state regulatory commissions have traditionally used historical test year data in determining a company's revenue deficiency. Continuing inflationary pressures, combined with the length of time involved in hearing and deciding a rate case, have placed us in an untenable position in recent years. Our actual return on common equity has been several full percentage points below the authorized return. A more aggressive approach was taken by our retail subsidiaries in connection with the above-mentioned rate cases. In addition to seeking a higher return on common equity, we included a request for an allowance for capital attrition and expense erosion. In their decisions, both the Massachusetts and Rhode Island regulatory agencies authorized a higher return on equity than had previously been allowed, and permitted an adjustment for expense erosion. Rhode Island also permitted an allowance for capital attrition, which Massachusetts did not. Some aspects of the Rhode Island decision have been appealed and may result in a further revenue increase. We are hopeful that the acceptance of the erosion/attrition concept may actually enable us to achieve the returns which have been authorized.

Montaup Electric Company, our generation and transmission subsidiary, is under the jurisdiction of the Federal Energy Regulatory Commission (FERC) for rate-setting purposes. Since FERC permits the use of a forward-looking test period, we do not face the same problem encountered by our retail companies, namely, the negative impact of inflationary factors on revenues which are based on out-of-date expenses.

As a part of the December 1, 1980 settlement with the intervenors in Montaup's M-5 Rate case the Company agreed to withdraw a petition filed with FERC in December 1979 which sought permission to include in rate base a portion of Montaup's investment in Construction Work in Progress (CWIP).

FERC will currently permit the inclusion of CWIP in rate base only if a company can prove extreme financial hardship. Although we withdrew our CWIP petition, our objective is still to convince FERC that CWIP in rate base is in the long-term best interests of both the customer and the shareholder.

Montaup's M-6 Rate was filed with FERC on December 19, 1980 in an effort to achieve a higher return on common equity and to recover substantial increases in costs associated with the operation and maintenance of various generating units from which Montaup receives some power. FERC permitted M-6 to become effective, on February 19, 1981, at a level which should increase annual revenues by $7.9 million. These additional revenues are subject to refund, pending final action by FERC.

The passage by Congress of the Public Utility Regulatory Policy Act (PURPA) in 1978 has resulted in a flurry of activity as the state regulatory commissions have attempted to address the many issues raised by this Act. Extensive generic hearings have been conducted by the regulatory commissions in Massachusetts and Rhode Island on such PURPA "standards" as advertising, master metering, cogeneration, automatic adjustment clauses, termination of service, conservation, time-of-use rates and customer information programs. In addition, we must file extensive cost-of-service data with the regulatory commissions, both on an embedded cost basis and on a marginal cost basis. State regulatory commissions and utilities must consider PURPA's "standards" and then decide if adoption would further PURPA's goals — to encourage conservation of electric energy, to ensure fair electric rates and to encourage efficient use of resources.

A "time-of-day" rate experiment sponsored by the Rhode Island Public Utilities Commission and partially financed by the Department of Energy involved 300 customers of our Rhode Island retail subsidiary. The two-year project was intended to determine whether or not changes in electric rate structure could promote conservation of electricity and encourage customers to shift their consumption of electricity to off-peak periods. The consultant retained by DOE and the Commission to monitor the

project has concluded that the special rates did not have a great effect on usage levels, and that many customers failed to effectively control their usage. The consultant felt that people needed more time to become familiar with and adjust to the new rates. As a result of the consultant's report, we do not expect "time-of-day" rates to be mandated for all residential customers.

In order to more effectively respond to greater activity in the area of rates and regulatory procedures, we established our own Rate Department early in the year. We had previously relied primarily on outside firms for rate-structure advice. A properly staffed Rate Department requires personnel who have expertise in areas of accounting, engineering, econometrics, and utility rate analysis. They are concerned not only with rate cases, but also with the proper and timely response to the requests of regulatory and other governmental agencies for a multitude of cost data and studies required in conformance with either Federal or state mandates.

Organization

Montaup Electric Company's union local represents approximately 9% of the total number of employees in the System. During the year negotiations were completed with the Union for a 38-month labor contract which will expire in mid-September 1983. The Fall River division of Eastern Edison Company has a labor contract, expiring in June 1981, with a union which represents 11% of the EUA System employees. The remaining 80% of our employees are not represented by any bargaining unit, although several attempts to organize have been made through the years by various unions.

A preliminary analysis was made in connection with the feasibility of EUA seeking control of Newport Electric Corporation, an investor-owned retail electric distribution company which provides electricity to approximately 25,000 customers in four Rhode Island communities. While it appears that such an acquisition could be beneficial to both EUA and Newport, this does not appear to be an appropriate time to further pursue the feasibility study. Accordingly, EUA has made no proposal to Newport.

An ever-increasing number of employees are utilizing our Educational Assistance Program. The Program reimburses employees for all or a major portion of expenses incurred in connection with the successful completion of certain courses at approved educational institutions.

We continue to hold briefing sessions for employees in an effort to provide them with current information on a variety of issues which affect them. This is particularly important in this time of constantly escalating energy costs. We owe a tremendous debt of gratitude to our employees for the zeal and dedication they continue to display, not only as they carry out their daily assigned tasks, but also in their capacity as unofficial representatives of their local electric company. Employees have a high degree of credibility and believability when they respond to off-the-job, utility-related queries from friends, relatives and neighbors. We are deeply appreciative of their efforts to bring about better understanding of electric industry problems.

Eastern Utilities Associates and Subsidiary Companies

Selected Consolidated Financial Data

Years Ended December 31,

(In Thousands Except Per Share Amounts)	**1980**	1979	1978	1977	1976
		(Restated)*	(Restated)*		
Operating Revenues	**$244,642**	$185,801	$158,313	$157,700	$152,180
Net Income from Continuing Operations	**8,990**	8,488	8,199	3,409	7,012
Earnings Per Common Share From Continuing Operations	**1.63**	1.74	1.92	.86	2.07
Total Assets	**390,958**	348,642	317,819	304,897	286,004
Long-Term Debt	**162,682**	123,485	97,870	118,433	122,617
Redeemable Preferred Stock	**20,199**	5,607	5,921	5,921	5,921
Cash Dividends per Common Share	**1.60**	1.60	1.60	1.60	1.50

* See Note A (Operating Revenues) of Notes to Consolidated Financial Statements for further information.

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

Summary

Consolidated Net Income in 1980 increased 5.9% from 1979 and 1979 increased 3.5% from 1978. Earnings per average common share decreased during the same period from $1.92 in 1978 to $1.74 in 1979 to $1.63 in 1980 as a result of additional common shares which were issued and outstanding. The 1980 results were increased by $1.2 million or [illegible]2 per share because of an adjustment (of which [illegible]8 is a one-time adjustment) which resulted from an amended rate order of the Massachusetts Department of Public Utilities. See also Note A of Notes to Consolidated Financial Statements. Cash requirements for the System's construction program totaled $25.0 million, $24.2 million and $22.0 million, respectively, for the years 1980, 1979 and 1978. Internally generated funds provided $1.1 million, $6.5 million and $9.5 million, respectively, of the cash necessary to meet the construction program, with the remaining requirements being provided from external sources which are more fully described under "Liquidity and Sources of Capital". See also Note J of Notes to Consolidated Financial Statements.

Operating Revenues

Operating revenues in 1980 increased $58.8 million over 1979 and in 1979 increased $27.5 million over 1978. Approximately 87% of the 1980 increase and 94% of the 1979 increase were due to significant increases in fossil fuel costs which are passed on to customers. The remaining increases in 1980 revenues came from the billing of higher base rates, although these higher rates were slightly offset by lower kilowatthour consumption by customers. This reduction in kilowatthour sales is attributed to the implementation of energy conservation measures by customers and to the generally weak economic conditions that prevailed in 1980. Additional increases in 1979 operating revenues came from higher base rates and from a 4.8% increase in kilowatthour sales.

Fuel Expenses

Approximately 84% of the System's generating capacity is fueled by oil. As indicated under "Operating Revenues", the cost of fossil fuel burned in generating stations significantly increased during 1980 and 1979. In 1980, the price per barrel of oil increased from $19 in January to $32 in December. These increases raised system fuel expense by $51.0 million or 62.1% over 1979, despite a slight decrease in kilowatthour sales. 1979 fuel expense increased by $25.8 million or 45.9% over 1978 and the cost per barrel of oil increased from $11.42 in January to $19.00 at year end, 1979.

Purchased Power

Purchased power expense increased by $4.0 million or 17.8% in 1980. Most of the increase reflects additional safety analysis and maintenance work required at nuclear generating plants in which the System has ownership interests or unit contracts. The safety analysis work has been required by the Nuclear Regulatory Commission as a result of findings in its ongoing investigation of the Three Mile Island nuclear plant incident.

Allowance for Funds Used During Construction

Allowance for Funds Used During Construction (AFUDC) represents the net cost, during the period of construction, of borrowed funds used for construction purposes and a reasonable rate upon equity funds when so used. AFUDC represents a non-cash element of income. The System experienced increases in the level of AFUDC (both equity and debt) totaling $3.6 million in 1980 and $2.3 in 1979. The System's continuing expenditures for the construction of future generating facilities has resulted in significant increases in the level of construction work-in-progress balances to which the AFUDC rate is applied. In addition, because of substantially higher borrowing

costs to the System, the AFUDC rate has been increased from 8.5% in early 1978 to 11.5% in 1979 to 14.5% in 1980. AFUDC has also become a larger component of consolidated net income increasing from 48% in 1978 to 74% in 1979 and to 110% in 1980.

Interest Charges

Increases in interest on long-term debt and other interest expense are reflective of the System's continuing need to borrow funds to meet those cash requirements of its construction program which cannot be met with funds generated internally from operations. Interest on long-term debt increased by $.6 million or 5% in 1980 primarily as a result of increases in the prime borrowing rate and the issuance of $15 million of 14¼% bonds in October 1980. The increase of approximately $1 million in 1979 was a result of an additional $5 million in Term Notes Payable being outstanding for most of 1979. Other interest expense increased $3 million in 1980 to $11.8 million. This increase was primarily the result of the continuation of an extremely high level of short-term borrowings for most of the year and record high prime borrowing rates. The issuance of $15 million of bonds and $15 million of preferred stock in October 1980 and an additional sale of $30 million in bonds in January 1981 has enabled the System to substantially reduce its level of short-term borrowings. Other interest expense increased $3.0 million in 1979 as a result of an increased level of short-term borrowings and higher borrowing rates.

Preferred Dividends of Subsidiaries

Preferred Dividends of Subsidiaries increased by $.4 million in 1980 as a result of the dividend requirements of a $15.0 million issue of 15.48% preferred stock in October 1980.

Consolidated Net Income

Consolidated Net Income was approximately $9.0 million in 1980 compared to $8.5 million in 1979 and $8.2 million in 1978. The growth in consolidated net income has been severely restricted by substantial increases in purchased power and interest expense not being offset by increases in kilowatthour sales and by the lack of adequate and timely rate relief.

Liquidity and Sources of Capital

The System is required to make substantial capital expenditures in order to meet the needs of its existing customers and to meet the future requirements of these customers as well as new customers. As is customary in the utility industry, construction requirements in excess of internally generated funds are obtained through short-term borrowings which are ultimately funded with permanent capital. In 1978 and 1979, the System's cash construction requirements were $22.0 million and $24.2 million, respectively, and it was able to generate 43% and 27%, respectively, of such requirements with internally generated funds with the balance coming from short-term borrowings. In 1980, internally generated funds produced only 5% of the $25.0 million in cash construction requirements primarily because of the extremely high cost of short-term borrowings which were not recovered in rates and by the inability to obtain adequate rate relief on a timely basis. The remaining 95% of construction requirements were funded with short-term bank borrowings, some of which were subsequently permanently funded with the issuance of bonds and preferred stock referred to above and, to a lesser degree, with $1.7 million in funds received from the Dividend Reinvestment and Common Stock Purchase Plan.

Current regulatory practices do not permit the System to earn a cash return on new generating facilities until they are in service. Since the System expects its cash construction requirements to remain at or above current levels, it will be required to raise large amounts of permanent capital. Such capital is expected to be raised through the issuance of additional first mortgage bonds, preferred stock and common shares.

The completion of approximately $61.7 million in permanent financing during 1980 and early 1981, has enabled the System to reduce its dependence on short-term bank borrowings and consequently reduce its bank credit lines. At year end 1980, the System had $55.1 million in bank credit lines. The ability to further reduce short-term borrowings will be dependent on the System's ability to sell additional amounts of permanent securities.

The System's capitalization, including short-term debt, at year end 1980, 1979 and 1978, was as follows:

	1980		1979		1978	
			(In Thousands)			
Long-Term Debt	**$162,682**	**50.1%**	$123,485	41.0%	$ 97,870	38.4%
Non-Redeemable Preferred Stock	**15,079**	**4.6**	15,079	5.0	15,079	5.9
Redeemable Preferred Stock	**20,199**	**6.2**	5,607	1.9	5,921	2.3
Common Equity	**95,424**	**29.4**	93,765	31.1	85,842	33.6
Short-Term Debt	**31,540**	**9.7**	63,300	21.0	50,450	19.8
	$324,924	**100.0%**	$301,236	100.0%	$255,162	100.0%

See table under "Rates" on page 13 for a summary of recent rate increase requests. The wholesale rate increase settlement of Montaup Electric Company received in late 1980 allowed the use of tax normalization of the debt component of AFUDC and a cash recovery over a five-year period of Montaup's $2.1 million investment in a nuclear project that was cancelled in 1979. The wholesale rate case applied for on December 19, 1980 has requested the cash recovery of an investment in a nuclear project that was cancelled in 1980. These items will provide additional cash to meet future construction program expenditures.

The ability to raise the required amounts of permanent capital will be contingent upon the ability of System companies to obtain increased rate relief in amounts that will enable them to meet coverage tests required for the issuance of bonds and preferred stock. In addition, higher earned returns on common equity will be required to make System securities more attractive to investors.

Impact of Inflation

Inflation has become a significant element in the operation of a regulated electric utility system. The traditional use of a historical test period for rate making purposes no longer provides a reasonable opportunity for System companies to actually earn their allowed return on invested capital. This is evidenced by the comparatively low level of return on equity earned by the System over the last few years. Accordingly, System retail companies have included requests for "attrition" or "inflation" allowances in their last rate filings and will continue to pursue these and other innovative concepts in an effort to reduce the effects of inflation on the results of operations. See "Supplementary Information to Disclose the Effects of Changing Prices" on page 28 for further financial information regarding the effects of inflation using measurement bases developed by the Financial Accounting Standards Board. Explanatory comments are included in those disclosures on the effect of changing prices on the System's operations.

Eastern Utilities Associates and Subsidiary Companies

Consolidated Income Statement

Years Ended December 31,

(In Thousands Except Numbers of Shares and Per Share Amounts)	1980	1979	1978
		(Restated)	(Resta[illegible]
Operating Revenues (A)	**$ 244,642**	$ 185,801	$ 158,313
Operating Expenses:			
Fuel	**133,120**	82,133	56,295
Purchased Power(I)	**20,383**	22,403	21,577
Other Operation	**31,204**	28,662	27,330
Maintenance	**6,416**	5,153	5,210
Depreciation and Amortization (A)	**9,154**	9,729	9,377
Taxes — Other Than Income	**13,560**	12,363	12,572
Income and Deferred Taxes (A) (B)	**690**	2,346	4,557
Total Operating Expenses	**220,527**	162,789	136,918
Operating Income	**24,115**	23,012	21,395
Equity in Earnings of Nuclear Generating Companies (A)	**636**	807	679
Allowance for Other Funds Used During Construction(A)	**2,298**	1,608	982
Other Income — Net	**117**	238	73
Income Before Interest Charges	**27,166**	25,665	23,129
Interest Charges:			
Interest on Long-Term Debt	**11,955**	11,401	10,385
Other Interest Expense	**11,779**	8,803	5,849
Allowance for Borrowed Funds Used During Construction (Credit) (A)	**(7,617)**	(4,660)	(2,9[illegible]
Net Interest Charges	**16,117**	15,544	13,2[illegible]
Income After Interest Charges	**11,049**	10,121	9,832
Preferred Dividends of Subsidiaries	**2,059**	1,633	1,633
Consolidated Net Income	**$ 8,990**	$ 8,488	$ 8,199
Average Common Shares Outstanding	**5,525,320**	4,871,657	4,266,921
Consolidated Earnings Per Average Common Share	**$1.63**	$1.74	$1.92
Dividends Per Common Share	**$1.60**	$1.60	$1.60

Consolidated Retained Earnings Statement

Years Ended December 31,

(In Thousands)	1980	1979	1978
		(Restated)	(Restated)
Consolidated Retained Earnings — Beginning of Year			
As Previously Reported	**$23,786**	$22,998	$21,116
Adjustment to Reflect Revaluation of Unbilled Revenues(A)	**(495)**	(457)	
As Restated	**23,291**	22,541	21,116
Consolidated Net Income	**8,990**	8,488	8,199
Total	**32,281**	31,029	29,315
Dividends Paid — EUA Common Shares	**8,793**	7,738	6,7[illegible]
Miscellaneous Adjustments	**26**		
Consolidated Retained Earnings — End of Year (E)	**$23,462**	$23,291	$22,541

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

Eastern Utilities Associates and Subsidiary Companies

Consolidated Statement of Changes In Financial Position

Years Ended December 31,

(In Thousands)	1980	1979 (Restated)	1978 (Restated)
SOURCE OF FUNDS:			
Internally Generated:			
Income After Interest Charges	$11,049	$10,121	$ 9,832
Principal Non-Cash Charges (Credits) to Income:			
Depreciation (A)	9,416	9,992	9,592
Amortization	309	123	210
Deferred Taxes (A) (B)	4,346	2,478	(547)
Investment Tax Credits, Net (A)	(3,209)	(445)	2,751
Equity in Undistributed Earnings of Nuclear Generating Companies	(16)	(169)	
Allowance for Funds Used During Construction (A)	(9,915)	(6,268)	(3,920)
Funds from Operations	11,980	15,832	17,918
Less: Dividends Declared:			
EUA Common Dividends	(8,793)	(7,738)	(6,774)
Subsidiary Preferred Dividends	(2,059)	(1,633)	(1,633)
Internally Generated Funds	1,128	6,461	9,511
External Sources:			
Proceeds from Sale of Common Shares	1,668	7,331	9,001
Proceeds from Sale of Term Notes		20,000	
Proceeds from Sale of Senior Notes		22,500	
Proceeds from Sale of Bonds	44,200		
Proceeds from Sale of Preferred Stock	15,000		
Other — Net	289	959	925
Funds from External Sources	61,157	50,790	9,926
Total Source of Funds	$62,285	$57,251	$19,437
APPLICATION OF FUNDS:			
Construction Expenditures	$34,939	$30,498	$25,948
Less: Allowance for Funds Used During Construction	(9,915)	(6,268)	(3,920)
Net Construction Expenditures	25,024	24,230	22,028
Decrease (Increase) in Short-Term Notes Payable to Banks	31,760	(12,850)	1,400
Retirement of Long-Term Debt	5,000	37,637	3,880
Retirement of Preferred Stock	300		
Purchase of Promissory Notes	225		
(Decrease) Increase in Working Capital	(1,695)	7,223	(8,214)
Other Application — Net	1,671	1,011	343
Total Application of Funds	$62,285	$57,251	$19,437
CHANGES IN COMPONENTS OF WORKING CAPITAL (Excluding Short-Term Debt, Current Deferred Taxes and Redeemable Preferred Stock Sinking Fund Requirement)			
Cash and Temporary Investments	$(1,102)	$ (3,580)	$ 1,938
Accounts Receivable	14,528	5,258	(1,703)
Materials and Supplies	2,414	7,802	(2,496)
Other Current Assets	(165)	227	(219)
Accounts Payable	(14,867)	(4,557)	(817)
Accrued Taxes	(605)	1,604	(2,645)
Other Current Liabilities	(1,898)	469	(2,272)
(Decrease) Increase in Working Capital	$(1,695)	$ 7,223	$ (8,214)

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

Eastern Utilities Associates and Subsidiary Companies

Consolidated Balance Sheet

December 31,

(In Thousands)	1980	1979
Assets		(Resta[illegible]
Utility Plant and Other Investments:		
Utility Plant (at cost) (H):		
In Service	**$333,812**	$322,684
Less Accumulated Provision for Depreciation (A)	**101,857**	94,618
Net Utility Plant In Service	**231,955**	228,066
Construction Work in Progress	**82,308**	61,493
Net Utility Plant	**314,263**	289,559
Nonutility Property — Net	**1,442**	1,630
Investments in Nuclear Generating Companies (at equity)	**7,641**	7,401
Other Investments (at cost)	**69**	67
Total Utility Plant and Other Investments	**323,415**	298,657
Current Assets:		
Cash and Temporary Investments (G)	**1,085**	2,187
Accounts Receivable (A):		
Customers, Less Allowance for Doubtful Accounts of $355,400 and $290,000, Respectively	**29,011**	22,324
Refundable Income Taxes	**623**	
Accrued Unbilled Revenues (A)	**9,501**	2,009
Other	**606**	879
Materials and Supplies (at average cost):		
Fuel	**12,486**	10,702
Plant Materials, Operating Supplies and Other	**5,276**	4,646
Other Current Assets	**391**	559
Total Current Assets	**58,979**	43,306
Deferred Debits:		
Unamortized Debt Expense	**795**	[illegible]
Extraordinary Property Losses (H)	**2,943**	2,0[illegible]
Other Deferred Debits	**4,826**	3,875
Total Deferred Debits	**8,564**	6,679
Total Assets	**$390,958**	$348,642
Liabilities and Capitalization		
Capitalization:		
Common Equity	**$ 95,424**	$ 93,765
Non-Redeemable Preferred Stock of Subsidiaries	**15,079**	15,079
Redeemable Preferred Stock of Subsidiaries	**20,199**	5,607
Long-Term Debt — Net	**162,682**	123,485
Total Capitalization	**293,384**	237,936
Current Liabilities:		
Notes Payable — Banks (G)	**31,540**	63,300
Accounts Payable	**28,200**	13,336
Redeemable Preferred Stock Sinking Fund Requirement	**305**	314
Customer Deposits	**1,547**	1,270
Taxes Accrued (B)	**3,154**	2,550
Deferred Taxes (A) (B)	**3,843**	1,739
Interest Accrued	**4,712**	2,752
Other Current Liabilities	**197**	533
Total Current Liabilities	**73,498**	85,794
Deferred Credits:		
Unamortized Investment Credit (A)	**7,037**	10,186
Other Deferred Credits	**37**	69
Total Deferred Credits	**7,074**	10,[illegible]
Accumulated Deferred Taxes (A) (B)	**17,002**	14,6[illegible]
Total Liabilities and Capitalization	**$390,958**	$348,642

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

Eastern Utilities Associates and Subsidiary Companies

Consolidated Statement of Capitalization

December 31,

(Dollar Amounts in Thousands)	1980		1979	
			(Restated)	
Eastern Utilities Associates:				
Common Shares				
$5 par value, authorized 7,000,000 shares, outstanding 5,583,634 shares in 1980 and 5,438,969 shares in 1979 (C)	$ 27,918		$ 27,195	
Other Paid-In Capital (C)	45,327		44,382	
Common Shares Expense	(1,283)		(1,103)	
Retained Earnings (E)	23,462		23,291	
Total Common Equity	95,424	32.5%	93,765	39.4%
Preferred Stock of Subsidiaries:				
Non-Redeemable Preferred (C):				
Blackstone Valley Electric Company:				
4.25%, $100 par value 35,000 shares†	3,500		3,500	
5.60%, $100 par value 25,000 shares†	2,500		2,500	
Premium	129		129	
Eastern Edison Company:				
4.64%, $100 par value 60,000 shares†	6,000		6,000	
8.32%, $100 par value 30,000 shares†	3,000		3,000	
Expense, Net of Premium	(50)		(50)	
	15,079	5.1	15,079	6.3
Redeemable Preferred (D):				
Eastern Edison Company:				
13.60%, $100 par value††	5,700		6,000	
15.48%, $100 par value 150,000 shares†	15,000			
Expense, Net of Premium	(187)		(79)	
Sinking Fund and Reacquired Shares	(314)		(314)	
	20,139	6.9	5,607	2.4
Long-Term Debt (F):				
Eastern Utilities Associates:				
Senior Notes 10¼% due 1999	22,500		22,500	
Blackstone Valley Electric Company:				
Notes Payable	29,200			
Eastern Edison Company:				
First Mortgage and Collateral Trust Bonds:				
3¾% due 1983	6,800		6,800	
7⅜% due 1983 (second series)	5,000		5,000	
4⅛% due 1983 (third series)	2,196		2,196	
3⅜% due 1985	6,000		6,000	
12% due 1985 (second series)	19,800		19,800	
4⅝% due 1987	3,000		3,000	
4⅜% due 1988	3,000		3,000	
14¼% due 1990	15,000			
4½% due 1993	5,000		5,000	
6½% due 1997	7,000		7,000	
8⅜% due 1999	5,000		5,000	
7⅞% due 2002	8,000		8,000	
8⅜% due 2003	10,000		10,000	
Note Payable due 1984 (Prime × 106%)	5,000		5,000	
Note Payable due 1985 (Prime × 111%)	10,000		15,000	
Unamortized Premium	186		189	
Total	162,682	55.5	123,485	51.9
Total Capitalization	$293,384	100.0%	$237,936	100.0%

†Authorized and outstanding

††Authorized 60,000 shares. Outstanding 57,000 shares in 1980 and 60,000 shares in 1979

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

Notes To Consolidated Financial Statements

December 31, 1980, 1979 and 1978

(A) Summary of Significant Accounting Policies:

General: Eastern Utilities Associates (EUA) and EUA Service Corporation (Service) are subject to the jurisdiction of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935 and Service's accounts are maintained under the system of accounts prescribed by that Act. The accounting policies and practices of the retail subsidiaries, Blackstone Valley Electric Company (Blackstone) and Eastern Edison Company (Eastern Edison), and of Montaup Electric Company (Montaup) are subject to regulation by the Federal Energy Regulatory Commission (FERC) and two state regulatory commissions with respect to their rates and accounting. The retail subsidiaries and Montaup conform with generally accepted accounting principles, as applied in the case of regulated public utilities, and conform with the accounting requirements and rate-making practices of the regulatory authority having jurisdiction.

Principles of Consolidation: The consolidated financial statements include the accounts of EUA and its subsidiaries (Blackstone, Eastern Edison, Montaup and Service). All material intercompany balances and transactions have been eliminated in consolidation.

Nuclear Generating Companies: Montaup follows the equity method of accounting for its investments in four regional nuclear generating companies. Montaup's investments in these companies range from 2.50 to 4.50 percent. Montaup is entitled to electricity produced from these facilities based on its ownership interests and is billed pursuant to contractual agreements which are approved by FERC.

Utility Plant: Utility plant is stated at original cost. The cost of additions to utility plant includes contracted work, direct labor and material, allocable overhead, allowance for funds used during construction and indirect charges for engineering and supervision.

Depreciation of Utility Plant: For financial statement purposes, depreciation is computed on the straight-line method based on estimated useful lives of the various classes of property.

Provisions for depreciation, on a consolidated basis, were equivalent to a composite rate of approximately 3.2% in 1980, 1979 and 1978 based on the average depreciable property balances at the beginning and end of each year.

In February 1981, as a result of an order of the Massachusetts Department of Public Utilities (MDPU) Eastern Edison retroactively reduced the composite depreciation rate on certain of its property from 3.5% to 2.5%. Eastern Edison had recorded depreciation on that property at rates of 3% in 1975 and 3.5% since 1975. The change had the effect of increasing consolidated net income and earnings per common share in 1980 by $1,238,000 and $0.22, respectively. Of those amounts $974,000 and $0.18, respectively, relate to periods prior to 1980.

Operating Revenues: Revenues are based on billing rates authorized by applicable Federal and state regulatory commissions. The retail subsidiaries follow the policy of accruing the estimated amount of unbilled base rate revenues for electricity provided at the end of the month to more closely match costs and revenues. In addition they also accrue unrecovered purchased power costs.

In June 1980 the audit staff of FERC concluded an examination of the accounting records of Blackstone for the period January 1, 1975 through December 31, 1979. The staff concluded, in its report of that examination, that Blackstone's monthly valuation of unbilled revenues included fuel and purchased power costs which were being recognized as fully recovered, for accounting purposes, under the provisions of its current purchased power adjustment clause. That clause has been in effect since September 1, 1978. After a comprehensive review of the provisions of the purchased power adjustment clause, Blackstone agreed with the staff's findings. Due to the magnitude of the proposed unbilled revenue adjustment, which at December 31, 1979 amounted to approximately $495,000 net of related deferred taxes, a request was made to the Rhode Island Division of Public Utilities and Carriers (RIPUC) for amortization treatment of the revenue reduction over a period of ten years. The request was approved by the RIPUC in November 1980. On the basis of the RIPUC approval Blackstone requested approval for similar treatment from FERC. In late January 1981 Blackstone was notified that FERC denied its request for amortization treatment of the adjustment and directed Blackstone to record the reduction of unbilled revenues and related deferred taxes in the amount of $495,000 as a prior period adjustment to Retained Earnings as of January 1, 1980. As a result, the consolidated results of operations for the years 1979 and 1978 have been restated as follows:

(In Thousands)	1979		1978	
	As Reported	As Restated	As Reported	As Restated
Operating Revenues	$185,875	$185,801	$159,195	$158,313
Consolidated Net Income	8,626	8,488	8,656	8[illegible]
Consolidated Earnings Per Average Common Share	1.75	1.74	2.03	1.92

Blackstone will, in its next application for a rate increase to the RIPUC, include recovery of the unbilled revenue reduction, net of deferred taxes over a ten-year period in accordance with the RIPUC's previously issued approval.

Federal Income Taxes: The general policy of EUA and its subsidiaries with respect to accounting for Federal income taxes is to reflect in income the estimated amount of taxes currently payable and to provide for deferred taxes on certain items subject to timing differences to the extent permitted by the various regulatory commissions. See Note D for details of major deferred tax items.

As permitted by the regulatory commissions it is the policy of the subsidiaries to defer the annual investment tax credits and to amortize these credits over the productive lives of the related assets.

Allowance for Funds Used During Construction: Allowance for funds used during construction (AFUDC) (a non-cash item) is defined in the applicable regulatory system of accounts as "the net cost during the period of construction of borrowed funds used for construction purposes and a reasonable rate upon other funds when so used."

The combined rate used in calculating AFUDC was 14.50% in 1980; 11.50% in 1979 and ranged from 8.50% to 10.50% in 1978. In accordance with rate orders received during the last quarter of 1980, Eastern Edison and Montaup began providing deferred income taxes on the borrowed funds component of AFUDC.

AFUDC amounted to 110%, 74% and 48% of consolidated net income for the years 1980, 1979 and 1978, respectively.

(B) Income and Deferred Taxes:
Components of income and deferred tax expense for the years 1980, 1979 and 1978 are as follows:

(In Thousands)	**1980**	1979	1978
Operations:			
Federal:			
Current	**$ (643)**	$ (48)	$ 1,639
Deferred	**4,071**	2,378	(322)
Investment Tax Credit, Net	**(3,209)**	(445)	2,751
	219	1,885	4,068
State:			
Current	**196**	361	714
Deferred	**275**	100	(225)
	471	461	489
Charged to Operations	**690**	2,346	4,557
Charged to Other Income		7	119
Total	**$ 690**	$ 2,353	$ 4,676

Federal income tax expense was less than the amounts computed by applying Federal income tax statutory rates to book income subject to tax for the following reasons:

(In Thousands)	**1980**	1979	1978
Federal Income Tax Computed at Statutory Rates	**$ 5,385**	$ 5,711	$ 6,908
(Decreases) in Tax From:			
Allowance for Funds Used During Construction	**(3,753)**	(2,883)	(1,881)
Overheads	**(377)**	(377)	(372)
Other	**(556)**	(114)	(102)
Federal Income Tax Expense	**$ 699**	$ 2,337	$ 4,553

The provision for deferred taxes resulting from timing differences is comprised of the following:

(In Thousands)	**1980**	1979	1978
Excess Tax Depreciation	**$ 1,151**	$ 1,264	$ 1,394
Computer Conversion Costs	**(135)**	(135)	(48)
Estimated Unbilled Revenue	**65**	44	(1,711)
Unbilled Purchased Power Costs	**1,864**	626	33
Debt Component of AFUDC	**808**		
Abandonment Loss	**310**	602	
Effect of State and Local Taxes	**275**	100	(225)
Other — Net	**8**	(23)	10
Total	**$ 4,346**	$ 2,478	$ (547)

At December 31, 1980 unused investment tax credits of approximately $9,900,000 are available to reduce future Federal income tax liability.

(C) Capital Stock:
The changes in the number of common shares outstanding and the increases in other paid-in capital during the years ended December 31, 1980 and 1979 were as follows:

	Number of Common Shares Issued			
Year	Dividend Reinvestment and Common Share Purchase Plan	Public Sales	Total	Increase In Other Paid-in Capital
1980	**144,665**		**144,665**	**$ 945,056**
1979	3,371	600,000	603,371	$4,313,750

In the event of involuntary liquidation the non-redeemable preferred stock of Blackstone and Eastern Edison is entitled to $100 per share. In the event of voluntary liquidation, or if redeemed at the option of those companies, the non-redeemable preferred stock is entitled to: Blackstone's 4.25% issue, $104.40; Blackstone's 5.60% issue, $103.82; Eastern Edison's 4.64% issue, $102.98; Eastern Edison's 8.32% issue, $107.70 prior to 10-1-83; $105.62 prior to 10-1-88; $103.54 prior to 10-1-93 and $102.30 per share thereafter.

Under the terms and provisions of the issues of preferred stock of Blackstone and Eastern Edison, certain restrictions are placed upon the payment of dividends on common stock by each company, but at December 31, 1980 and 1979 the respective capitalization ratios were in excess of the minimum which would make these restrictions effective.

(D) Redeemable Preferred Stock:
In October 1980, Eastern Edison issued 150,000 shares of 15.48% Preferred Stock.

Eastern Edison's 13.60% and 15.48% Preferred Stock issues are entitled to mandatory sinking funds sufficient to redeem 3,000 and 6,000 shares, respectively, during each twelve month period, commencing October 1, 1980 in the case of the 13.60% issue and October 1, 1985 in the case of the 15.48% issue. The redemption price, for each issue, is equal to the initial public offering price plus accrued dividends. Eastern Edison also has the non-cumulative option of redeeming an additional 3,000 and 6,000 shares, respectively, during each period at such price.

In the event of involuntary liquidation the redeemable preferred stock of Eastern Edison is entitled to $100 per share. In the event of voluntary liquidation, or if redeemed at the option of Eastern Edison, the redeemable preferred stock is entitled to: $114.82 prior to 10-1-85; $111.42 prior to 10-1-90; $108.02 prior to 10-1-95; and $105.98 per share thereafter.

The aggregate amount of sinking fund requirements for each of the five years following 1980 are: $314,000 in 1981, 1982, 1983 and 1984; and $923,000 in 1985.

(E) Retained Earnings:
Under the provisions of the Note Agreements dated May 23, 1979 relating to EUA's Senior Notes, Retained Earnings in the amount of $15,984,309 as of December 31, 1980 and $15,787,430 as of December 31, 1979 were unrestricted as to the payment of cash dividends on EUA Common Shares.

Under the provisions of Eastern Edison's Indenture securing its First Mortgage and Collateral Trust Bonds, Retained Earnings in the amount of $12,667,239 and $11,846,241 as of December 31, 1980 and 1979 respectively, were unrestricted as to the payment of cash dividends on its Common Stock.

(F) Long-Term Debt:
Under terms of the Indenture securing its First Mortgage and Collateral Trust Bonds, Eastern Edison is required to deposit annually with the Indenture Trustee, cash in an amount equal to 1% of the greatest aggregate principal amount of bonds previously authenticated and delivered.

Where permitted, Eastern Edison has satisfied sinking fund requirements for 1980 and 1979 under alternate provisions of the Indenture either by depositing cash or by certifying to the Indenture Trustee "available property additions" and Eastern Edison expects to continue such practice during 1981.

The First Mortgage and Collateral Trust Bonds of Eastern Edison and Eastern's Note Payable due 1985 are collateralized by securities of Montaup in the principal amount of $159,975,000. In addition the First Mortgage and Collateral Trust Bonds of Eastern Edison are secured by substantially all of its utility plant.

The Note Agreements relating to EUA's 10¼% Senior Notes due March 1, 1999 require, for the issuance of additional long-term debt by EUA, that at the time of such issuance and immediately thereafter (i) long-term debt of EUA shall not exceed 30% of EUA's total capitalization, (ii) consolidated long-term debt of EUA and its subsidiaries shall not exceed 65% of consolidated total capitalization, (iii) the sum of consolidated long-term debt, preferred stock of subsidiaries and any minority interests in subsidiaries shall not exceed 70% of consolidated total capitalization, and (iv) consolidated net income available for fixed charges for 12 consecutive calendar months within the preceding 15 calendar months shall have been at least twice the sum of consolidated interest charges on long-term debt and dividend requirements on preferred stock of subsidiaries.

In January 1981, Blackstone sold $30,000,000 principal amount of 14¼% First Mortgage Bonds Series A, due 1995, the proceeds of which were used to repay all of its short-term bank loans which are classified as long-term debt at December 31, 1980. Such bonds are secured by substantially all of Blackstone's utility plant.

The aggregate amount of EUA System cash sinking fund requirements and maturities for each of the five years following 1980 are: none in 1981 and 1982, $13,996,000 in 1983, $11,125,000 in 1984 and $31,925,000 in 1985.

(G) Lines of Credit and Compensating Balances:
EUA System Companies had unused short-term lines of credit with various banks of approximately $19,360,000 and $38,500,000 at December 31, 1980 and 1979, respectively. In accordance with informal agreements with the various banks, the EUA System Companies have agreed to maintain operating accounts or minimum average balances or, in certain instances, commitment fees are required to maintain the lines of credit. There are no legal restrictions placed on the withdrawal of these funds. Except for daily working funds, substantially all of the funds included in cash represent compensating balances.

(H) Jointly-Owned Facilities:
At December 31, 1980 Montaup owned the following interests in jointly-owned electric generating facilities (dollars in thousands):

Unit	Percent owned	Plant in Service	Accumulated Depreciation	Net Plant in Service	Construction Work in Progress
		December 31, 1980			
Canal No. 2	50.0%	$63,724	$11,042	$52,682	$
Wyman No. 4	1.96	3,947	232	3,715	
Seabrook No.'s 1 and 2	2.90	42	2	40	27,019
Pilgrim No. 2	2.15				9,241
Millstone No. 3	4.01				39,428

The foregoing amounts represent Montaup's interest in each facility. Financing for all such interest is provided by Montaup. Montaup's share of related operating and maintenance expenses is included in its corresponding operating expenses.

Montaup has a 2.00% ownership interest in two nuclear generating units designated as Montague 1 and 2 (lead participant, Northeast Utilities) which were proposed to be built at a site in Montague, Massachusetts. In December 1980 the lead participant announced cancellation of these units and concluded that all capital costs relative to them should be written off as being valueless.

As of December 31, 1980 Montaup had incurred approximately $1,081,000 of costs (including allowance for funds used during construction) in connection with the project. Additional costs (which are not expected to be material) relating to cancellation charges, or salvage, if any, are undeterminable at this time. Montaup has reported the costs of the abandoned project as an extraordinary property loss and has requested permission from FERC to amortize these costs, net of the related tax savings to be realized in the EUA Consolidated 1980 Federal income tax return, over a period of five years and requested approval from FERC for recovery of such costs commencing with the effective date of its December 19, 1980 rate filing.

(I) Commitments:
The System companies have leases covering certain facilities and equipment. Total rental expense for these leases for the years 1980, 1979 and 1978 amounted to approximately $1,233,000, $993,000 and $876,000, respectively.

All of the System companies' leases are treated as operating leases for rate making purposes and have been accounted for as such; however, certain lease agreements meet the criteria requiring capitalization as set forth in the Statement of Financial Accounting Standards No. 13. If such leases were capitalized, the amounts thereof would not have a material effect on assets, liabilities, or related expenses.

Future minimum rental payments at December 31, 1980 for such leases are estimated to aggregate $1,537,000 in 1981, $1,301,000 in 1982, $1,073,000 in 1983, $753,000 in 1984, $427,000 in 1985 and $3,148,000 for years after 1985.

The EUA System Companies participate in a pension plan covering substantially all of their employees. The total pension expense charged to operations, which includes amortization of past service costs over 20 years, amounted to approximately $2,067,000, $1,949,000 and $2,005,000, respectively, for the years ended 1980, 1979 and 1978 respectively. The EUA System Companies make annual contributions to the plan equal to the amounts accrued for pension expense. The accumulated plan benefits and plan net assets for the Employees' Retirement Plan of Eastern Utilities Associates and its Subsidiary Companies is presented below.

(In Thousands)	January 1, 1980
Actuarial Present Value of Accumulated Plan Benefits:	
Vested	$26,188
Nonvested	1,100
	$27,288
Market Value of Net Assets Available for Benefits	$27,917

The assumed rate of return used in determining the actuarial present value of the accumulated plan benefits was 6.0% for 1980.

The EUA System is committed under purchased power contracts to pay demand charges whether or not energy is received. The following table summarizes information concerning such contracts at December 31, 1980.

Unit	Date of Contract Expiration	% Share of Output Being Purchased	Estimated Annual Cost
			(000's omitted)
Taunton Municipal Cleary #9	1984	Various	$ 2,949
New Brunswick	1986	6.41	278
Yankee Atomic Power Co.	1991	4.50	2,076
Conn. Yankee Atomic Power Co.	1998	4.50	3,132
Canal Electric Co. Unit No. 1	1998	25.00	4,874
Pilgrim Unit No. 1	2000	11.00	10,405
Maine Yankee Atomic Power Co.	2002	4.00	2,263
Vermont Yankee Atomic Power Co.	2002	2.50	1,609
			$27,586

The EUA System's construction program is estimated at $51,800,000 for the year 1981 and $241,200,000 for the years 1981 through 1985 (including allowance for funds used during construction).

(J) Contingencies:
In October 1980, Montaup received approval from the MDPU to increase its ownership interest in each of

the two 1150 megawatt nuclear generating units being constructed in Seabrook, New Hampshire, from 1.90% to 2.90%. Montaup will acquire the additional 1% gradually over an Adjustment Period, commencing on January 31, 1981 by paying its pro rata share of the costs otherwise attributable to the lead participant, Public Service Company of New Hampshire (PSNH). All of the necessary state and Federal regulatory approvals for the construction of the units have been obtained. One court appeal from Federal regulatory approvals is still pending and further appeals are possible. PSNH has stated that it is experiencing serious difficulties in financing its construction work in progress. In an effort to reduce its construction expenditures PSNH has received commitments from other utilities to acquire an additional 15% of the project. In March 1980 PSNH decided to reduce the level of construction until capital markets stabilized and the remaining regulatory approvals for the reduction of its ownership interest were obtained. In June 1980 PSNH was ordered by the New Hampshire Public Utilities Commission to delay for three years work on Unit No. 2 of the Seabrook plant, except for those areas that are common to both Units. Upon rehearing, the order was amended to provide that such delay shall continue only until receipt of the regulatory approvals necessary for reduction of PSNH's ownership interest and commencement of such reduction. As of December 31, 1980, Montaup's investment in the project amounted to approximately $27,019,000. Montaup is unable to predict what effect further financing problems or administrative and court actions may have on the Seabrook project or its cost.

Montaup also has a 2.15% ownership interest in a planned nuclear unit, Pilgrim Unit No. 2 (lead participant, Boston Edison Company). In a recent prospectus, the lead participant has stated that when a more definitive schedule is set for the granting of a construction permit it will be able to develop revised cost estimates and financing plans. At that time it will also review the feasibility of the project and decide whether or not to cancel the Unit. As of December 31, 1980, Montaup had spent approximately $9,240,000 in connection with its interest in the Pilgrim Unit No. 2 project. Final costs associated with cancellation of the project, if ultimately necessary, cannot now be ascertained. In the event of such cancellation, Montaup would apply for appropriate regulatory approval to recover its total costs over an appropriate future period. The extent to which rate relief, if any, would permit recovery of the project costs cannot be determined at this time.

Auditors' Report to the Trustees of Eastern Utilities Associates

We have examined the consolidated balance sheets and statements of capitalization of Eastern Utilities Associates and subsidiary companies as of December 31, 1980 and 1979 and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period 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 consolidated financial position of Eastern Utilities Associates and subsidiary companies at December 31, 1980 and 1979 and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1980 in conformity with generally accepted accounting principles applied on a consistent basis.

ALEXANDER GRANT & COMPANY

Boston, Massachusetts
March 12, 1981

Supplemental Information to Disclose Quarterly Financial Data (Unaudited)

(In thousands of dollars except earnings per share)

	Quarter Ended			
	Mar. 31, 1980(A)	June 30, 1980(A)	Sept. 30, 1980(A)	Dec. 31, 1980(A)
Operating Revenues	65,358	54,10[illegible]	57,246	67,937
Operating Income	7,445	5,768	5,565	5,337
Consolidated Net Income	3,711	2,599	2,350	2,389
Earnings Applicable to EUA Common Shares	3,303	2,191	1,942	1,554
Earnings Per Average Common Share	$ 0.61	$ 0.39	$ 0.35	$ 0.28

	Quarter Ended			
	Mar. 31, 1979(B)	June 30, 1979	Sept. 30, 1979	Dec. 31, 1979
Operating Revenues	42,940	43,138	49,006	50,717
Operating Income	6,018	5,513	5,735	5,746
Consolidated Net Income	2,934	2,379	2,574	2,234
Earnings Applicable to EUA Common Shares	2,525	1,971	2,166	1,826
Earnings Per Average Common Share	$ 0.52	$ 0.41	$ 0.45	$ [illegible]

(A) As restated to reflect adjustment of Eastern Edison depreciation. See Note A.

(B) As restated to reflect revaluation of unbilled revenues. See Note A.

Common Share Information

The common shares of Eastern Utilities Associates are listed on the New York Stock Exchange and the ticker symbol is "EUA". The approximate number of Common Shareholders on March 1, 1981 was 20,500.

The annual market price range of common shares is shown in the Consolidated Operating Statistics on page 31. The high and low sales prices and dividends paid for the past two years by quarters are shown below:

Year		High	Low	Quarterly Dividend Per Share
1980	**First Quarter**	**12⅞**	**10¼**	**$0.40**
	Second Quarter	**13⅝**	**10⅜**	**$0.40**
	Third Quarter	**13¾**	**12**	**$0.40**
	Fourth Quarter	**12½**	**10⅛**	**$0.40**
1979	First Quarter	15½	14⅜	$0.40
	Second Quarter	14¾	13¼	$0.40
	Third Quarter	15	13⅞	$0.40
	Fourth Quarter	14½	11⅝	$0.40

Dividend Reinvestment and Stock Purchase Plan

A Dividend Reinvestment and Common Share Purchase Plan is available to all registered shareholders and System company employees.

Participants in the Plan are given a 5% discount on shares purchased with reinvested dividends. Participants may also send in additional cash payments as frequently as once a month to purchase additional shares with no discount. Optional cash payments are limited to a maximum of $5,000 per calendar quarter and must be received not later than the 5th day preceding the Investment Date.

The Investment Date for all shares purchased under the Plan is the dividend payment date for the months in which dividends are payable. For each month in which a dividend is not payable the Investment Date is the 15th of such month. The price of shares purchased is based on the average closing prices of EUA shares for the five trading days preceding each investment date.

Complete details regarding the Plan may be obtained by writing:

The First National Bank of Boston
EUA Automatic Dividend Reinvestment Plan
P.O. Box 1681
Boston, Mass 02105

Transfer Agent

The First National Bank of Boston
P.O. Box 644
Boston, Mass. 02102
(Common and Preferred Shares)

Trustee and Registrar

State Street Bank and Trust Company
225 Franklin Street
Boston, Mass. 02110
(Bonds of all series)

Supplementary Information To Disclose The Effects of Changing Prices

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 effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than a precise measure, since a number of subjective judgements and estimating techniques were used in developing this information.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumers Price Index for all Urban Consumers. Current cost amounts reflect the changes in specific prices 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 prices in general.

The current cost of utility plant, comprising all plant in service, construction work in progress and plant held for future use, represents the estimated cost of replacing existing plant assets and was determined by indexing the surviving plant using various indices which represent the EUA System's experienced construction costs.

The current year's provision for depreciation on a constant dollar and current cost basis was computed by applying the average composite depreciation rate to the average depreciable balance of property, plant and equipment after adjusting such accounts for inflation.

Fuel inventories, the cost of fuel used in generation, and purchased power for resale have not been restated from their historical cost. Regulation limits the recovery of fuel and purchased power costs through the operation of adjustment clauses. For this reason fuel inventories are effectively monetary assets

Consolidated Statement of Income From Continuing Operations
Adjusted For Changing Prices
For the year ended December 31, 1980

	Historical Cost	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
(Thousands of Dollars)			
Operating Revenues	$244,642	$244,642	$244,642
Fuel and Purchased Power Expense	159,503	159,503	159,503
Other Operating and Maintenance Expenses	37,620	37,620	37,620
Depreciation and Amortization	9,154	20,464	23,844
Taxes Other than Income	13,560	13,560	13,560
Income Taxes	690	690	690
Interest Charges — net	16,117	16,117	16,117
Other (Income) and Deductions — net	(3,051)	(3,051)	(3,051)
	233,593	244,903	248,283
Income (Loss) From Continuing Operations (excluding reduction to net recoverable cost)	$ 11,049	$ (261)*	$ (3,641)
Increase In Specific Prices of Utility Plant Held During the Year**			$ 62,245
Reduction to net recoverable cost		$ (23,252)	(3,511)
Effect of Increases in General Price Level			(78,603)
Excess of Increase in General Price Level Over Increase in Specific Prices After Reduction to Net Recoverable Cost			(19,869)
Gain From Decline in Purchasing Power of Net Amounts Owed		21,091	21,091
NET		$ (2,161)	$ 1,[illegible]

* Including the reduction to net recoverable cost, the loss from continuing operations on a constant dollar basis would have been $(23,513).

** At December 31, 1980, the current cost of net utility plant was $707,559 while historical cost or net cost recoverable through depreciation was $314,263.

As prescribed in Financial Accounting Standard No. 33, income taxes were not adjusted.

Under the rate-making prescribed by the regulatory commissions to which the System companies are subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars that exceeds the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. To properly reflect the economics of rate regulation in the Statement of Income from Continuing Operations, the reduction to net recoverable cost of net property, plant, and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. 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, and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the System companies do not have the opportunity to realize a holding gain on debt and are limited to recovery only of the embedded cost of debt capital.

Five Year Summary of Selected Financial Data Adjusted for the Effects of Changing Prices

	Years Ended December 31,				
	1980	1979	1978	1977	1976
(in Thousands of Average 1980 Dollars)					
Operating Revenues	**$244,622**	$210,928	$199,957	$214,437	$220,282
Historical Cost Information Adjusted For General Inflation					
Income (Loss) From Continuing Operations Excluding Reduction To Net Recoverable Cost	**(261)**	1,494			
Income (Loss) Per Common Share After Preferred Dividend Requirements and Excluding Reduction To Net Recoverable Cost	**(0.42)**	(0.03)			
Net Assets At Year-End At Net Recoverable Cost	**124,832**	123,394			
Current Cost Information					
Income (Loss) From Continuing Operations Excluding Reduction To Net Recoverable Cost	**(3,641)**	(2,700)			
Income (Loss) Per Common Share After Preferred Dividend Requirements and Excluding Reduction To Net Recoverable Cost	**(1.03)**	(.56)			
Excess Of Increase In General Price Level Over Increase In Specific Prices After Reduction To Net Recoverable Cost	**19,869**	21,529			
Net Assets At Year-End At Net Recoverable Cost	**124,832**	123,394			
General Information					
Gain From Decline In Purchasing Power Of Net Amounts Owed	**21,091**	22,516			
Cash Dividends Paid Per Common Share	**1.60**	1.82	2.02	2.17	2.17
Market Price Per Common Share At Year End	**11.12**	12.61	17.33	22.05	25.84
Average Consumer Price Index	**246.8**	217.4	195.4	181.5	170.5

Eastern Utilities Associates and Subsidiary Companies

Consolidated Operating Statistics

	1980	1979	1978	1977	1976	1975	1970
		(Restated)	(Restated)				
Energy Generated and Purchased (millions kwh):							
Generated — by EUA System	**1,041**	792	660	667	774	1,164	1,904
— by Equity-Owned Nuclear Units	**398**	479	530	490	523	480	213
— by Jointly-Owned Units	**1,746**	1,795	1,865	1,599	1,512	153	
Interchange with NEPOOL	**(263)**	(600)	(620)	(284)	(187)	200	(256)
Purchased Power — Unit Power	**1,411**	1,649	1,490	1,381	1,419	1,482	980
Total Generated and Purchased	**4,333**	4,115	3,925	3,853	4,041	3,479	2,841
Operating Revenues (thousands):							
Residential	**$ 79,357**	$ 63,394	$ 55,731	$ 56,302	$ 53,036	$ 50,535	$ 22,475
Commercial	**67,3[illegible]7**	53,012	46,976	45,159	41,104	36,478	12,139
Industrial	**48,9[illegible]**	38,192	32,440	30,203	28,246	26,021	12,063
Other Electric Utilities	**18,[illegible]3**	12,435	10,220	11,418	11,315	10,151	3,844
Other	**7,886**	7,502	7,505	7,657	7,154	5,912	1,787
Total Primary Sales Revenues	**221,734**	174,535	152,872	150,739	140,855	129,097	52,308
Unit Contracts	**22,908**	11,266	5,441	6,961	11,325	2,118	87
Total Operating Revenues	**$244,642**	$185,801	$158,313	$157,700	$152,180	$131,215	$ 52,395
Energy Sales (millions kwh):							
Residential	**1,149**	1,150	1,123	1,119	1,098	1,073	865
Commercial	**1,058**	1,052	1,011	998	950	848	523
Industrial	**848**	859	815	788	776	726	786
Other Electric Utilities	**420**	398	403	399	434	396	394
Other	**42**	44	49	48	47	45	[illegible]
Total Primary Sales	**3,517**	3,503	3,401	3,352	3,305	3,088	2,[illegible]
Losses and Company Use	**230**	226	290	246	276	248	227
Total System Requirements	**3,747**	3,729	3,691	3,598	3,581	3,336	2,831
Unit Contracts	**586**	386	234	255	460	143	1[illegible]
Total Energy Sales	**4,333**	4,115	3,925	3,853	4,041	3,479	2,841
Number of Customers at December 31:							
Residential	**204,221**	201,435	198,910	199,063	196,760	195,207	183,401
Commercial	**20,380**	20,073	19,781	21,501	21,066	20,813	18,680
Industrial	**1,219**	1,222	1,213	1,513	1,542	1,594	1,790
Other Electric Utilities	**17**	16	15	16	16	14	11
Other	**30**	150	171	222	229	234	215
Total Customers	**225,867**	222,896	220,090	222,315	219,613	217,862	204,097
Average Revenue per Residential Customer ($)	**389**	315	280	283	270	259	123
Average Use per Residential Customer (kwh)	**5,626**	5,708	5,646	5,621	5,582	5,497	4,716
Average Revenue per kwh:							
Residential	**6.91¢**	5.52¢	4.96¢	5.03¢	4.83¢	4.71¢	2.60¢
Commercial	**6.37¢**	5.04¢	4.65¢	4.53¢	4.33¢	4.30¢	2.32¢
Industrial	**5.77¢**	4.44¢	3.98¢	3.83¢	3.64¢	3.56¢	1.53¢

Consolidated Operating Statistics - General

	1980	1979	1978	1977	1976	1975	1970
		(Restated)	(Restated)				
Capitalization (thousands)							
Mortgage Bonds (Net)	**$125,182**	$ 80,985	$ 81,203	$ 83,658	$ 87,860	$ 88,321	$ 61,417
Other Long-Term Debt	**37,500**	42,500	16,667	35,000	35,000		
Total Long-Term Debt	**162,682**	123,485	97,870	118,658	122,860	88,321	61,417
Preferred Stock	**35,278**	20,686	21,000	21,000	21,000	21,000	12,175
Common Equity	**95,424**	93,765	85,842	75,417	64,917	55,783	44,673
Total Capitalization	**$293,384**	$237,936	$204,712	$215,075	$208,777	$165,104	$118,265
Common Shares Data:							
Earnings Per Share($)	**1.63**	1.74	1.92	1.50	2.07	1.96	1.60
Dividends Per Share($)	**1.60**	1.60	1.60	1.60	1.50	1.50	1.40
Payout(%)	**98.2**	92.0	83.3	106.7	72.5	76.5	87.5
Average Common Shares Outstanding	**5,525,320**	4,871,667	4,266,921	3,970,459	3,389,560	2,939,945	2,570,718
Book Value Per Share($)	**17.09**	17.24	17.75	17.82	18.03	18.02	17.38
Percent Earned On Average Common Equity	**9.5%**	9.4%	10.2%	8.5%	11.6%	10.8%	9.3%
Market Price($)							
High	**13¾**	15½	17	19⅞	18½	16	21⅝
Low	**10¼**	11⅝	14¼	16⅛	14¾	8⅝	16¼
Miscellaneous:							
Installed Capability — MW	**940**	996	1,005	988	984	806	676
Less: Unit Contract Sales — MW	**88**	88	36	49	44	25	2
System Capability — MW	**852**	908	969	939	940	781	674
System Peak Demand — MW	**695**	677	666	668	687	614	534
Reserve Margin (%)	**22.7**	34.1	44.2	40.6	36.9	27.1	26.2
System Load Factor (%)	**61.5**	62.8	62.7	61.5	59.5	62.0	60.1
Sources of Energy (%):							
Nuclear	**17.0**	21.9	22.0	18.7	19.5	22.0	6.6
Fossil	**83.0**	78.1	78.0	81.3	80.5	78.0	93.4
Cost of Fuel (Mills Per kwh):							
Fossil (Oil and Coal)	**35.3**	25.1	18.1	21.5	17.8	19.5	3.9
Nuclear	**4.9**	3.5	3.0	2.4	2.6	3.0	3.3
All Fuels Combined	**30.8**	19.6	14.3	17.5	15.0	16.0	3.5

Annual Meeting

The 1981 Annual Shareholders Meeting will be held on Tuesday, April 21, 1981 at 10 a.m. in the Board Room on the 33rd Floor at State Street Bank and Trust Company, 225 Franklin Street, Boston, Mass.

System Companies

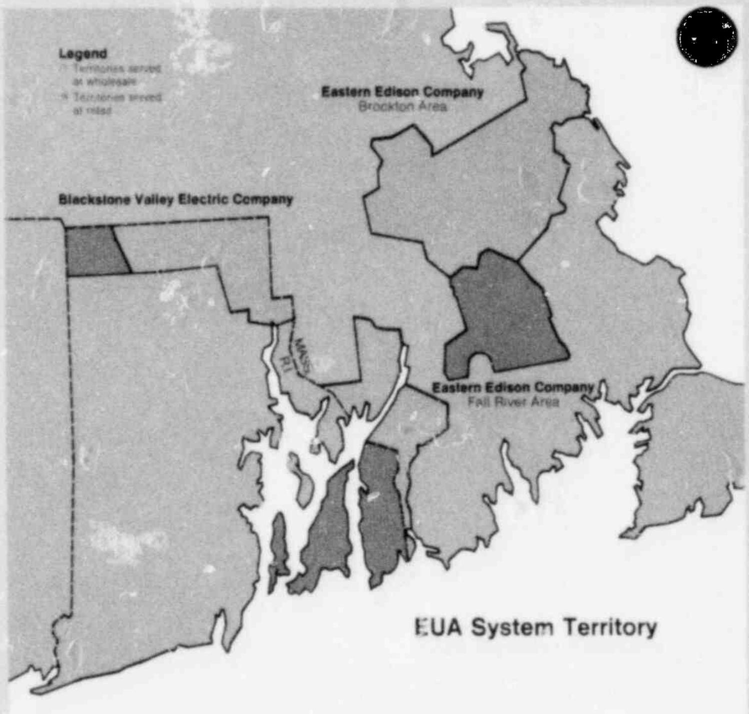
Eastern Utilities Associates
99 High Street
Boston, Mass. 02110
(617) 357-9590

Blackstone Valley Electric Company
Washington Highway
Lincoln, R.I. 02865
(401) 333-1400

Eastern Edison Company
36 Main Street
Brockton, Mass. 02403
(617) 580-1213

Montaup Electric Company
1606 Riverside Ave.
Somerset, Mass. 02726
(617) 678-5283

EUA Service Corporation
99 High Street
Boston, Mass. 02110
(617) 357-9590



EUA System Territory

Eastern Utilities Associates
Annual Report 1980

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 1980 — Commission file number 0-8480

Eastern Edison Company

(Exact name of registrant as specified in its charter)

MASSACHUSETTS *(State or other jurisdiction of incorporation or organization)*	04-1123095 *(I.R.S. Employer Identification No.)*
36 Main Street, Brockton, Massachusetts *(Address of principal executive offices)*	02403 *(Zip Code)*

Registrant's telephone number, including area code: (617) 580-1213

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

Title of each Class	*Name of each exchange on which registered*
None	

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

4.64% Non-Redeemable Preferred Stock, $100 Par Value
(Title of Class)

8.32% Non-Redeemable Preferred Stock, $100 Par Value
(Title of Class)

13.60% Redeemable Preferred Stock, $100 Par Value
(Title of Class)

15.48% Redeemable Preferred Stock, $100 Par Value
(Title of Class)

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

State the aggregate market value of the voting stock held by non-affiliates of the registrant. As of March 1, 1981.

None

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

Common Stock Outstanding at March 1, 1981
2,891,357 Shares

Documents Incorporated by Reference
None

PART I

Item 1. BUSINESS

General

Eastern Edison Company (the Company, or Eastern Edison) a retail electric utility company, is a corporation organized under the laws of the Commonwealth of Massachusetts. The Company is a wholly-owned subsidiary of Eastern Utilities Associates (EUA), a Massachusetts voluntary association, organized and existing under a Declaration of Trust dated April 2, 1928, as amended, and EUA is a registered holding company under the Public Utility Holding Company Act of 1935. EUA owns directly all of the shares of common stock of two operating electric utility companies (the Retail Subsidiaries), namely, Eastern Edison and Blackstone Valley Electric Company (Blackstone). Eastern Edison owns all of the permanent securities of Montaup Electric Company (Montaup), a generation and transmission company, which supplies electricity to it, to Blackstone, and to several municipal and other unaffiliated utilities for resale. EUA also owns directly all of the shares of common stock of a service company, EUA Service Corporation (Service). The holding company system of EUA, the Retail Subsidiaries, Montaup and Service is referred to as the EUA System. For the three years 1978 to 1980, electric operations accounted for 100% of total operating revenues.

Eastern Edison is the result of a merger on July 31, 1979 of two EUA System Companies. On that date Fall River Electric Light Company was merged into Brockton Edison Company and on August 1, 1979 Brockton's name was changed to Eastern Edison Company.

Eastern Edison supplies retail electric service in 22 cities and towns in southeastern Massachusetts. The largest communities served are the cities of Brockton and Fall River, Massachusetts. The retail electric service territory covers approximately 390 square miles and has an estimated population of approximately 438,000. On December 31, 1980, Eastern Edison served approximately 150,600 retail customers. In addition, Montaup provides wholesale electric service to the Retail Subsidiaries and to 4 other utility companies.

About 43% of the generating capacity of the EUA System (aggregating 936 MW) comes from units jointly owned with others in which Montaup's share is 4.5% or less, or from units in which Montaup has long-term power contracts for shares ranging from 2.5% to 72.7% of the unit's capacity. However, Montaup owns all of the 246 MW Somerset plant and 50% of the 584 MW Canal No. 2 plant, both of which are oil fired. See Item 2, PROPERTIES.

Eastern Edison and Montaup hold valid franchises, permits and other rights adequate for conducting the business in the territories which they serve, and such franchises, permits and other rights contain no unduly burdensome restrictions.

Eastern Eidson's electric sales are seasonal to some extent. There has been a winter peak due primarily to increased usage for heating and lighting and a summer peak due to air conditioning usage.

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

All of the transmission facilities within the EUA System are interconnected with the New England transmission grid. There is no competition from other electric utilities within the retail territories served by Eastern Edison. Other electric utilities compete from time to time with Montaup in connection with its sales of electricity to its unaffiliated customers.

Eastern Edison and Montaup are members of the New England Power Pool (NEPOOL) which is open to all investor-owned, municipal and cooperative electric utilities in New England, under an agreement which provides for coordinated planning of future facilities and operation of approximately 98% of existing generating capacity in New England and of related transmission facilities essentially as if they were one system. The NEPOOL Agreement imposes obligations concerning generating capacity reserve and the right to use major transmission lines, and provides for central dispatch of the generating capacity of the pool's members with the objective of achieving economical use of the region's facilities. Pursuant to the NEPOOL agreement, interchange sales to NEPOOL are made at a price approximately equal to the fuel cost for generation without contribution to the support of fixed charges. Because of its participation in NEPOOL, the Company's and Montaup's operating revenues and costs are affected to some extent by the operations of other members.

As of December 31, 1980, the Company and Montaup had 493 permanent employees. Relations with employees are considered to be satisfactory. Labor unit contracts covering employees of Montaup and certain employees of the Company in the Fall River area expire on September 14, 1983, and June 2, 1981, respectively.

Construction Program

Construction expenditures of the Company and Montaup for 1981, 1982 and 1983, as set forth below, are estimated to total $140,196,000 (including allowance for funds used during construction of approximately $44,453,000 and estimated environmental expenditures and nuclear fuel costs where applicable). These estimates include approximately $101,592,000 of expenditures in connection with Montaup's participation in jointly-owned nuclear generating units including approximately $56,337,000 for its 2.90% interest in two units at Seabrook, New Hampshire and $42,908,000 for its 4.01% interest in a unit at Millstone Point, Waterford, Connecticut.

Construction expenditures for the year ended December 31, 1980 were approximately $31,600,000.

CONSTRUCTION PROGRAM
(Thousands of Dollars)

	1981		1982		1983		3-Yr. Total		
	Company	Montaup	Company	Montaup	Company	Montaup	Company	Montaup	Combined
Generation	$	$35,530	$	$41,920	$	$29,995	$	$107,445	$107,445
Transmission & Distribution	7,690	660	8,527	196	6,323	205	24,540	1,061	25,601
General	3,560	49	2,050	24	1,441	26	7,051	99	7,150
Total	$11,250	$36,239	$10,577	$42,140	$ 7,764	$30,226	$31,591	$108,605	$140,196

Source of Power

The Company relies totally on power purchased from Montaup to meet its electric energy requirements. Power purchases for Eastern Edison, as well as Blackstone are arranged on a system basis, by Montaup, under which power is made available to the EUA System and allocated to the Retail Subsidiaries in accordance with their peak requirements. The rates charged by Montaup for power sold to Eastern Edison are those on file from time to time with the Federal Energy Regulatory Commission (FERC) and are the same as those charged by Montaup for power sold to its other customers, affiliated and unaffiliated. See also Item 2, PROPERTIES.

Fuel for Generation

The availability and cost of fuel oil to Montaup and to other owners of oil-burning units in which Montaup has an interest could be adversely affected by policies of oil producing nations, other factors affecting world supplies, and domestic governmental action. Approximately 50% of the residual fuel used is imported. It is impossible to predict the impact on Montaup's operations of possible action of Congress or the President with respect to import fees, duties or quotas on oil or restriction on the use of oil for the generation of electricity.

Montaup has agreements with two suppliers for the purchase of 100% of its oil requirements for its Somerset station. The agreements are renewed automatically unless terminated by the respective supplier or Montaup. During 1980, Montaup had an average inventory of 332,500 barrels of fuel oil for its steam generating units at the Somerset Station, the equivalent of 67 days' supply under present load conditions. Montaup's weighted average price per barrel of oil for the years 1978 through 1980 was $11.48, $15.96 and $22.68, respectively. The price of oil in February 1981 averaged approximately $33.00 per barrel.

Canal Electric Company, on behalf of itself and Montaup, has, since January 1, 1981, been negotiating a contract with a single supplier for the fuel-oil requirements of Canal Unit Nos. 1 and 2 for the period ending June 30, 1985. The contract, when signed, will permit limited purchases from other suppliers.

Montaup's costs of fossil and nuclear fuels for the years 1978 through 1980, together with the weighted average cost of all fuels, are set forth below:

	Mills per kwh		
	1978	1979	1980
Fossil (oil)	18.1	25.1	35.3
Nuclear	3.0	3.5	4.9
All Fuels	14.3	19.6	30.8

The rate schedules of Eastern Edison are designed to pass on to customers the increases and decreases in fuel costs and the cost of purchased power, subject to review and approval by appropriate regulatory authorities.

The owners (or lead participants) of the nuclear units in which the System has an interest, as set forth in the table on page 4, have made, or expect to make, various arrangements for the acquisition of uranium concentrate,

the conversion, enrichment, fabrication and utilization of nuclear fuel and the disposition by reprocessing or storage of that fuel after use. EUA is aware that various electric utilities have been unable to obtain contracts for adequate nuclear fuel supplies and that additional difficulties have been encountered because of a lack of domestic reprocessing facilities and because of objections on environmental and other grounds to proposals for storage and disposal of spent fuel. EUA cannot predict the extent to which such problems will affect fuel or other costs for nuclear units in which the EUA System is participating.

Uncertainties Regarding Nuclear Plants

Nuclear generating facilities, including those in which Montaup has an ownership interest, are subject to extensive regulation by the Nuclear Regulatory Commission (NRC) which has assumed the licensing and related regulatory functions formerly performed by the Atomic Energy Commission. The NRC is empowered to authorize the siting, construction and operation of nuclear reactors after consideration of public health, safety, environmental and antitrust matters.

Administrative or judicial proceedings are pending with respect to certain of the existing and projected nuclear units in which Montaup has an ownership interest. In addition, various groups have filed law suits, introduced legislation and participated in administrative proceedings seeking to prohibit the construction and operation of nuclear units and the disposal of nuclear waste. Although the Company is unable to predict the outcome of any such actions, the owners' ability to construct or operate such units could be adversely affected or terminated thereby. If construction of any unit were cancelled, the cost, depending on the circumstances, could substantially exceed the owners' investment at the time of cancellation. In addition, in jointly owned projects, Montaup is subject to the risk that another participant may be unable to finance its share of the construction or operating costs of the project.

Jointly Owned Generating Units Under Construction Or Projected

					System Share		
Unit	Type	Lead Participant	Estimated In Service Date(1)	Estimated Net Capability MW	%	Estimated Net Capability MW	Total Estimated Construction Cost(1)(2) (Thousands)
Seabrook No. 1	Nuclear	Public Service Company of New Hampshire	1983	1,150	2.90	33.4	$ 51,500
Seabrook No. 2	Nuclear	Public Service Company of New Hampshire	1985	1,150	2.90	33.4	39,300
Millstone No. 3	Nuclear	Subsidiary of Northeast Utilities	1986	1,150	4.01(3)	46	122,400
Pilgrim No. 2	Nuclear	Boston Edison Company	1987	1,150	2.15	25	-

(1) The completion dates of these units have been deferred from time to time, and additional deferrals are likely to occur due to licensing delays, economic and political conditions and other factors. Deferrals have the effect of significantly increasing the cost of a unit.

(2) Estimated construction expenditures relating to the jointly owned units shown above are based upon information furnished by the utility responsible for the construction of each unit. Montaup has been advised by each of the sponsoring utilities that construction budgets are continuously under review in light of increased costs due to deferrals, delays and other factors. The utility responsible for construction of Pilgrim No. 2 has announced that, due to uncertainties resulting from the Three Mile Island incident and the timing of construction of the plant, it has not recently prepared revised estimates of construction expenditures. No estimate is reflected for Pilgrim No. 2 for that reason. The estimated expenditures, completion dates and completion of all the above units may also be affected by the various factors referred to below and other events and conditions which cannot now be predicted.

(3) As described on page 6, Montaup has offered to sell a 2.00% share.

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

The necessary approvals and permits for the construction of the Seabrook 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 (see below). Significant delays (including the suspension of construction for seven months in 1977 and three weeks in 1978) resulting from such opposition have greatly increased costs. There is still one court appeal from an early NRC order pending and certain proceedings before the NRC are in progress (see page 15). Further proceedings before the NRC relating to the licensing of the units will be required for operation, and other proceedings and appeals are possible. Montaup is unable to predict the outcome or timing 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 Montaup.

Public Service Company of New Hampshire (PSNH), the utility responsible for construction of the Seabrook units, has been and is experiencing difficulties in financing its construction program, including its share (originally 50%) of the Seabrook units. In view of these difficulties, PSNH initiated efforts to sell a 22% ownership share in the units to other utilities. PSNH has obtained commitments for the sale of about a 6% share to six New England utilities, including 1% to be sold to Montaup over an adjustment period commencing January 31, 1981. Each utility acquiring an ownership interest does so gradually over an adjustment period, paying pro rata the costs otherwise attributable to PSNH's ownership interst until such acquiring utility's investment in the Seabrook project equals the percentage for which it has committed. Montaup's additional 1% will increase its ownership interest in each of the two units to 2.9%.

PSNH has also obtained a commitment for the sale, over an adjustment period, of about a 9% share to the Massachusetts Municipal Wholesale Electric Company (MMWEC). The adjustment period for the MMWEC purchase commenced on February 28, 1981, but until MMWEC completes its initial financing of its purchase, PSNH will assume MMWEC's share of costs attributable to the 9% ownership interest. If MMWEC has been unable to complete its financing by June 30, 1981, MMWEC's reimbursement obligation to PSNH will be cancelled and MMWEC's adjustment period will not commence until the first business day after consummation of MMWEC's initial financing.

If MMWEC is unable to complete its initial financing in a timely manner or if PSNH does not continue to receive adequate rate relief, the in-service dates for one or both of the Seabrook generating units may have to be further deferred, or construction of the units may have to be further reduced (see the following paragraph) or suspended until PSNH's financing problems are resolved. A request by PSNH for emergency rate relief was denied by the Public Utilities Commission of the State of New Hampshire (NHPUC) in February 1981. The NHPUC has ordered that construction of Unit No. 2 be deferred until all necessary regulatory approvals have been obtained, the adjustment periods have begun, and the MMWEC initial financing completed.

In March 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. Later in 1980 PSNH stated that this decision, together with a ten week ironworkers' strike at the plant, have deferred the scheduled completion dates of the units, although the extent of such deferrals will not be known until completion of PSNH's next review of the project schedule late in March 1981. Reduction in the level of construction will result in an increase in the estimated costs of the units. PSNH has also stated that if reduced construction should continue until March 1981, the scheduled completion dates of the units would be deferred until 1984 and 1986, respectively. Based on PSNH's estimates, such deferral would increase Montaup's total expenditures (before Allowance For Funds Used During Construction (AFUDC)) by approximately $3,625,000, based on its current 2.9% ownership interest.

Montaup has been advised that at December 31, 1980, engineering on Millstone Unit No. 3 was approximately 73% complete and construction was approximately 33% complete. The Environmental Protection Agency (EPA) has approved the use of a once-through cooling water system for this unit, but the approval is subject to revision. A construction permit was issued by the NRC in August 1974 and expires in December 1985. It is expected that a provisional operating license will be obtained, or that the construction permit will be extended, before the current expiration date. Each of the three utilities which own in the aggregate 65% of the unit has stated that it wishes to reduce its ownership in Millstone Unit No. 3 and that in the aggregate they have offered for sale up to 8.7% of their ownership.

The reduced consumption of electricity which the EUA System has experienced from customer conservation efforts has resulted in a lowering of the estimated amount of new generating facilities needed by the System. As a result Montaup has made an offering to sell approximately half of its 4.01% interest in the proposed Millstone Unit No. 3. There is no assurance that there will be any other utility interested in buying such interest or that a sale, if agreed to, will receive the necessary regulatory approvals.

Montaup also has a 2.15% ownership interest in a planned nuclear unit, Pilgrim Unit No. 2 (lead participant, Boston Edison Company). In a recent prospectus, the lead participant has stated that when a more definitive schedule is set for the granting of the construction permit it will be able to develop revised cost estimates and financing plans and that at that time it will also review the feasibility of the project and decide whether to cancel or continue construction of the Unit.

See Note H of Notes to Consolidated Financial Statements regarding the abandonment loss, in 1980, in connection with Montaup's 2.00% ownership interest in the Montague nuclear units. In 1979 Montaup incurred an abandonment loss in connection with its 4.35% ownership interest in two nuclear generating units designated as NEP 1 and 2 (lead participant, New England Power Company) which had been proposed for construction at a site in Charlestown, Rhode Island.

Events at the Three Mile Island Nuclear Unit No. 2 in Pennsylvania (TMI), which have resulted in numerous legal actions seeking damages, have prompted a rigorous reexamination of safety related equipment and operating procedures in all nuclear facilities. The NRC has promulgated numerous requirements in response to TMI, including both near-term modifications to upgrade certain safety systems and instrumentation and long-term design changes which affect items ranging from equipment changes to operational support. All nuclear facilities, including those in which Montaup has an interest, will have to comply with these modifications. However, until the scope of these improvements, as they apply to particular reactors, and the time schedules for compliance have been defined by the NRC, neither the cost of any modification, which is expected to be substantial, nor their effect, if any, on the operations of particular units nor the method by which their owners will raise the needed capital can be determined. Montaup will be responsible for its proportionate share of the costs of such modifications to units in which it has interests. See also Item 2, PROPERTIES.

The Federal Price-Anderson Act provides, among other things, that the maximum liability for damages resulting from a nuclear incident would be $560,000,000, to be provided by private insurance and governmental sources. As required by the NRC regulations, prior to operation of a nuclear reactor, the licensee of the reactor is required to insure against this exposure by purchasing the maximum available private insurance (presently $160,000,000), the remainder to be covered by retrospective premium insurance and by an indemnity agreement with the NRC. Owners of operating nuclear facilities may be assessed a retrospective premium of up to $5,000,000 for each reactor owned in the event of any one nuclear incident occurring at any reactor in the United States, with a maximum assessment of $10,000,000 per year per reactor owned. As a part owner of operating nuclear facilites, Montaup would be obligated to pay its proportionate share of any such assessment.

Rates

The rates for services rendered by the Company for the most part are subject to approval by and are on file with the Massachusetts Department of Public Utilities (MDPU). Rates charged by Montaup (which sells power only for resale) are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). See also Item 3, LEGAL PROCEEDINGS.

General rate increases granted the Company and Montaup, since 1976, are as follows:

	Applied For		Made Effective	
	Annual Revenue	Application Date	Annual Revenue	Effective Date
Massachusetts:				
Eastern Edison	$4,006,430	07/15/77	$1,260,112	02/08/78
			626,961	04/13/78
	2,099,481	12/15/78	375,756	05/14/80
	9,550,577	05/15/80	5,380,107(a)	11/26/80
Federal:				
Montaup	$1,672,400	06/27/77	$1,341,011	01/01/78
	3,720,697	06/28/78	1,636,464	11/29/78
	10,722,862	07/11/80	9,100,000(b)	12/01/80
	8,982,604	12/19/80	7,879,604(c)	02/19/81

(a) Based on an allowed rate of return on common equity of 14.0%.
(b) An interim settlement of $9,500,000 which was effective as of October 1, 1980 was subsequently reduced to $9,100,000 in a final settlement made effective December 1, 1981.
(c) Increase made effective subject to refund. Based on a requested rate of return on common equity of 18.0%. There is no assurance that Montaup's request will ultimately be granted either fully or partially.

Massachusetts Proceedings:

Effective April 1, 1978 Eastern Edison was authorized by the MDPU to institute a forward-looking purchased power adjustment clause thereby removing the two-month lag in recovery of costs under previous clauses. Changes in the adjustment clause or the amounts charged under it are the subject of quarterly hearings. Beginning in the second quarter of 1978 Eastern Edison was allowed by the MDPU to recover purchased power costs previously unbilled as the result of its transition to the forward-looking purchased power clause.

On December 29, 1977, the MDPU promulgated regulations which will require electric utilities to adopt mandatory rate structures based on peak load and time differential pricing and related cost methodology. The new regulations took effect on January 6, 1978 and were intended to be implemented over a nine-month period. Eastern Edison, along with the majority of the Massachusetts electric utilities, was unable to meet the nine-month deadline and received an extension. Eastern Edison has filed with the MDPU a plan for implementing such rates. It is expected that the implementation period will be of considerable duration.

Federal Proceedings:

Montaup's December 19, 1980 request to FERC sought additional wholesale revenues aggregating $9,000,000 on an annual basis. Such request included a return on common equity of 18%. Montaup requested that the new rates become effective, subject to refund, on February 19, 1981, after a one-day suspension. Requests for intervention have been filed by Montaup's four non-affiliated wholesale customers and by the Attorneys General of Rhode Island and Massachusetts and by the RIPUC and its Division of Public Utilities and Carriers. At its public meeting on February 13, 1981, FERC granted Montaup's requested one-day suspension and permitted approximately $7,900,000 to be put into effect subject to refund on February 19, 1981.

Public Utility Regulation

Eastern Edison and Montaup are subject to regulation by the MDPU with respect to the issuance of securities, the form of accounts, rates to be charged (in the case of Eastern Edison), service to be provided and other matters. In addition, by reason of its ownership of fractional interests in certain facilities located in other states, Montaup is or may be subject to regulation of activities in those states.

All companies in the EUA System are subject to the jurisdiction of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935 by virtue of which such Commission has certain powers of regulation, including jurisdiction over the issuance of securities, change in the terms of outstanding securities, acquisition or sale of securities or utility assets or other interest in any business, intercompany loans and other intercompany transactions, payments of dividends under certain circumstances, and related matters. Eastern Edison, insofar as it may be deemed to be a holding company under such Act by reason of its ownership of securities of Montaup, has been exempted from registering under such Act as a holding company by complying with the applicable rules thereunder.

See "Business-Uncertainties Regarding Nuclear Plants" with respect to regulation to nuclear facilities by the NRC. See also "Business-National Energy Policy."

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

Environmental Regulation

Eastern Edison and Montaup and the other companies owning generating units from which Montaup obtains power are subject, like other electric utilities, to developing standards administered by Federal, state and local authorities with respect to the siting of facilities and environmental factors. The Environmental Protection Agency (EPA) has jurisdiction over discharges into both water and air and has broad authority in connection therewith including the ability to require installation of pollution control and mitigation devices.

The Federal Water Pollution Control Act establishes a national objective of complete elimination of discharges of pollutants (including heat) into the nation's waters and creates a rigorous permit program designed to achieve these effluent limitations. All water discharge permits for plants in Massachusetts, including those for the Somerset and Canal plants, are issued by the State Department of Environmental Quality Engineering subject to review by the EPA. The Federal Clean Air Act empowers the EPA to establish clean air standards, including standards limiting the sulfur content of fuel burned for electric generation, which are implemented and enforced by state agencies.

Both Federal and Massachusetts legislation require consideration of reports evaluating environmental impact as a prerequisite to the granting of various permits and licenses, with a view to minimizing environmental damage. Massachusetts air quality regulations also require that plans (including procedures for operation and maintenance) for construction or modification of fossil fuel generating facilities be approved by the Department of Environmental Quality Engineering. In addition, in Massachusetts, certain electric generation and transmission facilities on which construction commences after April 1976 will be permitted to be built only if they are consistent with a long-range forecast filed by the utility concerned and approved by the Energy Facilities Siting Council.

Montaup and the companies and municipalities with which it has power supply arrangements are also subject, like other electric utilities, to regulation with regard to zoning, land use and similar controls by various state and local authorities. Under Federal energy legislation adopted in 1978 the Secretary of Energy has authority with respect to existing electric power plants to prohibit the burning of oil, but only after finding that a plant has the capability to use coal without substantial physical modification and that the use of coal is financially feasible. Exemptions relating to environmental requirements and other factors are provided. The Department of Energy (DOE) has issued complex interim rules under this legislation. Montaup has been informed that the DOE has included Canal Unit No. 1 in a list of oil-fired electric generating facilities which may be required to be converted to an alternative fuel. The Company is unable to predict the effect of this legislation on its sources of power.

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

Other activities of the Company and Montaup from time to time are subject to the jurisdiction of various other state and Federal regulatory agencies.

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

Environmental Permits

Through December 31, 1980, [illegible]pliance with applicable environmental regulations required additional c[illegible]ital expenditures by Montaup of approximately $16,340,000 including appro[illegible]imately $13,841,000 for Mont[illegible]up's ownership in the following units: [illegible]nal No. 2 $11,564,000; Wyman No. 4 $516,000, Millstone No. 3 $329,000; [illegible]lgrim No. 2 $80,000 and Seabrook Nos. 1 & 2 $1,352,000. Montaup expects rapidly increasing expenditures to meet environmental requirements for the existing and proposed units in which it is participating.

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

All domestic fossil fuel plants from which Montaup obtains power operate under permits which limit their discharges into the air and require monitoring of the discharges. Air quality requirements adopted by state authorities in Massachsuetts pursuant to the Clean Air Act impose limitations with respect to pollutants such as sulfur oxides, oxides of nitrogen and particulate matter. These limitations could not be complied with if Montaup were to burn coal with the present equipment in its Somerset plant and therefore the use of coal would require suspension of these air quality requirements or the installation of control devices. The Somerset plant and the Canal plant are permitted to burn fuel oil with a sulfur content not in excess of 1.21 pounds per million B.T.U. heat release potential (approximately 2.2% sulfur content fuel oil). Burning of such fuel is subject to conditions including provisions that fuel oil having not in excess of 1% sulfur content be used during air pollution emergencies.

National Energy Policy

National energy legislation, dealing with coal conversion, gas deregulation, energy conservation, energy taxes and utility rate regulation, became effective in late 1978. One portion of this legislation, the Public Utility Regulatory Policies Act of 1978, is designed to affect state regulatory policies and bring about extensive changes in rate structures, pricing and cost methodology. It is not possible at this time to predict what effects this legislation, and regulations adopted and proposed for adoption to implement it, will have on the Company, including its rates and its fuel supply.

Item 2. PROPERTIES

Except for the two gas turbine units referred to in the table below, which are peaking units, Montaup's solely-owned generating capacity has not been increased since 1959 because the EUA System has found it more economical to join with other utilities in the joint ownership of large units, and believes that spreading the System's sources of electricity among a number of plants improves the reliability of its power supply. Montaup's interest in five operating nuclear generating units represent 15.0% of its present capacity.

Generating Units in Service

Unit	Type	Owner	System Interest	In Service	Net Capability MW	System Share MW
Somerset, Nos. 5 & 6	Oil	Montaup	100%	1951-1959	198(6)	198(6)
Somerset, Nos. J1 & J2	Gas Turbine	Montaup	100%	1970-1971	48	48
Yankee Rowe	Nuclear	Yankee Atomic Electric Company	4.5%(1)	1961	145	7
Connecticut Yankee	Nuclear	Connecticut Yankee Atomic Power Company	4.5%(1)	1968	575	26
Canal No. 1	Oil	Canal Electric Company	25%(2)	1968	568	142
Vermont Yankee	Nuclear	Vermont Yankee Nuclear Power Corporation	2.5%(1)	1972	528	9(7)(8)
Maine Yankee	Nuclear	Maine Yankee Atomic Power Company	4%(1)	1972	830	26(7)(8)
Pilgrim No. 1	Nuclear	Boston Edison Company	11%(2)	1972	670	70(7)
Cleary No. 9	Oil	City of Taunton	72.7%	1975	110	80(3)
Canal No. 2	Oil	Canal Electric Company and Montaup	50%(4)	1976	584	292
New Brunswick, Nos. 1, 2 & 3	Oil	New Brunswick Electric Power Commission	6.41%(5)	1976	400	26(5)
Wyman No. 4	Oil	Central Maine Power Company	1.96%(4)	1979	615	12
Total						936

(1) Stock ownership.

(2) "Life of unit" purchase contracts (earliest normal expiration year 2000).

(3) Variable purchase contract. Amount under "System Share" represents estimated entitlement through October 31, 1981. Montaup's share is expected to decline each year thereafter until it ceases, now estimated to occur in 1990.

(4) Joint ownership.

(5) Share of contract of several New England utilities for balance of 10-year purchase, starting January 1, 1981 and ending October 31, 1985, of 133 MW (reduced from 400 MW).

(6) Active capability on January 1, 1981.

(7) After giving effect to life-of-unit resales to Newport Electric Corporation aggregating 10MW for Vermont Yankee, Maine Yankee and Pilgrim No. 1.

(8) After giving effect to reduction in capacity available to EUA System as a result of agreement with certain municipal and cooperative utilities.

Montaup's participation in present and future generating units of which it is not the sole owner takes various forms including stock ownership, joint ownership and purchase contract. In most cases, regardless of the form of participation, Montaup is or will be required to pay its share (i.e., the same percentage as the percentage of its entitlement to the output) of all of the costs of the unit including fixed costs (whether or not the unit is operating), operating costs, costs of additional construction or modification, costs associated with condemnation, shutdown, retirement, or decommissioning of the unit, and certain transmission charges.

Montaup and the other stockholders of Vermont Yankee Nuclear Power Corporation have agreed in principle to guarantee their respective pro rata shares of a $40,000,000 nuclear fuel financing; completion of the financing is subject to the receipt of regulatory approvals and the execution of definitive agreements. Montaup and the other stockholders of Connecticut Yankee Atomic Power Company have agreed to an interim financing arrangement under which each must purchase its pro rata share of up to $40,000,000 of Connecticut Yankee's subordinated notes to meet nuclear fuel financing obligations, construction expenditures and other needs. Through February 28, 1981, $21,000,000 principal amount of such notes had been issued, of which Montaup had purchased $945,000. Connecticut Yankee has also proposed that its stockholders guarantee their respective pro rata shares of a proposed bank line of credit of up to approximately $25,000,000 and a debenture issue of up to $75,000,000; the proceeds of the debentures would be used in part to repay the subordinated notes. EUA believes that the Yankee companies will require additional external financing in the next several years and that Montaup may be asked to provide its pro rata share of additional equity capital or other kinds of financial support.

The Company and Montaup own approximately 2,500 miles of transmission and distribution lines and approximately 70 substations located adjacent to the cities and towns served.

In addition to the above, the Company and Montaup also own six buildings which house distribution, maintenance or general office personnel.

See Notes F and I of Notes to Consolidated Financial Statements regarding encumbrances and rental and lease commitments.

Item 3. LEGAL PROCEEDINGS

Rate Proceedings

1. On May 15, 1980, Eastern Edison filed an application with the MDPU seeking additional retail revenues aggregating approximately $9,550,000 on an annual basis. The MDPU issued a decision on November 26, 1980 authorizing additional annual revenues of $5,380,000 or 56% of the amount requested. In response to motions for reconsideration and recalculation filed both by Eastern Edison and by the Attorney General of Massachusetts, who had intervened in the proceeding, the MDPU issued an amended order on February 11, 1981 directing that the $5,380,000 increase remain unchanged unless reduced after consideration by the MDPU of further information to be submitted by Eastern Edison on one of the issues.

2. An industry-wide proceeding before the MDPU (D.P.U. 307/408) involves two sets of proposed revisions to present regulations concerning billing and service termination, one proposal having been advanced by the MDPU's staff and the other by a group of organizations which state that they represent consumers. While some of the proposals, if adopted, would affect Eastern Edison's ability to collect its bills on a timely basis, Eastern Edison believes that any such impact would ultimately be recognized by the MDPU in the general rate levels that it authorizes. See also "Massachusetts Proceedings" on page 8.

3. Various proceedings which could affect Eastern Edison, some of which are pending, have been held before the MDPU as required by the federal Public Utility Regulatory Policies Act of 1978 involving such matters as the appropriate costs for ratemaking, a variety of rate structure questions, conservation programs, master metering and advertising expenses. None of these proceedings appears to affect Eastern Edison's ability to recover its legitimate expenses from its ratepayers.

4. An application by Montaup to the FERC has been settled by an agreement of Montaup and all intervenors to make an increase of revenues in the annual amount of $9,100,000 (Montaup's "M-5" rate) effective as of December 1, 1980 and to terminate a proceeding in which Montaup had sought to include in rate base a portion of its investment in certain construction work in progress. Montaup awaits an order of the FERC approving the settlement.

5. With respect to Montaup's "M-6" rate filed with the FERC on December 19, 1980, see "Federal Proceedings" on page 9.

Environmental Proceedings

6. Montaup, together with numerous other electric utilities, is participating in ongoing proceedings concerning implementation by the EPA of the Federal Clean Water Act. Involved in this matter are proceedings before EPA and other governmental entities and courts regarding various Federal and state regulations, including those remanded to EPA by the United States Court of Appeals for the Fourth Circuit. In addition, members of the same group of utilities are seeking judicial review of certain EPA regulations governing the National Pollutant Discharge Elimination System (NPDES) permit program. Members of the group are also seeking review of an EPA variance regulation applicable to steam-electric power plants, and are participating as intervenors in a case which raises the question whether NPDES permits are needed for discharges from dams.

Proceedings Regarding Nuclear Plants

7. In consolidated proceedings before the MDPU in which Montaup and other utilities owning interests in the Seabrook units sought approval for their acquisition of additional interests, the MDPU on October 30, 1980 approved Montaup's acquisition of an additional 1.00% interest from PSNH but disallowed Montaup's requests for approval of its acquisition of an additional 2.10% aggregate interest from two other utilities. As a result, Montaup, during an adjustment period, will increase its ownership share in the units to 2.90%. The following description of certain other proceedings affecting the Seabrook units is based on information received from the lead participant, PSNH.

(a) Construction permits were issued by the NRC in 1976. The initial decision approving the permits was affirmed by an NRC Atomic Safety and Licensing Appeal Board (the Appeal Board) with one member dissenting (with respect to the seismic design of the facility) and by the NRC. One intervenor has petitioned for review of the seismic issue, and a hearing before the Appeal Board is tentatively scheduled to commence April 6, 1981.

(b) There is presently pending before the United States Court of Appeals for the First Circuit an appeal by intervenors from a decision of the NRC challenging the NRC's refusal in 1976 to suspend the Seabrook construction permits despite a court decision in litigation not involving Seabrook which set aside the NRC's rule with respect to the environmental effects of reprocessing spent fuel and disposing of nuclear waste. Effective September 4, 1979, the NRC (one member dissenting) promulgated its final rule on that subject. A petition for review of the final rule is pending before the United States Court of Appeals for the District of Columbia Circuit (State of New York v. NRC, D.C. Cir. Nos. 79-2110 and 79-2131). The lead participant believes that the environmental effects of the fuel cycle, determined in accordance with the new rule, are too small to affect the environmental cost-benefit evaluation of the project.

(c) Further appeals from various regulatory approvals granted for the project are possible. The NRC staff is reviewing a letter from an intervenor which is treated as a request for a show cause order as to why the construction permits should not be suspended or revoked because of the NRC's failure to develop certain evacuation plans and to evaluate the consequences of certain types of accidents. In connection with obtaining operating licenses for the Seabrook units it will be necessary for Federal and state agencies to develop satisfactory emergency response and evacuation plans.

(d) A dispute as to the intent or enforceability of an agreement relating to the enrichment, conversion and fabrication of nuclear fuel for the Seabrook units has resulted in the supplier instituting litigation (Getty Oil Company v. Wisconsin Electric Power Company, in the United States District Court for the Central District of California) against the owners of the units, including Montaup for alleged breach of contract (alleging damages of about $5,000,000 o. which Montaup's share, based on its present ownership, would be about $100,000) and unlawful restraint of trade (seeking treble damages); a counterclaim and a separate action have been filed against the supplier based upon its wrongful influencing of the market price. The outcome of this litigation cannot be predicted.

8. The following description of proceedings affecting the Pilgrim Unit Nos. 1 and 2 is based on information received from Boston Edison Company, the lead participant.

(a) Based on Boston Edison Company's demonstration concerning the combined discharges of Pilgrim Unit Nos. 1 and No. 2, the EPA and the Massachusetts Division of Water Pollution Control (the MDWPC) (which may jointly issue a single permit) issued permits in 1977 authorizing once-through cooling for the two units and granting exemptions from the EPA's thermal effluent guidelines. Following appeals and hearings, final decisions upholding the permit issuance have been received from the EPA Administrator and the MDWPC. Further review of the EPA decision was not sought; however, judicial review of the MDWPC decision has been sought in the Massachusetts Superior Court, which review is presently pending. The Pilgrim Unit No. 2 permit does not expire until 1982. The Pilgrim Unit No. 1 permit expir[illegible]d by its terms during 1979; however, timely renewal of the pe[illegible] was sought prior to expiration, and under applicable Federal a[illegible]ate law the validity of the pre-existing permit continues.

(b) The MDPU is conducting a proceeding to inquire into the capacity needs of Boston Edison Company and the construction program required to meet such needs. Pilgrim Unit No. 2 may be affected by this inquiry. Hearings have been completed and briefs have been filed.

(c) The application of the joint owners for authorization to construct and operate Unit No. 2 at Pilgrim Station was filed with the NRC in 1973. Hearings were held and in February 1981 the Board issued a partial initial decision in which it concluded that a construction permit to build Unit No. 2 should be issued subject to various conditions required to be observed by the applicants and subject to the favorable completion of hearings on emergency planning and on issues related to the March 1979 accident at the Three Mile Island nuclear plant in Pennsylvania. Appeals may be taken from this decision.

(d) In April 1979, an action was commenced in the Massachusetts state courts on behalf of the Plymouth County Nuclear Information Committee, Inc. and several individuals seeking injunctive relief against the continued operation of Pilgrim Unit No. 1, as well as

unspecified monetary relief for alleged damages resulting from its operation. The plaintiffs' initial application for a preliminary injunction was denied. The action was subsequently removed to the United States District Court for the District of Massachusetts, where the defendant's motion to strike the injunctive aspects of the complaint was granted in December 1980. The plaintiffs have appealed to the United States Court of Appeals for the First Circuit.

(e) In April 1980 an action was commenced in the United States District Court for the District of Massachusetts on behalf of the Massachusetts Coaltion of Citizens with Disabilities and another organization and several named individuals against Boston Edison Company and several state agencies and public officials seeking injunctive relief against the continued operation of Pilgrim Unit No. 1. The plaintiffs' application for preliminary injunctive relief was denied.

Item 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Security ownership of certain beneficial owners.

Title of Class	Name and Address of Beneficial Owner	Amount (number of shares) and Nature of Beneficial Ownership	Percent of Class
Common Stock	Eastern Utilities Associates 99 High Street Boston, Massachusetts	2,891,357 *	100%

*All shares, which are the only voting securities of the Company, are registered in the name of the beneficial owner.

(b) Security ownership of management as of February 1, 1981.

Title of Class	Name of Beneficial Owner	Amount (number of shares) and Nature of Beneficial Ownership	Percent of Class (1)
Common Shares, $5 par value, of Eastern Utilities Associates	William R. Bisson	2,125 (2) 122 (3)	Less than one percent for each individual
	Robert I. Dexter	100 (2)	
	John F.G. Eichorn, Jr.	1,852 (2) 256 (3)	
	Allan K. Hamer	53 (2) 115 (3)	
	Robert E. Maguire	588 (2) 148 (3)	
	Margaret M. Stapleton	100	
	James T. Waldron	548	
13.60% Preferred Stock of the Company	William R. Bisson	100 (2)	Less than one percent

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(1) Unless otherwise indicated, beneficial ownership is based on sole investment and voting power.
(2) Jointly owned with spouse.
(3) Shares held under the EUA Employees' Share Ownership Plan (ESOP) as to which the individual indicated has voting power.

All directors and officers as a group beneficially owned 6,520 common shares, being less than two-tenths of one percent of the outstanding common shares of EUA at February 1, 1981. Included are 942 shares held for officers under EUA's ESOP and 4,930 shares jointly owned with the officers' spouses.

Except as indicated above, directors and executive officers of the Company at February 1, 1981, did not own any of the Company's 4.64%, 8.32%, 13.60% or 15.48% Preferred Stocks.

(c) The Company knows of no contractual arrangements which may at a subsequent date result in a change in control of the Company.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

All of Eastern Eidson's common stock is owned beneficially and of record by EUA.

The dividends paid on the common stock during the past two years are as follows:

Year	Dividends Paid Per Share	Year	Dividends Paid Per Share
1980		1979	
First Quarter	$0.87	First Quarter	$1.02
Second Quarter	0.61	Second Quarter	0.96
Third Quarter	0.93	Third Quarter	0.88
Fourth Quarter	0.35	Fourth Quarter	0.68

No dividends may be paid on the common stock unless full dividends on the outstanding Preferred Stock for all past and the current quarterly dividend periods have been paid or declared and set apart for payment, nor may any dividends be paid on the common stock if the Company is in default in any sinking fund obligation provided for any Preferred Stock. See also Notes C, D and E of Notes to Consolidated Financial Statements.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands except per share amounts)	1980	1979	1978	1977	1976
		For the Years ended December 31,			
Operating Revenues	$224,221	$168,127	$141,712	$144,791	$138,946
Net Income from Continuing Operations	11,138	10,895	10,085	6,483	8,122
Income Per Common Share from Continuing Operations	$3.85	$4.14	$4.45	$3.09	$5.17
Total Assets	328,956	290,858	260,700	249,042	232,543
Long-Term Debt	110,982	100,985	96,202	96,219	100,116
Redeemable Preferred Stock	20,199	5,607	5,921	5,921	5,921

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

Summary

Consolidated Net Income in 1980 increased 2.2% from 1979 and 1979 increased 8.0% from 1978. Earnings per average common share decreased during the same period from $4.45 in 1978 to $4.14 in 1979 to $3.85 in 1980 as a result of additional common stock which was issued and outstanding. The 1980 results were increased by $1.2 million or $0.43 per share because of an adjustment (of which $0.34 is a one-time adjustment) which resulted from an amended rate order of the MDPU. See also Note A of Notes to Consolidated Financial Statements. Cash requirements for the Company's construction program totaled $21.8 million, $20.9 million and $18.8 million, respectively, for the years 1980, 1979 and 1978. Internally generated funds provided none, $4.5 million and $7.6 million of the cash necessary to meet the above mentioned construction program with the remaining requirements being provided from external sources which are more fully explained under "Liquidity and Sources of Capital". See also Note J of Notes to Consolidated Financial Statements.

Operating Revenues

Operating Revenues in 1980 increased $56.1 million over 1979 and in 1979 increased $26.4 million over 1978. Approximately 90.9% of the 1980 increase in operating revenues and 97.7% of the 1979 increase were due to significant increases in fossil fuel costs which are, after regulatory review, automatically passed on to customers. The remaining increases in 1980 revenues came from the billing of higher base rates, although these higher rates were slightly offset by lower kilowatthour consumption by customers. This reduction in kilowatthour sales is attributed to the implementation of energy conservation measures by customers and to the generally weak economic conditions that prevailed in 1980.

Fuel Expenses

Approximately 84% of Montaup's generating capacity is fueled by oil. As indicated in the preceding paragraph, the cost of fossil fuel burned in generating stations significantly increased during 1980 and 1979. During 1980, the price per barrel of oil increased from $19 in January to $32 in December. These increases raised fuel expense by $51.0 million or 62.1% over 1979, despite a slight decrease in kilowatthour sales. 1979 fuel expense increased by $25.8 or 45.9% over 1978 and the cost per barrel of oil increased from $11.42 in January to $19.00 at year end, 1979.

Purchased Power

Purchased power expense increased by $4.4 million or 19.8% in 1980. Most of the increase reflects additional maintenance and safety analysis work required at nuclear generating plants in which Montaup has ownership interests or unit contracts. The safety analysis work has been required by the NRC as a result of findings in its ongoing investigation of the Three Mile Island nuclear plant incident.

Allowance for Funds Used During Construction

Allowance for Funds Used During Construction (AFUDC) represents the net cost, during the period of construction, of borrowed funds used for construction purposes and a reasonable rate upon equity funds when so used. AFUDC represents a non-cash element of income. The Company and Montaup experienced increases in the level of AFUDC (both equity and debt) totaling $3.6 million in 1980 and $2.4 in 1979. Continuing expenditures for the construction of future generating facilities has resulted in significant increases in the level of construction work-in-progress balances to which the AFUDC rate is applied. In addition, because of substantially higher borrowing costs to the Company and Montaup, the AFUDC rate has been increased from 8.5% in early 1978 to 11.5% in 1979 to 14.5% in 1980. AFUDC has also become a larger component of consolidated net income increasing from 38.0% in 1978 to 56.9% in 1979 and to 88.4% in 1980.

Interest Charges

Increases in interest on long-term debt and other interest expense are reflective of the Company's and Montaup's continuing need to borrow funds to meet those cash requirements of its construction program which cannot be met with internally generated funds. Interest on long-term debt increased by $.8 million or 9.2% in 1980 primarily as a result of increases in the prime borrowing rate and the issuance of $15 million of 14-1/4% bonds in October 1980. The increase of approximatley $1 million in 1979 was as a result of an additional $5 million in Term Notes Payable being outstanding for most of 1979. In 1980, other interest expense increased $2.0 million to $6.8 million. This increase was primarily the result of the continuation of an extremely high level of short-term borrowings for most of the year and record high prime borrowing rates. The issuance of $15 million of bonds and $15 million of preferred stock in October has enabled the Company to substantially reduce its level of short-term borrowings. Other interest expense increased $1.8 million in 1979 as a result of an increased level of short-term borrowings and higher borrowing rates.

Preferred Dividends of the Company

Preferred Dividends of the Company increased by $.4 million in 1980 as a result of the dividend requirements on a $15.0 million issue of 15.[illegible]% preferred stock in October 1980.

Consolidated Net Income

Consolidated Net Income was $11.1 million in 1980 as compared to $10.9 million in 1979 and $10.1 million in 1978. The growth in consolidated net income has been severely restricted by substantial increases in purchased power and interest expense not being offset by increases in kilowatthour sales and by the lack of adequate and timely rate relief.

Liquidity and Sources of Capital

The Company and Montaup are required to make substantial capital expenditures in order to meet the needs of its existing customers and to meet the future requirements of these customers as well as new customers. As is customary in the utility industry, construction requirements in excess of internally generated funds are obtained through short-term borrowings which are ultimately funded with permanent capital. In 1978 and 1979, the Company's and Montaup's cash construction requirements were $18.7 million and $20.9 million, respectively, and they were able to generate 40.6% and 21.5%, respectively, of such requirements with internally generated funds with the balance coming from short-term borrowings. In 1980, internally generated funds produced none of the $21.8 million in cash construction requirements primarily because of the extremely high cost of short-term borrowings which were not recovered in rates and by the inability to obtain adequate rate relief on a timely basis. All of the cash construction requirements were funded with short-term bank borrowings, some of which were subsequently permanently funded with the issuance of bonds and preferred stock referred to above.

Current regulatory practices do not permit the Company or Montaup to earn a cash return on new generating facilities until they are in service. Since they expect their cash construction requirements to remain at or above current levels, they will be required to raise large amounts of permanent capital. Such capital is expected to be raised through the issuance of additional first mortgage bonds and preferred stock.

The completion of approximately $30.0 million in permanent financing during late 1980 has enabled the Company and Montaup to reduce their dependence on short-term bank borrowings and consequently reduce their bank credit lines. At year end 1980 they had $55.1 million in bank credit lines of which $31.4 million was being utilized. The ability to further reduce short-term borrowings will be dependent on the Company's ability to sell additional amounts of permanent securities.

The consolidated capitalization, including short-term debt, at year end 1980, 1979 and 1978, was as follows:

	1980		1979		1978	
			(In Thousands)			
Long-Term Debt	$110,982	40.5%	$100,985	40.0%	$ 96,202	42.4%
Non-Redeemable Preferred Stock	8,950	3.3	8,950	3.6	8,950	4.0
Redeemable Preferred Stock	20,199	7.4	5,607	2.2	5,921	2.6
Common Equity	102,210	37.3	99,077	39.3	90,278	39.8
Short-Term Debt	31,450	11.5	37,500	14.9	25,450	11.2
	$273,791	100.0%	$252,119	100.0%	$226,801	100.0%

See Table under "Business-Rates" for a summary of recent rate increase requests. The wholesale rate increase settlement of Montaup, received in late 1980, allowed the use of tax normalization of the debt component of AFUDC and a cash recovery over a five-year period of Montaup's $2.1 million investment in a nuclear project that was cancelled in 1979. The wholesale rate case applied for on December 19, 1980 has requested the cash recovery of an investment in a nuclear project that was cancelled in 1980. These items will provide additional cash to meet construction program expenditures.

The ability to raise the required amounts of permanent capital will be contingent upon the ability of the Company and Montaup to obtain increased rate relief in amounts that will enable them to meet coverage tests required for the issuance of bonds and preferred stock. In addition, higher earned returns on equity will be required to make Eastern Eidson's securities more attractive to investors.

Impact of Inflation

Inflation has become a significant element in the operation of a regulated electric utility system. The traditional use of a historical test period for rate making purposes no longer provides a reasonable opportunity for the Company to actually earn a fair return on invested capital. This is evidenced by the comparatively low level of return on equity earned by Eastern Edison over the last few years. Accordingly, Eastern Edison has included requests for "attrition" or "inflation" allowances in its last rate increase filing and will continue to pursue these and other innovative concepts in an effort to reduce the effects of inflation on the results of operations. Although Montaup is permitted by FERC to utilize a forward-looking test period for rate making purposes it has experienced difficulty in earning its allowed returns because inflation has been increasing at a faster rate than anticipated in the future test year. The Financial Accounting Standards Board has developed certain measurement bases for reflecting the effects of inflation. See page 49-51 for a disclosure of these measurement bases. Explanatory comments are included in those disclosures on the effects of changing prices on the Company's and Montaup's operations.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is submitted as a separate section of this report under Item 11(a)(1).

Item 9. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

(a), (b), (c), (d) and (e) The names, ages and positions of all of the directors and executive officers of the Company as of March 15, 1981, are listed below with their business experience during the past five years. The directors, Treasurer and Clerk of the Company are each elected to serve until the next annual stockholders' meeting which is scheduled to be held March 2, 1982. All other officers, except the General Manager of the Fall River Division, who is appointed to serve at the pleasure of the Board of Directors, are elected to serve until the next meeting of directors following the annual stockholders' meeting. There is no family relationship between any of the directors or officers of the Company. Messrs. Dexter, Eichorn and Maguire and Miss Stapleton are Trustees of EUA.

Name, Age and Position	Business Experience During Past 5 Years
William R. Bisson, 56 Director and Vice President (1)	Vice President since 1974; Vice President of parent since 1974; responsible primarily for the power engineering operations, including generation, transmission and distribution facilities of the EUA System.

Name, Age and Position	Business Experience During Past 5 Years
Richard M. Burns, 43 Treasurer (2)	Treasurer since 1974; Comptroller of parent since 1976; responsible primarily for the accounting affairs of the Company.
Robert I. Dexter, 62 Director	President of Abington Mutual Fire Insurance Company and has held that position for more than five years.
John F.G. Eichorn, Jr., 57 Director and Chairman of the Board (3)	Chairman of the Board since 1973; President and Chief Executive Officer of parent since 1972; responsible primarily for the operations of the EUA System.
Allan K. Hamer, 55 Director and President	President since 1975; responsible primarily for the management and operation of the Company.
Robert E. Ma[illegible] Directo[illegible]airman of the [illegible]	Vice Chairman of the Board since 1976; Executive Vice President of parent since 1975; assists the President of the parent in the overall operation of the EUA System.
William F. O'Connor, 41 Clerk (5)	Clerk since 1974; Secretary of parent since 1971; responsible primarily for the corporate affairs of the Company.
Donald G. Pardus, 40 Director and Vice President (6)	Vice President since August 1979; Vice President, Treasurer and Chief Financial Officer of parent since June 1979; responsible for overall financial and accounting affairs of the EUA System. Prior to that time he was Assistant Treasurer of Northeast Utilities from 1971 to 1979.
Paul R. Pinkham, 46 General Manager	General Manager of the Fall River Division since February 1980. Prior to that time he was Manager from 1975, then Director, from 1977, of Public Information of EUA Service Corporation.
Margaret M. Stapleton, 44 Director	Second Vice President, John Hancock Mutual Life Insurance Company ("John Hancock") since February 1979. Prior to that time, she was Investment Officer from 1974 to 1977 and Senior Investment Officer from 1977 to 1979 of John Hancock.
James T. Waldron, 67 Director	Partner in law firm of Clarkin, Waldron & Tucker and has held that position for more than five years.

(1) Vice President of EUA, Service, Blackstone and Montaup.

(2) Comptroller and Assistant Secretary of EUA, Comptroller of Service and Assistant Treasurer of Blackstone and Montaup.

(3) President and Chief Executive Officer of EUA, President of Service and Montaup and Chairman of Blackstone.

(4) Executive Vice President of EUA, Service and Montaup and Vice Chairman of Blackstone.

(5) Secretary of EUA, Vice President, Secretary and Clerk of Service, Assistant Secretary of Blackstone and Assistant Clerk of Montaup.

(6) Vice President, Treasurer and Chief Financial Officer of EUA, Vice President, Treasurer and Assistant Secretary/Assistant Clerk of Service and Vice President, Assistant Treasurer and Assistant Secretary/Assistant Clerk of Blackstone and Montaup.

(f) There have been no events under any bankruptcy act, no criminal proceedings and no judgements or injunctions material to the evaluation of the ability and integrity of any director or executive officer during the past five years.

Item 10. MANAGEMENT REMUNERATION AND TRANSACTIONS

Information is set out below (a) as to remuneration paid by the Company during the year 1980 to each director and each of the five highest paid executive officers of the Company whose aggregate remuneration for the year exceeded $50,000 and (b) as to the aggregate remuneration paid by the Company during the year to all directors and officers of the Company as a group.

Name of Individual or Persons in Group	Capacities in which Served	Salaries and Directors' Fees	Life and Disability Insurance and Other Benefits
Allan K. Hamer	President and Director . . .	$ 54,069	$1,751
All Directors and Officers as a group (7 persons)		$120,910	$1,886

Each non-management director of Eastern Edison receives, as a standard arrangement, compensation in the amount of $250 for each director's meeting attended.

Common shares of EUA are acquired by EUA's ESOP and allocated to the accounts of eligible employees of EUA and its subsidiaries (including the officer named in the table above), to the extent that an additional investment tax credit is available to EUA under the Tax Reduction Act of 1975, as amended. No common shares were so acquired by the ESOP in 1980.

The Employees' Retirement Plan of Eastern Utilities Associates and its Subsidiary Companies (The Plan) is a tax-qualified defined benefit plan available to employees who have completed one year of service and attained age twenty-five. The officer named in the remuneration table above participates in the Plan. Directors of Eastern Edison who are not also employees of EUA and its Subsidiaries (EUA System) are not covered by the Plan. The benefits of participants become fully vested after ten years of service. Benefits are determined under formulas applicable to all employees regardless of position and the amounts depend on length of credited service and salaries prior to retirement. Benefits are equal to one and one-half percent of salaries (averaged over the five years preceding retirement) for each year of credited service up to forty, reduced for each such year by one and one-quarter percent of the participant's estimated age sixty-five Social Security benefit. The normal retirement age under the plan is sixty-five, but actuarially reduced benefits are available as early as age fifty-five.

All expenses of the Plan are paid by the EUA System and annual contributions to the Plan are made in amounts determined by the Plan's actuaries to meet the funding standards established by the Employee Retirement Income Security Act of 1974. These contributions are actuarially determined and cannot appropriately be allocated to individual participants. The annual benefits shown in the table below are straight life annuity amounts, without reduction for primary Social Security benefits as described above. The number of years of service under the Plan credited at present to Mr. Hamer is twenty-four.

Average Annual	Years of Service					
Remuneration	15	20	25	30	35	40
$ 50,000	$11,250	$15,000	$18,750	$22,500	$26,500	$30,000
100,000	22,500	30,000	37,500	45,000	52,500	60,000

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a)(1) Financial Statements:

The following financial statements and supplementary data are filed herewith as required by Item 8.

Consolidated Income Statement for the three years ended December 31, 1980 (page 36).

Consolidated Retained Earnings Statement for the three years ended December 31, 1980 (page 36).

Consolidated Statement of Changes in Financial Position for the three years ended December 31, 1980 (page 37).

Consolidated Balance Sheet at December 31, 1980 and 1979 (page 38).

Consolidated Statement of Capitalization at December 31, 1980 and 1979 (page 39).

Notes to Consolidated Financial Statements at December 31, 1980, 1979, and 1978 (pages 40-47).

The Auditors' Report of Alexander Grant & Company dated March 12, 1981 (page 48).

Supplementary Information to Disclose the Effects of Changing Prices at December 31, 1980 (pages 49-51).

(a)(2) Financial Statement Schedules

The following additional consolidated financial statement schedules are filed herewith:

1. Financial Schedules:

Schedule III	-	Investments in, Equity in Earnings of, and Dividends Received from Related Parties for the three years ended December 31, 1980: (page 52)
Schedule V	-	Property, Plant and Equipment for the three years ended December 31, 1980 (page 56).
Schedule VI	-	Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment for the three years ended December 31, 1980 (page 57).
Schedule VIII	-	Valuation and Qualifying Accounts for the three years ended December 31, 1980 (page 58).
Schedule IX	-	Short-Term Borrowings for the three years ended December 31, 1980 (page 59).
Schedule X	-	Supplementary Income Statement Information for the three years ended December 31, 1980 (page 60).

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

2. Parent Company Financial Statements

Individual financial statements of the registrant have been omitted as the registrant is primarily an operating company and the subsidiary included in the consolidated financial statements filed does not have minority equity interests and/or indebtedness to any person other than the registrant in amounts which together (excepting indebtedness incurred in the ordinary course of business which is not overdue and matures within one year from the date of its creation, whether or not evidenced by securities, and indebtedness of subsidiaries which is collateralized by the registrant by guarantee, pledge, assignment, or otherwise) exceed 5 percent of the total assets as shown by the most recent year-end consolidated balance sheet.

(a)(3) Exhibits (*Denotes filed herewith)

3-1 - Charter of Eastern Edison, as amended (Exhibit 1, Registration No. 2-7649; Exhibit A, Amendment No. 1 to Form 8-K for April, 1957, File No. 0-8480; Exhibit A, Form 8-K for December, 1957, File No. 0-8480; Exhibit A, Amendment No. 1 to Form 8-K for June, 1958, File No. 0-8480; Exhibit A, Amendment No. 1 to Form 8-K for April, 1959, File No. 0-8480; Exhibits A and B, Form 8-K for July, 1961, File No. 0-8480; Exhibit A, Form 8-K for October, 1963, File No. 0-8480; Exhibit E to Certificate of Notification, File No. 70-5379; Exhibit A, Form 8-K for April, 1975, File No. 0-8480; Exhibit A-3(a), Form U-1, File No. 70-5719; Exhibit (A) Form 8-K for September, 1976, File No. 0-8480; Exhibit 1, Form 10-K for 1977, File No. 0-8480; Exhibit A-2(a), Form U-1, File No. 70-6217; Exhibit 4, Form U5S of EUA for the year 1978, File No. 1-5366; Exhibits A-2(a) and A-2(b), Form U-1, File No. 70-6365; Exhibit 4, Form 10-K for 1979, File No. 0-8480 and; Exhibit C to Certificate of Notification, File No. 70-6493).

*3-2 - By-Laws of Eastern Edison, as amended.

4-1 - Form of 3-3/8% Debenture Bonds due 1982 of Montaup, as amended June 29, 1959 (Exhibit A-4, File No. 70-4865).

4-2 - Form of 5% Debenture Bonds due 1987 of Montaup (Exhibit A-5, File No. 70-4865).

4-3 - Form of 4-1/8% Debenture Bonds due 1988 of Montaup (Exhibit A-6, File No. 70-4865).

4-4 - Amendment dated as of May 1, 1970 to Exhibits 4-1 through 4-4 (Exhibit 4-9, Registration No. 2-41488).

4-5 - Form of 5% Debenture Bonds due 1989 of Montaup (Exhibit A-7, File No. 70-4865).

4-6 - Form of 8% Debenture Bonds due 2000 of Montaup (Exhibit 4-10, Registration No. 2-41488).

4-7 - Form of 8-1/4% Debenture Bonds due 2003 of Montaup (Exhibit B-3, Form U5S of EUA for year 1973).

4-8 - Form of 14% Debenture Bonds due 2005 of Montaup (Exhibit 4-11, Registration No. 2-55990).

4-9 - Form of 10% Debenture Bonds due 2008 of Montaup (Exhibit 5-3, Registration No. 2-65785).

4-10 - Form of 16-1/2% Debenture Bonds due 2010-F Montaup (Exhibit 4-11, Form 10K of EUA for 1980, File No. 1-5366).

4-11 - Indenture of First Mortgage and Deed of Trust dated as of September 1, 1948 of Eastern Edison (Exhibit A, File No. 70-1942).

4-12 - First Supplemental Indenture dated as of February 1, 1953 of Eastern Edison (Exhibit A, File No. 70-3015).

4-13 - Second Supplemental Indenture dated as of May 1, 1954 of

4-14 - Third Supplemental Indenture dated as of June , 19 5 of Eastern Edison (Exhibit C to Certificate of Notification, File No. 70-3371).

4-15 - Fourth Supplemental Indenture dated as of September 1, 1957 of Eastern Edison (Exhibit D to Certificate of Notification, File No. 70-3619).

4-16 - Fifth Supplemental Indenture dated as of April 1, 1959 of Eastern Edison (Exhibit D to Certificate of Notification, File No. 70-3798).

4-17 - Sixth Supplemental Indenture dated as of October 1, 1963 of Eastern Edison (Exhibit F to Certificate of Notification, File No. 70-4164).

4-18 - Seventh Supplemental Indenture dated as of June 1, 1969 of Eastern Edison (Exhibit D to Certificate of Notification, File No. 70-4748).

4-19 - Eighth Supplemental Indenture dated as of July 1, 1972 of Eastern Eastern (Exhibit C to Certificate of Notification, File No. 70-5195).

4-20 - Ninth Supplemental Indenture dated as of September 1, 1973 of Eastern Edison (Exhibit F to Certificate of Notification, File No. 70-5379).

4-21 - Tenth Supplemental Indenture dated as of October 1, 1975 of Eastern Edison (Exhibit C to Certificate of Notification, File No. 70-5719).

4-22 - Eleventh Supplemental Indenture dated as of January 1, 1979 of Eastern Edison (Exhibit 5-24, Registration No. 2-65785).

4-23 - Twelfth Supplemental Indenture dated as of October 1, 1980 of Eastern Edison (Exhibit F to Certificate of Notification File No. 70-6463).

10-' - Employees' Retirement Plan of Eastern Utilities Associates and its Subsidiary Companies, Trust and Plan as amended and restated, effective January 1, 1979 and as amended June 23, 1980 and August 1, 1980 (Exhibit 5-1, Registration No. 2-69052; Exhibit 10-2, Form 10-K of EUA for 1980, File No. 1-5366).

10-2 - Form of Service Contract between EUA Service Corporation and each of the other companies (including Eastern Edison) in the EUA System (Exhibit 13-1, Registration No. 2-55990).

10-3 - Montaup Contract, as amended (Exhibit 4-B, Registration No. 2-14119; Exhibit 13-A1, Registration No. 2-14718; Exhibit 4-B-2, Registration No. 2-26509; Exhibit 4-B-3, Registration No. 2-33061; Exhibits 13-3 and 13-4, Registration No. 2-48966; Exhibit B-2, Form U5S of EUA for year 1974 and Exhibit 5-40, Registration No. 2-62862).

10-4 - Stockholder Agreement (composite copy) between Yankee Atomic Electric Company and Montaup dated December 10, 1958 (Exhibit 13-6-A, Registration No. 2-15798).

10-5 - Research Agreement (composite copy) between Yankee Atomic Electric Company and Montaup dated June 30, 1959 (Exhibit 13-6-B, Registration No. 2-15798).

10-6 - Power Contract (composite copy) between Yankee Atomic Electric Company and Montaup dated June 30, 1959 as Revised April 1, 1975 (Exhibit 13-8, Registration No. 2-53819).

10-7 - Transmission Contract (composite copy) among Yankee Atomic Electric Company's Sponsors, including Montaup, dated June 30, 1959 (Exhibit 13-6-D, Registration No. 2-15798).

10-8 - Power Contract (composite copy) between Connecticut Yankee Atomic Power Company and Montaup dated July 1, 1964 (Exhibit B-1, File No. 70-4245).

10-9 - Capital Funds Agreement (composite copy) between Connecticut Yankee Atomic Power Company and Montaup dated September 1, 1964 (Exhibit B-2, File No. 70-4245).

10-10 - Transmission Agreement (composite copy) among Connecticut Yankee Atomic Power Company's Sponsors, including Montaup, dated October 1, 1964 (Exhibit B-3, File No. 70-4245).

10-11 - Stockholder Agreement (composite copy among Connecticut Yankee Atomic Power Company's Sponsors, including Montaup, dated July 1, 1964 (Exhibit B-4, File No. 70-4245).

10-12 - Transmission Agreement between Boston Edison Company, Montaup, New England Power Company, Cambridge Electric Light Company, Cape & Vineyard Electric Company and New Bedford Gas and Edison Light Company dated December 1, 1965 (Exhibit 4, File No. 0-688).

10-13 - Contract for sale of power to Montaup by Canal Electric Company dated December 1, 1965 (Exhibit 2D, File No. 0-688).

10-14 - Capital Funds Agreement (composite copy) between Vermont Yankee Nuclear Power Corporation and Montaup dated as of February 1, 1968, and Amendment thereto dated as at March 12, 1968 (Exhibit B-2, File No. 70-4611; Exhibit B-3, File No. 70-4611).

1J-15 - Form of Power Contract between Vermont Yankee Nuclear Power Corporation and Montaup dated as of February 1, 1968, as amended June 1, 1972 (Exhibit B-4, File No. 70-4591; Exhibit 13-21, Registration No. 2-46612).

10-16 - Sponsor Agreement (composite copy) among Vermont Yankee Nuclear Power Corporation's Sponsors, including Montaup, dated as of August 1, 1968 (Exhibit 4-O, Registration No. 2-33061).

10-17 - Capital Funds Agreement (composite copy) between Maine Yankee Power Company and Montaup dated May 20, 1968 (Exhibit B-2, File No. 70-4658).

10-18 - Power Contract (composite copy) between Maine Yankee Atomic Power Company and Montaup dated May 20, 1968 (Exhibit B-3, File No. 70-4658).

10-19 - Stockholder Agreement (composite copy) among Maine Yankee Atomic Power Company's Sponsors, including Montaup, dated May 20, 1968 (Exhibit B-4, File 70-4658).

10-20 - Agreement (composite copy) among Vermont Yankee Nuclear Power Corporation's Sponsors, including Montaup, dated as of April 30, 1969 (Exhibit B-7, File No. 70-4435).

10-21 - Form of Vermont Yankee Transmission Agreement dated as of April 1, 1971 (Exhibit 13-42, Registration No. 2-41488).

10-22 - Form of Agreement among Maine Yankee Atomic Power Company's Sponsors dated as of May 20, 1969 (Exhibit B-5, File No. 70-4658).

10-23 - Form of Maine Yankee Transmission Agreement dated as of April 1, 1971 as amended as of March 1, 1978 (Exhibit 13-43, Registration No. 2-41488; Exhibit 19, Form 10-K of EUA for 1977, File No. 1-5366).

10-24 - Participation Agreement between Maine Electric Power Company, Inc. and participants in purchase and transmission of New Brunswick power, including Montaup, dated June 20, 1969, supplemented by Amendment dated as of June 24, 1970 (Exhibit 4.23.1, Registration No. 2-35073; Exhibit 13-37, Registration No. 2-37944).

10-25 - Form of New England Power Pool Agreement dated as of September 1, 1971, as amended as of July 1, 1972, March 1, 1973, April 2, 1973, March 15, 1974, June 1, 1975, September 1, 1975, December 31, 1976, January 18, 1977, July 1977 and August 1, 1977 (Exhibit 13-45, Registration No. 2-41488; Exhibit 13-38, Registration No. 2-46612; Exhibits 13-39 and 13-40, Registration No. 2-48966; Exhibit B-3, Form U5S of EUA for year 1974; Exhibit 13-35(a), Registration No. 2-54449; Exhibit 13-35, Registration No. 2-55990, Exhibits 5-69 and 5-70, Registration No. 2-58625; Exhibit 6, Form 10-K of EUA for 1977, File No. 1-5366; Exhibit 1, Form 10-K of EUA for 1979, File No. 1-5366).

10-26 - Agreement between Montaup and Boston Edison Company dated August 1, 1972 for purchase of power from Pilgrim No. 1 nuclear unit at Plymouth, Massachusetts (Exhibit 13-41, Registration No. 2-46612).

10-27 - Joint Ownership Agreement--NEPCO Nuclear Units dated as of January 2, 1976 as amended August 6, 1976 among New England Power Company and other utilities, including Montaup (Exhibit 13-41, Registration No. 2-55990; Exhibit 5-77, Registration No. 2-58625).

10-28 - Power Purchase and Transmission Agreement between Montaup and Maine Electric Power Company, Inc. dated December 1, 1971 (Exhibit 13-43, Registration No. 2-44377).

10-29 - Unit Participation Agreement between Maine Electric Power Company, Inc. and New Brunswick Electric Power Commission dated November 15, 1971 (Exhibit 13-43.1, Registration No. 2-44377).

10-30 - Assignment Agreement dated March 20, 1972 between Maine Electric Power Company, Inc. and New Brunswick Electric Power Commission referred to in Exhibit 5-65 (Exhibit 13-43.3, Registration No. 2-44377).

10-31 - Agreement dated October 13, 1972 for Joint Ownership, Construction and Operation of Pilgrim Unit No. 2 among Boston Edison Company and other utilities including Montaup, as amended July 25, 1973, September 15, 1974, December 1, 1974, February 15, 1975, April 30, 1975, June 30, 1975, November 30, 1975 and December 15, 1975 (Exhibit 13-51, Registration No. 2-46612; Exhibit 13-56, Registration No. 2-48966; Exhibit B-5, Form U5S of EUA for year 1974; Exhibit 13-52-A and 13-52-B, Registration No. 2-53819; Exhibit 13-45(a), Registration No. 2-54449; Exhibits 13-48 and 13-47(a), Registration No. 2-55990).

10-32 - Agreement for Sharing Costs Associated with Pilgrim Unit No. 2 Transmission dated October 13, 1972 among Boston Edison Company and other utilities including Montaup (Exhibit 13-52, Registration No. 2-46612).

10-33 - Agreement dated as of May 1, 1973 for Joint Ownership, Construction and Operation of New Hampshire Nuclear Units among Public Service Company of New Hampshire and other utilities including Montaup, as amended as of May 24, 1974, June 21, 1974, September 25, 1974, October 25, 1974, January 31, 1975, as supplemented by Letter Agreement dated April 27, 1978 and amended as of April 18, 1979 (two amendments), April 25, 1979, June 8, 1979, October 11, 1979, December 15, 1979, June 16, 1980 and December 31, 1980 between Public Service Company of New Hampshire and Montaup (Exhibit 13-57, Registration No. 2-48966; Exhibit B-6, Form U5S of EUA for year 1974; Exhibit 5-130, Registration No. 2-62862; Exhibit 5-70, Registration No. 2-65785; Exhibit 2, Form 10-K of EUA for 1979, File No. 1-5366; Exhibit 5-34, Registration No. 2-69052; Exhibit 10-36, Form 10-K of EUA for 1980, File No. 1-5366).

10-34 - Transmission Support Agreement dated as of May 1, 1973 among Public Service Company of New Hampshire and other utilities including Montaup with respect to New Hampshire nuclear units (Exhibit 13-58, Registration 2-48966).

10-35 - Purchase Contract between Montaup and Newport Electric Corporation dated April 1, 1973 (Exhibit 13-59, Registration 2-48966).

10-36 - Agreement dated September 21, 1972, Amendment thereto dated April 26, 1973, and supplementing letter dated March 28, 1975 relative to Canal Unit No. 2 Transmission among Montaup, New Bedford Gas and Edison Light Company and Boston Edison Company (Exhibit 13-60, Registration 2-48966; Exhibit 13-58, Registration No. 2-53819).

10-37 - Sharing Agreement dated as of September 1, 1973 among The Connecticut Light and Power Company and other utilities, including Montaup, concerning participation in a nuclear generating unit located in Connecticut (Millstone Unit No. 3), as amended (Exhibit B-17, Form U5S of EUA for year 1973; Exhibit B-8, Form U5S of EUA for year 1974; Exhibit B-30, Form U5S of EUA for year 1976).

10-38 - Agreement for Joint Ownership, Construction and Operation of William F. Wyman Unit No. 4 dated November 1, 1974 as amended June 30, 1975, August 16, 1976 and December 31, 1978 among Central Maine Power Company and other utilities including Montaup (Exhibit B-9, Form U5S of EUA for year 1974; Exhibit 13-58, Registration No. 2-55990; Exhibit 5-95, Registration No. 2-58625; Exhibit 5-40, Registration No. 2-69052).

10-39 - Transmission Agreement dated November 1, 1974 among Central Maine Power Company and other utilities including Montaup with respect to Willliam F. Wyman Unit No. 4 (Exhibit B-10, Form U5S of EUA for year 1974).

10-40 - Preliminary Agreement dated as of July 5, 1974, as amended June 30, 1975 and August 30, 1976, among The Connecticut Light and Power Company and other utilities including Montaup with respect to two nuclear generating units to be constructed in Montague, Massachusetts (Exhibit 13-65, Registration No. 2-53819; Exhibit 13-58(a), Registration No. 2-54449; Exhibit 5-101, Registration No. 2-58625).

10-41 - Transmission Support Agreement dated September 1, 1976 among The Connecticut Light and Power Company and other utilities, including Montaup, with respect to two nuclear generating units to be constructed in Montague, Massachusetts (Exhibit 5-102, Registration No. 2-58625).

10-42 - Loan Agreement between Eastern and First National City Bank dated as of October 21, 1974 as amended October 16, 1975 and January 25, 1979 (Exhibit A to Form 8-K of EUA for October, 1974, File No. 1-5366; Exhibit A-3(a) to Post-Effective Amendment No. 12 to Form U-1, File No. 70-5388; Exhibit 5-86, Registration No. 2-65785).

10-43 - Term Loan Agreement between Citibank, N.A. and Eastern dated as of January 25, 1979 (Exhibit 5-87, Registration No. 2-65785).

10-44 - Letter dated April 2, 1974 from Northeast Utilities Service Company, Agent, to New England Utilities, together with Exhibits A, B and J thereto (Exhibit 13-65-A, Registration No. 2-53819).

10-45 - Agreement for Joint Ownership dated as of October 27, 1970 between Canal Electric Company and Montaup (Exhibit 13-71, Registration No. 2-55990).

10-46 - Agreement for use of Common Facilities by Canal Units I and II and for Allocation of Related Costs dated as of October 27, 1970 between Canal Electric Company and Montaup (Exhibit 13-72, Registration No. 2-55990).

10-47 - Agreement of Lease dated as of June 1, 1972 between Canal Electric Company and Montaup (Exhibit 13-73, Registration No. 2-55990).

10-48 - New Brunswick Transmission Contract dated May 24, 1976 between New England Power Company and Montaup (Exhibit 5-128, Registration No. 2-58625).

10-49 - Confirmation of Assignment dated as of September 1, 1976, relating to the Joint Ownership NEPCO Nuclear Units dated as of January 2, 1976, as amended (Exhibit 16, Form 10-K of EUA for 1977, File No. 1-5366).

10-50 - Supplementary Power Contract dated as of March 1, 1978, by and between Connecticut Yankee Atomic Power Company and Montaup (Exhibit 20, Form 10-K of EUA for 1977, File No. 1-5366).

10-51 - Eastern Utilities Associates Employees' Share Ownership Plan and Trust Agreement (Exhibit 6 to Form 10-K of EUA for 1977, File No. 1-5366) Amended May 4, 1978 (Exhibit 5-129, Registration No. 2-62862).

10-52 - Agreement to Transfer Ownership Share made as of April 30, 1979 between The United Illuminating Company and Montaup (Exhibit 5-119, Registration No. 2-65785).

10-53 - Fuel Oil Sales Agreement dated March 21, 1980 between Metropolitan Petroleum Company, Inc. and Montaup (Exhibit 5-54, Registration No. 2-69052).

10-54 - Fuel Oil Contract dated September 12, 1980 between Shell Oil Company and Montaup (Exhibit 5-55, Registration No. 2-69052).

10-55 - Five-Year Capital Contribution Agreement dated as of November 1, 1980 between Connecticut Yankee Atomic Power Company and Montaup (Exhibit 10-5, Form 10-K of EUA for 1980, File No. 1-5366).

22-1 - Montaup Electric Company, which is organized in Massachusetts, is the only subsidiary of Eastern Edison Company and does business under its indicated corporate name.

(b) Reports on Form 8-K.

There were no reports on Form 8-K filed by the registrant during 1980.

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.

Signature	Title	Date
EASTERN EDISON COMPANY		
By Richard M. Burns Richard M. Burns	Treasurer (Principal Accounting Officer)	March 23, 1981

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

Signature	Title	Date
John F.G. Eichorn John F.G. Eichorn	Chairman of the Board (Principal Executive Officer) and Director	
Donald G. Pardus Donald G. Pardus	Vice President and Director (Principal Financial Officer)	
Richard M. Burns Richard M. Burns	Treasurer (Principal Accounting Officer)	
Robert E. Maguire Robert E. Maguire	Vice Chairman and Director	
Allan K. Hamer Allan K. Hamer	President and Director	March 23, 1981
William R. Bisson William R. Bisson	Vice President and Director	
____________________ Robert I. Dexter	Director	
Margaret M. Stapleton Margaret M. Stapleton	Director	
____________________ James T. Waldron	Director	

Item 8 and 11(a)(1). Consolidated Financial Statements and Supplementary Data and Item 11(a)(2). Financial Statement Schedules.

EASTERN EDISON COMPANY AND SUBSIDIARY
CONSOLIDATED INCOME STATEMENT
Years Ended December 31,
(In Thousands)

	1980	1979	1978
Operating Revenues (Note A)	$ 224,221	$ 168,127	$ 141,712
Operating Expenses:			
Fuel	133,120	82,133	56,295
Purchased Power	26,383	21,994	21,168
Other Operation	25,297	23,328	22,448
Maintenance	5,168	3,887	3,911
Depreciation (Note A)	7,170	7,855	7,565
Taxes - Other Than Income	8,454	8,143	8,570
Income and Deferred Taxes (Notes A & B)	30	2,210	4,133
Total Operating Expenses	205,622	149,550	124,090
Operating Income	18,599	18,577	17,622
Equity in Earnings of Nuclear Generating Companies (Schedule III and Note A)	636	807	680
Allowance for Other Funds Used During Construction (Note A)	2,298	1,589	969
Other Income and (Deductions) - Net	291	263	99
Income Before Interest Charges	21,824	21,236	19,370
Interest Charges:			
Interest on Long-Term Debt	9,649	8,840	7,887
Other Interest Expense	6,811	4,763	2,916
Allowance for Borrowed Funds Used During Construction (Credit) (Note A)	(7,544)	(4,606)	(2,862)
Net Interest Charges	8,916	8,997	7,941
Income After Interest Charges	12,908	12,239	11,429
Preferred Dividends Requirement	1,770	1,344	1,344
Consolidated Net Income	$ 11,138	$ 10,895	$ 10,085
Average Common Shares Outstanding	2,891,357	2,629,799	2,265,938
Consolidated Earnings Per Average Common Share Outstanding	$3.85	$4.14	$4.45

CONSOLIDATED RETAINED EARNINGS STATEMENT
Years Ended December 31,
(In Thousands)

	1980	1979	1978
Retained Earnings - Beginning of Year	$ 20,187	$ 18,517	$ 16,849
Income After Interest Charges	12,908	12,239	11,429
Total	33,095	30,756	28,278
Dividends Paid:			
Preferred	1,770	1,344	1,344
Common	7,980	9,225	8,417
Miscellaneous Adjustments	25		
Retained Earnings - End of Year (Note E)	$ 23,320	$ 20,187	$ 18,517

The accompanying notes are an integral part of these statements.

EASTERN EDISON COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Years Ended December 31,
(In Thousands)

	1980	1979	1978
SOURCE OF FUNDS:			
Internally Generated:			
Income After Interest Charges	$12,908	$12,239	$11,429
Principal Non-Cash Charges (Credits) to Income:			
Depreciation (Note A)	7,158	7,942	7,650
Amortization	262	41	111
Deferred Taxes (Note A)	2,047	1,577	(254)
Investment Tax Credits - Net (Note A)	(3,131)	(364)	2,267
Equity in Undistributed Earnings of Nuclear Generating Companies (Note A)	(16)	(169)	
Allowance for Funds Used During Construction (Note A)	(9,842)	(6,195)	(3,830)
Funds From Operations	9,386	15,071	17,373
Less: Dividends Declared:			
Common Dividends	(7,980)	(9,225)	(8,417)
Preferred Stock Dividends	(1,770)	(1,344)	(1,344)
Internally Generated Funds	(364)	4,502	7,612
External Sources:			
Proceeds From Sale of Term Notes		20,000	
Proceeds From Sale of Common Stock		7,133	9,275
Proceeds From Sale of Bonds	15,000		
Proceeds from Sale of Preferred	15,000		
Other - Net	186	1,245	234
Total Funds from External Sources	30,186	28,378	9,509
Total Source of Funds	$29,822	$32,880	$17,121
APPLICATION OF FUNDS:			
Construction Expenditures	$31,624	$27,131	$22,592
Less: Allowance for Funds Used During Construction	(9,842)	(6,195)	(3,830)
Net Construction Expenditures	21,782	20,936	18,762
Decrease (Increase) in Short-Term Notes Payable to Banks	6,050	(12,050)	1,400
Retirement of Long-Term Debt	5,000	15,200	3,880
Retirement of Preferred Stock	300		
Purchase of Promissory Note	225		
(Decrease) Increase in Working Capital	(5,423)	8,008	(7,186)
Other Application - Net	1,888	786	265
Total Application of Funds	$29,822	$32,880	$17,121
CHANGES IN COMPONENTS OF WORKING CAPITAL (Excluding Short-Term Debt, Current Deferred Taxes and Redeemable Preferred Stock Sinking Fund Requirements):			
Cash	$(1,009)	$(2,117)	$ 947
Accounts Receivable	10,881	4,320	(1,685)
Materials and Supplies	2,276	7,766	(2,474)
Prepaid Expenses and Other Current Assets	(116)	111	13
Accounts Payable	(15,033)	(4,763)	(294)
Accrued Taxes	(880)	1,361	(1,821)
Accrued Liabilities	(1,542)	1,330	(1,872)
(Decrease) Increase in Working Capital	$(5,423)	$ 8,008	$(7,186)

The accompanying notes are an integral part of this statement.

EASTERN EDISON COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
December 31,
(In Thousands)

ASSETS

	1980	1979
Utility Plant and Other Investments:		
Utility Plant (at cost) (Schedule V and Note A)	$347,000	$317,543
Less Accumulated Provision for Depreciation (Schedule VI and Note A)	83,946	77,874
Net Utility Plant	263,054	239,669
Nonutility Property - Net (Schedules V and VI)	843	843
Investments in Nuclear Generating Companies (at equity) (Schedule III and Note A)	7,641	7,401
Other Investments (at cost)	50	50
Total Utility Plant and Other Investments	271,588	247,963
Current Assets:		
Cash (Note G)	559	1,569
Accounts Receivable (Schedule VIII and Note A):		
Customers, Less Allowance for Doubtful Accounts of $240 and $213, respectively	22,426	16,801
Others	422	761
Accrued Unbilled Revenue	3,250	233
Associated Companies (Note A)	6,131	3,553
Fuel (at average cost)	12,486	10,702
Plant Materials, Operating Supplies and Other	4,298	3,805
Prepayments and Other Assets	286	401
Total Current Assets	49,858	37,825
Deferred Debits:		
Unamortized Debt Expense	542	485
Extraordinary Property Losses (Note H)	2,943	2,065
Other Deferred Debits	4,025	2,520
Total Deferred Debits	7,510	5,070
Total	$328,956	$290,858

LIABILITIES

	1980	1979
Capitalization:		
Common Equity (Note C)	$102,210	$ 99,077
Non-Redeemable Preferred Stock (Note C)	8,950	8,950
Redeemable Preferred Stock (Note D)	20,199	5,607
Long-Term Debt (Note F)	110,982	100,985
Total Capitalization	242,341	214,619
Current Liabilities:		
Notes Payable - Banks (Schedule IX and Note G)	31,450	37,500
Accounts Payable:		
Public	27,982	13,071
Associated Companies	847	724
Redeemable Preferred Stock Sinking Fund Requirement (Note D)	305	314
Customer Deposits	931	820
Taxes Accrued (Note B)	1,120	240
Deferred Taxes (Notes A and B)	794	815
Interest Accrued	2,750	861
Other Current Liabilities	1	463
Total Current Liabilities	66,180	54,808
Deferred Credits:		
Unamortized Investment Credit (Note A)	5,689	8,760
Other Deferred Credits	33	33
Total Deferred Credits	5,722	8,793
Accumulated Deferred Taxes (Notes A and B)	14,713	12,638
Total	$328,956	$290,858

The accompanying notes are an integral part of this statement

EASTERN EDISON COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CAPITALIZATION

December 31,
(In Thousands)

	1980	1979
Common Stock		
$25 par value, authorized and outstanding 2,891,357 shares	$ 72,284	$ 72,284
Other Paid-In Capital	5,824	5,824
Common Stock Expense	(39)	(39)
Appropriated Retained Earnings	821	821
Retained Earnings	23,320	20,187
Total Common Equity	102,210	99,077
Non-Redeemable Preferred Stock:		
4.64%, $100 par value 60,000 shares*	6,000	6,000
8.32%, $100 par value 30,000 shares*	3,000	3,000
Expense, Net of Premium	(50)	(50)
Total	8,950	8,950
Redeemable Preferred Stock:		
13.60%, $100 par value **	5,700	6,000
15.48%, $100 par value 150,000 shares*	15,000	
Expense, Net of Premium	(187)	(79)
Sinking Fund and Reacquired Shares	(314)	(314)
Total	20,199	5,607
Long-term Debt:		
First Mortgage and Collateral Trust Bonds:		
3-3/4% due 1983	6,800	6,800
7-3/8% due 1983 (second series)	5,000	5,000
4-1/8% due 1983 (third series)	2,196	2,196
3-3/8% due 1985	6,000	6,000
12% due 1985 (second series)	19,800	19,800
4-5/8% due 1987	3,000	3,000
4-3/8% due 1988	3,000	3,000
14-1/4% due 1990	15,000	
4-1/2% due 1993	5,000	5,000
6-1/2% due 1997	7,000	7,000
8-3/8% due 1999	5,000	5,000
7-7/8% due 2002	8,000	8,000
8-3/8% due 2003	10,000	10,000
Note Payable due 1984 (Prime X 106%)	5,000	5,000
Note Payable due 1985 (Prime x 111%)	10,000	15,000
Unamortized Premium	186	189
Total	110,982	100,985
Total Capitalization	$242,341	$214,619

*Authorized and outstanding

**Authorized 60,000 shares. Outstanding 57,000 shares in 1980 and 60,000 shares in 1979

The accompanying notes are an integral part of this statement.

EASTERN EDISON COMPANY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1980, 1979 and 1978

(A) Summary of Significant Accounting Policies:

General: The accounting policies and practices of Eastern Edison Company (Eastern Edison) and of Montaup Electric Company (Montaup) are subject to regulation by the Federal Energy Regulatory Commission (FERC) and Massachusetts Department of Public Utilities (MDPU) with respect to their rates and accounting. Eastern Edison and Montaup conform with generally accepted accounting principles, as applied in the case of regulated public utilities, and conform with the accounting requirements and rate-making practices of the regulatory authority having jurisdiction.

Principles of Consolidation: The consolidated financial statements include the accounts of Eastern Edison and its subsidiary, Montaup. All material intercompany balances and transactions have been eliminated in consolidation.

Unconsolidated Subsidiaries: At December 31, 1980 and 1979, investments in nuclear generating companies represent four investments ranging in percentage of ownership from 2.50 to 4.50 percent. Montaup is entitled to the electricity produced from these facilities based on its ownership interests and is billed pursuant to contractual agreements which are approved by FERC.

Transactions with Affiliates: The Company is a wholly-owned subsidiary of Eastern Utilities Associates (EUA). In addition to its investment in the Company, EUA has interests in another utility company and a service corporation.

Transactions between the Company, Montaup and other affiliated companies include the following: sales of electricity of approximately $56,323,000 in 1980, $42,185,000 in 1979 and $34,585,000 in 1978; accounting, engineering and other services rendered by the service corporation of approximately $5,624,000, $4,889,000 and $4,209,000 in 1980, 1979 and 1978, respectively; operating revenue from the rental of transmission facilities to Montaup of approximately $2,135,000 in 1980, $2,134,000 in 1979, and $2,178,000 in 1978. Transactions with other affiliated companies are subject to review by applicable regulatory commissions.

Utility Plant: Utility plant is stated at original cost. The cost of additions to utility plant includes contracted work, direct labor and material, allocable overhead, allowance for funds used during construction and indirect charges for engineering and supervision.

Depreciation of Utility Plant: For financial statement purposes, depreciation is computed on the straight-line method based on estimated useful lives of the various classes of property.

EASTERN EDISON COMPANY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 1980, 1979 and 1978

(A) Summary of Significant Accounting Policies: -- (Continued)

Provisions for depreciation, on a consolidated basis, were equivalent to a composite rate of approximately 3.2% in 1980, 1979, and 1978 based on the average depreciable property balances at the beginning and end of each year.

In February 1981, as a result of an order of the MDPU, Eastern Edison retroactively reduced the composite depreciation rate on certain of its property from 3.5% to 2.5%. Eastern Edison had recorded depreciation on that property at rates of 3% in 1975 and 3.5% since 1975. The change had the effect of increasing consolidated net income and earnings per common share in 1980 by $1,238,000 and $0.43, respectively. Of those amounts $974,000 and $0.34, respectively, relate to periods prior to 1980.

Operating Revenues: Revenues are based on billing rates authorized by applicable Federal and state regulatory commissions. The Company follows the policy of accruing the estimated amount of unbilled revenues for electricity provided at the end of the month to more closely match costs and revenues. In addition it also accrues unrecovered purchased power costs.

Federal Income Taxes: The general policy of the Company and its subsidiary with respect to accounting for Federal income taxes is to reflect in income the estimated amount of taxes currently payable and to provide for deferred taxes on certain items subject to timing differences to the extent permitted by the various regulatory commissions. See Note B for details of major deferred tax items.

As permitted by the regulatory commissions, it is the policy of the subsidiaries to defer the annual investment tax credits and to amortize these credits over the productive lives of the related assets.

Allowance for Funds Used During Construction: Allowance for funds used during construction (AFUDC) (a non-cash item) is defined in the applicable regulatory system of accounts as "the net cost during the period of construction of borrowed funds used for construction purposes and a reasonable rate upon other funds when so used."

The combined rate used in calculating AFUDC was 14.5% in 1980, 11.5% in 1979 and 8.5% to 9.5% in 1978. In accordance with rate orders received during the last quarter of 1980, Eastern Edison and Montaup began providing deferred income taxes on the borrowed funds component of AFUDC. AFUDC amounted to 88.4%, 56.9% and 38.0% of consolidated net income for the years 1980, 1979 and 1978, respectively.

(B) Income and Deferred Taxes:

Components of income and deferred tax expense for the years 1980, 1979, and 1978 are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 1980, 1979 and 1978

(B) Income and Deferred Taxes: -- (Continued)

(In Thousands)	1980	1979	1978
Operations			
Federal:			
Current	$ 918	$ 637	$ 1,406
Deferred	1,936	1,542	(74)
Investment Tax Credit, Net	(3,131)	(365)	2,267
	(277)	1,814	3,599
State:			
Current	196	361	714
Deferred	111	35	(180)
	307	396	534
Charged to Operations	30	2,210	4,133
Charged to Other Income		7	119
Total	$ 30	$ 2,217	$ 4,252

Federal income tax expense was less than the amounts computed by applying Federal income tax statutory rates to book income subject to tax for the following reasons:

(In Thousands)	1980	1979	1978
Federal Income Tax Computed at Statutory Rates	$ 5,977	$ 6,617	$ 7,400
(Decreases) in Tax from:			
Allowance for Funds Used During Construction	(3,719)	(2,849)	(1,838)
Overheads	(318)	(302)	(315)
Consolidated Tax Savings	(1,588)	(1,131)	(1,018)
Other	(227)	(148)	(215)
Federal Income Tax Expense	$ 125	$ 2,187	$ 4,014

The provision for deferred taxes resulting from timing differences is comprised of the following:

(In Thousands)	1980	1979	1978
Excess Tax Depreciation	$ 902	$ 990	$ 1,163
Computer Conversion Costs	(68)	(68)	(68)
Estimated Unbilled Revenue	(22)	35	(1,176)
AFUDC	808		
Abandonment Losses	310	602	
Effect of State and Local Taxes	112	35	(180)
Other -- Net	5	(17)	7
Total	$ 2,047	$ 1,577	$ (254)

(B) Income and Deferred Taxes: -- (Continued)

At December 31, 1980, unused inves ent tax credits of approximately $8,784,000 are available to reduce future Federal income tax liability.

(C) Capital Stock:

The changes in the number of common shares outstanding, resulting from sales to EUA, during the years ended December 31, 1980 and 1979 were as follows:

Year	Shares Issued	Total
1980	None	
1979	285,336	$7,133,400

In the event of involuntary liquidation, the non-redeemable preferred stock of Eastern Edison is entitled to $100 per share. In the event of voluntary liquidation, or if redeemed at the option of the Company, the non-redeemable preferred stock is entitled to: 4.64% issue, $102.98; 8.32% issue, $107.70 prior to October 1, 1983; $105.62 prior to October 1, 1988; $103.54 prior to October 1, 1983; and $102.30 per share thereafter.

Under the terms and provisions of the issues of preferred stock of Eastern Edison, certain restrictions are placed upon the payment of dividends on common stock by the Company, but at December 31, 1980 and 1979, the respective capitalization ratios were in excess of the minimum which would make these restrictions effective.

(D) Redeemable Preferred Stock:

In October 1980, Eastern Edison issued 150,000 shares of 15.48% Preferred Stock.

Eastern Edison's 13.60% and 15.48% Preferred Stock issues are entitled to mandatory sinking funds sufficient to redeem 3,000 and 6,000 shares, respectively, during each twelve-month period commencing October 1, 1980 in the case of the 13.60% issue and October 1, 1985 in the case of the 15.48% issue. The redemption price, for each issue, is equal to the initial public offering price plus accrued dividends. Eastern Edison also has the non-cumulative option of redeeming an additional 3,000 and 6,000 shares, respectively, during each period at such price.

In the event of involuntary liquidation the redeemable preferred stock of Eastern Edison is entitled to $100 per share. In the event of voluntary liquidation or if redeemed at the option of Eastern Edison, the redeemable preferred stock is entitled to: $114.82 prior to 10-1-85; $111.42 prior to 10-1-90; $108.02 prior to 10-1-95; and $105.98 per share thereafter.

The aggregate amount of sinking fund requirements for each of the five years following 1980 are: $314,000 in 1981, 1982, 1983 and 1984; and $923,000 in 1985.

(E) Retained Earnings:

Under the provisions of the Company's indenture securing the First Mortgage and Collateral Trust Bonds, Retained Earnings in the Amount of $12,667,239 and $11,846,241 as of December 31, 1980 an December 31, 1979, respectively, was unrestricted as to the payment of cash dividends on Common Stock.

(F) Long-Term Debt:

Under terms of the Indenture securing the First Mortgage and Collateral Trust Bonds, Eastern Edison is required to deposit annually with the Indenture Trustee, cash in an amount equal to 1% of the greatest aggregate principal amount of bonds previously authenticated and delivered

Where permitted, Eastern Edison has satisfied sinking fund requirements for 1980 and 1979 under alternate provisions of the indenture either by depositing cash or by certifying to the Indenture Trustee "available property additions" and Eastern Edison expects to continue such practice during the year 1981.

The First Mortgage and Collateral Trust bonds of Eastern Edison and Eastern's Note Payable due 1985 are collateralized by securities of Montaup in the principal amount of $159,975,000. In addition, the First Mortgage and Collateral Trust bonds of Eastern Edison are collateralized by substantially all of its utility plant.

The aggregate amount of cash sinking fund requirements and maturities for each of the five years following 1980 are: none in 1980, 1981, and 1982, $13,996,000 in 1983 and $10,000,000 in 1984 and $30,800,000 in 1985.

(G) Lines of Credit and Compensating Balances:

Eastern Edison and Montaup had unused short-term lines of credit with various banks of approximately $19,360,000 and $35,500,000 at December 31, 1980 and 1979, respectively. However, a portion of these credit lines were also available to other affiliated companies under joint credit line arrangements. In accordance with informal agreements with the various banks, Eastern Edison and its Subsidiary have agreed to maintain operating accounts or minimum average balances or, in certain instances, commitment fees are required to maintain the lines of credit. There are no legal restrictions placed on the withdrawal of these funds. Except for daily working funds, substantially all of the funds included in cash represent compensating balances.

EASTERN EDISON COMPANY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 1980, 1979 and 1978

(H) Jointly-Owned Facilities:

At December 31, 1980, Montaup owned the following interests in jointly-owned electric facilities (dollars in thousands):

	December 31, 1980				
	Percent Owned	Plant in Service	Accumulated Depreciation	Net Plant In Service	Construction Work In Progress
Canal No. 2	50.00%	63,724	$11,042	$52,682	$
Wyman No. 4	1.96	3,947	232	3,715	
Seabrook Nos. 1 & 2 .	2.90	42	2	40	27,019
Pilgrim No. 2	2.15				9,241
Millstone No. 3 . . .	4.01				39,428

The foregoing amounts represent Montaup's interest in each facility. Financing for all such interest is provided by Montaup. Montaup's share of related operating and maintenance expenses is included in its corresponding operating expenses.

Montaup has a 2.00% ownership interest in two nuclear generating units designated as Montague 1 and 2 (lead participant, of Northeast Utilities) proposed to be built at a site in Montague, Massachusetts. In December 1980, the lead participant announced cancellation of these units and concluded that all capital costs relative to them should be written off as being valueless. As of December 31, 1980, Montaup had incurred approximately $1,081,000 of costs (including allowance for funds used during construction) in connection with the project. Additional costs (which are not expected to be material) relating to cancellation charges, or salvage, if any, are undeterminable at this time. Montaup has reported the costs of the abandoned project as an extraordinary property loss and has requested permission from FERC to amortize these costs, net of the related tax savings to be realized in the EUA Consolidated 1980 Federal income tax return, over a period of five years and requested approval from FERC for recovery of such costs commencing with the effective date of its December 19, 1980 rate filing.

(I) Commitments:

Eastern Edison and Montaup have leases covering certain facilities and equipment. Total rental expense for these leases for the years 1980, 1979 and 1978 amounted to approximately $350,000, $177,000 and $275,000, respectively.

These leases are treated as operating leases for rate making purposes and have been accounted for as such; however, certain lease agreements meet the criteria requiring capitalization as set forth in the Statement of Financial Accounting Standards No. 13. If such leases were capitalized, the amounts thereof would not have a material effect on assets, liabilities, or related expenses.

(I) Commitments: -- (Continued)

Future minimum rental payments at December 31, 1980, for such leases are estimated to aggregate $532,000 in 1981, $500,000 in 1982, $479,000 in 1983, $406,000 in 1984, $130,000 in 1985, and none for the years after 1985.

Eastern Edison and Montaup participate with other System Companies in a pension plan covering substantially all of their employees. The total pension expense charged to operations, which includes amortization of past service costs over 20 years, during 1980, 1979 and 1978 amounted to approximately $1,344,000, $1,327,000 and $1,391,000, respectively. Eastern Edison and Montaup make annual contributions to the plan equal to the amounts accrued for pension expense. The accumulated plan benefits and plan net assets for the Employees' Retirement Plan of Eastern Utilities Associates and its Subsidiary Companies is presented below:

(In Thousands)	January 1, 1980
Actuarial Present Value of Accumulated Plan Benefits:	
Vested	$26,188
Nonvested	1,100
	$27,288
Market Value of Net Assets Available for Benefits	$27,917

The assumed rate of return used in determining the actuarial present value of the accumulated plan benefits was 6.0% for 1980.

Montaup is committed under purchased power contracts to pay demand charges whether or not energy is received. The following table summarizes information concerning such contracts at December 31, 1980.

Unit	Date of Contract Expiration	% Share of Output Being Purchased	Estimated Annual Cost (000s omitted)
Taunton Municipal Cleary #9	1984	Various	$ 2,949
New Brunswick	1986	6.41	278
Yankee Atomic Power Co.	1991	4.50	2,076
Conn. Yankee Atomic Power Co.	1998	4.50	3,132
Canal Electric Co. Unit No. 1	1998	25.00	4,874
Pilgrim Unit No. 1	2000	11.00	10,405
Maine Yankee Atomic Power Co.	2002	4.00	2,263
Vermont Yankee Atomic Power Co.	2002	2.50	1,609
			$27,586

(I) Commitments: -- (Continued)

Eastern Edison and Montaup's construction program is estimated at approximately $47,500,000 for the year 1981 and $212,100,000 for the years 1981 through 1985 (including allowance for funds used during construction).

(J) Contingencies:

In October 1980, Montaup received approval from the MDPU to increase its ownership interest in each of the two 1150 megawatt nuclear generating units being constructed in Seabrook, New Hampshire, from 1.90% to 2.90%. Montaup will acquire the additional 1% gradually over an Adjustment Period, commencing on January 31, 1981 by paying its pro rata share of the costs otherwise attributable to the lead participant, Public Service Company of New Hampshire (PSNH). All of the necessary state and Federal regulatory approvals for the construction of the units have been obtained. One court appeal from Federal regulatory approvals is still pending and further appeals are possible. PSNH has stated that it is experiencing serious difficulties in financing its construction work in progress. In an effort to reduce its construction expenditures PSNH has received commitments from other utilities to acquire an additional 15% of the project. In March 1980 PSNH decided to reduce the level of construction until capital markets stabilized and the remaining regulatory approvals for the reduction of its ownership interest were obtained. In June 1980 PSNH was ordered by the New Hampshire Public Utilities Commission to delay for three years work on Unit No. 2 of the Seabrook plant, except for those areas that are common to both Units. Upon rehearing, the order was amended to provide that such delay shall continue only until receipt of the regulatory approvals necessary for reduction of PSNH's ownership interest and commencement of such reduction. As of December 31, 1980, Montaup's investment in the project amounted to approximately $27,019,000. Montaup is unable to predict what effect further financing problems or administrative and court actions may have on the Seabrook project or its cost.

Montaup also has a 2.15% ownership interest in a planned nuclear unit, Pilgrim Unit No.2 (lead participant, Boston Edison Company). In a recent prospectus, the lead participant has stated that when a more definitive schedule is set for the granting of a construction permit they will be able to develop revised cost estimates and financing plans. At that time they will also review the feasibility of the project and decide whether to cancel or continue construction of the Unit. As of December 31, 1980, Montaup had spent approximately $9,240,000 in connection with its interest in the Pilgrim project. Final costs associated with cancellation of the project, if ultimately necessary, cannot now be ascertained. In the event of such cancellation, Montaup would apply for appropriate regulatory approval to recover its total costs over an appropriate future period. The extent to which rate relief, if any, would permit recovery of the project costs cannot be determined at this time.

AUDITORS' REPORT

To the Shareholder
EASTERN EDISON COMPANY AND SUBSIDIARY

We have examined the consolidated balance sheets and statements of capitalization of Eastern Edison Company (a Massachusetts corporation and wholly-owned subsidiary of Eastern Utilities Associates) and subsidiary as of December 31, 1980 and 1979 and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period 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 consolidated financial position of Eastern Edison Company and subsidiary at December 31, 1980 and 1979 and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1980 in conformity with generally accepted accounting principles applied on a consistent basis.

In connection with our examinations of the financial statements referred to above, we also examined the schedules as listed in the accompanying index (see Item 11(a)(2)). In our opinion, such schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information required to be set forth therein.

ALEXANDER GRANT & COMPANY

Boston, Massachusetts
March 12, 1981

EASTERN EDISON COMPANY AND SUBSIDIARY

SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (Unaudited)

The following supplementary information is supplied . accordance with the requirements of the Statement of Financial Accounting Standards No. 33 for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than a precise measure, since a number of subjective judgments and estimating techniques were used in developing this information.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumers Price Index for all Urban Consumers. Current cost amounts reflect the changes in specific prices 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 prices in general.

CONSOLIDATED STATEMENT OF INCOME FROM CONTINUING OPERATIONS
Adjusted for Changing Prices
for the year ended December 31, 1980

(Thousands of Dollars)	Historical Cost	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
Operating Revenues	$224,221	$224,221	$224,221
Fuel & Purchased Power Expense	159,503	159,503	159,503
Other Operating & Maintenance Expenses	30,465	30,465	30,465
Depreciation Expense	7,170	15,524	18,564
Taxes Other than Income	8,454	8,454	8,454
Income and Deferred Taxes	30	30	30
Interest Charges -- net	8,916	8,916	8,916
Other (Income) & Deductions -- net	(3,225)	(3,225)	(3,225)
	211,313	219,667	222,707
Income from Continuing Operations (excluding reduction to net recoverable cost)	$ 12,908	$ 4,554*	$ 1,514
Increase in Specific Prices of Utility Plant Held During the Year**			$ 49,995
Reduction to Net Recoverable Cost		$(19,866)	(2,717)
Effect of Increases in General Price Level			(64,111)
Excess of Increase in General Price Level over Increase in Specific Prices after Reduction to Net Recoverable Cost			(16,833)
Gain from Decline in Purchasing Power of Net Amounts Owed		15,284	15,284
NET		$ (4,582)	$ (1,549)

*Including the reduction to net recoverable cost, the loss from continuing operations on a constant dollar basis would have been $(15,312).

**At December 31, 1980, the current cost of net utility plant was $578,556 while historical cost or net cost recoverable through depreciation was $263,054.

The current cost of utility plant, comprising all plant in service, construction work in progress and plant held for future use, represents the estimated cost of replacing existing plant assets and was determined by indexing the surviving plant using various indices which represent the Company's and Montaup's experienced construction costs.

The current year's provision for depreciation on a constant dollar and current cost basis was computed by applying the average composite depreciation rate to the average depreciable balance of property, plant and equipment after adjusting such accounts for inflation.

Fuel inventories, the cost of fuel used in generation, and purchased power for resale have not been restated from their historical cost. Regulation limits the recovery of fuel and purchased power costs through the operation of adjustment clauses. For this reason fuel inventories are effectively monetary assets.

As prescribed in Financial Accounting Standard No. 33, income taxes were not adjusted.

Under the rate-making prescribed by the regulatory commission to which the Company is subject, only the historical cost of plant is recoverable in revenue as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars that exceeds the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. To properly reflect the economics of rate regulation in the Statement of Income from Continuing Operations, the reduction to net recoverable cost of net property, plant and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. 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 and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the System companies do not have the opportunity to realize a holding gain on debt and are limited to recovery only of the embedded cost of debt capital.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA ADJUSTED FOR THE EFFECTS OF CHANGING PRICES

(In Thousands of Average 1980 Dollars)	Years ended December 31, 1980	1979	1978	1977	1976
Operating Revenues	$224,221	$190,864	$178,989	$196,884	$201,125
Historical Cost Information Adjusted for General Inflation					
Income from Continuing Operations Excluding Reduction to Net Recoverable Cost	4,554	5,61[illegible]			
Income Per Common Share After Preferred Dividend Requirements and Excluding Reduction to Net Recoverable Cost	0.96	1.62			
Net Assets at Year-end at Net Recoverable Cost	125,446	122,361			
Current Cost Information					
Income from Continuing Operations Excluding Reduction to Net Recoverable Cost	1,514	3,773			
Income (Loss) Per Common Share After Preferred Dividend Requirements and Excluding Reduction to Net Recoverable Cost	(0.09)	0.92			
Excess of Increase in General Price Level Over Increases in Specific Prices after Reduction to Net Recoverable Cost	(16,833)	(17,8[illegible]7)			
Net Assets at Year-end at Net Recoverable Cost	125,446	122,361			
General Information					
Gain from Decline in Purchasing Power of Net Amounts Owed	15,284	15,814			
Cash Dividends Declared per Common Share	2.76	3.62	4.08	4.65	4.62
Average Consumer Price Index	246.8	217.4	195.4	181.5	170.5

EASTERN EDISON COMPANY

INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS

(In Thousands, except

COL. A		COL. B Balance at beginning of period (1)	(2)
Name of Issuer	Description of Investment	Number of shares or units. Principal amount of bonds and notes	Amount in dollars
For the year ended December 31,1980:			
Eastern Edison Company:			
°Montaup Electric	Common Stock	636,000	$72,484
°Montaup Electric	Preferred Stock	15,000	1,500
°Montaup Electric	Debenture Bonds	$74,875	74,875
			148,859
Montaup Electric Co.:			
Yankee Atomic Electric Co.	Capital Stock	6,903	924
Maine Yankee Atomic Power Co.	Capital Stock	20,000	2,740
Conn. Yankee Atomic Power Co.	Capital Stock	15,750	2,283
Conn. Yankee Atomic Power Co.	Promissory Note		
Vermont Yankee Nuclear Power Co.	Capital Stock	10,001	1,454
Subtotal			7,401
Grand Total			156,260
Eliminated in Consolidation			148,859
Total			$ 7,401
For the year ended December 31, 1979:			
Eastern Edison Company:			
°Montaup Electric	Common Stock	564,000	$63,209
°Montaup Electric	Preferred Stock	15,000	1,500
°Montaup Electric	Debenture Bonds	$74,875	74,875
			139,584
Montaup Electric Co.:			
Yankee Atomic Electric Co.	Capital Stock	6,903	932
Maine Yankee Atomic Power Co.	Capital Stock	20,000	2,740
Conn. Yankee Atomic Power Co.	Capital Stock	15,750	2,102
Vermont Yankee Nuclear Power Co.	Capital Stock	10,001	1,458
Subtotal			7,232
Grand Total			146,816
Eliminated in Consolidation			139,584
Total			$ 7,232

°Eliminated in consolidation

(a) Purchases at cost.

SCHEDULE III -- CONSOLIDATED

AND SUBSIDIARY

[illegible]CEIVED FROM RELATED PARTIES
[illegible]umber of shares)

COL. C		COL. D		COL. E		COL. F
Additions		Deductions		Balance at end of period		
(1)	(2)	(1)	(2)	(1)	(2)	Dividends received during the period from investments not accounted for by the equity method
Equity taken up in earnings (losses) of related parties and other persons for the period	Other	Distribution of earnings by persons in which earnings (losses) were taken up	[illegible]her	Number of shares or units. Principal amount of bonds and notes	Amount in dollars	
$ 8,492	$	$ 6,152	$ 9(b)	636,000	$ 74,815	
				15,000	1,500	
	20,000(a)			94,875	94,875	
8,492	20,000	6,152	9		171,190	
83		85		6,903	922	
263		260		20,000	2,743	
145		126		15,750	2,302	
	225(a)			225	22[illegible]	
145		150		10,001	1,449	
636	225	621	9		7,641	
9,128	20,225	6,773	9		178,831	
8,492	20,000	6,152	9		171,190	
$ 636	$ 225	$ 621	$ -0-		$ 7,641	
$ 8,589	$7,200(a)	$ 6,514	$	636,000	$ 72,484	
				[illegible]5,000	1,500	
				$ 74,875	74,875	
8,589	7,200	6,514			148,859	
89		97		6,903	924	
266		266		20,000	2,740	
307		126		15,750	2,283	
145		149		10,001	1,454	
807		638			7,401	
9,396	7,200	7,152			156,260	
8,589	7,200	6,514			148,859	
[illegible] 807	$ -0-	$ 638	$		$ 7,[illegible]	

EASTERN EDISON COMPANY

INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS

(In Thousands, except

COL. A		COL. B	
		Balance at beginning of period	
		(1)	(2)
Name of Issuer	Description of Investment	Number of shares or units. Principal amount of bonds and notes	Amount in dollars
For the year ended December 31, 1978:			
Eastern Edison Company:			
°Montaup Electric	Common Stock	564,000	$ 63,035
°Montaup Electric	Preferred Stock	15,000	1,500
°Montaup Electric	Debenture Bonds	$65,600	65,600
			130,135
Montaup Electric Co.:			
Yankee Atomic Electric Co.	Capital Stock	6,903	916
Maine Yankee Atomic Power Co.	Capital Stock	20,000	2,740
Conn. Yankee Atomic Power Co.	Capital Stock	15,750	2,090
Vermont Yankee Nuclear Power Co.	Capital Stock	10,001	1,486
Subtotal			7,232
Grand Total.			137,367
°Eliminated in Consolidation			130,135
Total			$ 7,232

°Eliminated in Consolidation

(a) Purchase at cost.

ND SUBSIDIARY

RECEIVED FROM RELATED PARTIES

number of shares)

COL. C		COL. D		COL. E		COL. F
Additions		Deductions		Balance at end of period		
(1) Equity taken up in earnings (losses) of related parties and other persons for the period	(2) Other	(1) Distribution of earnings by persons in which earnings (losses) were taken up	(2) Other	(1) Number of shares or units. Principal amount of bonds and notes	(2) Amount in dollars	Dividends received during the period from investments not accounted for by the equity method
$ 7,122	$	$6,948	$	564,000	$ 63,209	
				15,000	1,500	
	9,275(a)			$74,875	74,875	
7,122	9,275	$6,948			139,584	
126		110		6,903	932	
268		268		20,000	2,740	
138		126		15,750	2,102	
147		175		10,001	1,458	
679		679			7,232	
7,801	9,275	7,627			146,816	
7,122	9,275	6,948			139,584	
$ 679	$ -0-	$ 679	$		$ 7,232	

EASTERN EDISON COMPANY AND SUBSIDIARY
PROPERTY PLANT AND EQUIPMENT
(In Thousands)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements	Other Charges- Add (Deduct)- Describe	Balance at End of Period
For the Year Ended December 31, 1980:					
Utility Plant:					
Production - Steam	$122,505	$ 279	$ 72	$	$122,712
- Other	3,689				3,689
Transmission & Distribution. . .	126,544	6,421	852		132,113
General Plant.	4,507	2,276	126		6,657
Electric Property Held for Future Use	628				628
Construction Work in Progress .	59,670	23,215		(1,684)	81,201
Total Utility Plant	$317,543	$32,191	$ 1,050	$(1,684)	$347,000
Nonutility Property	$ 854	$	$	$	$ 854
For the Year Ended December 31, 1979:					
Utility Plant:					
Production - Steam	$118,512	$ 5,121	$ 1,128	$	$122,505
- Other	3,689				3,689
Transmission and Distribution. .	121,184	6,162	802		126,544
General Plant.	4,433	126	52		4,507
Electric Property Held for Future Use	1,339			(711)(c)	628
Construction Work in Progress .	45,989	21,939		(8,258)	59,670
Total Utility Plant	$295,146	$33,348	$ 1,982	$(8,969)	$317,543
Nonutility Property	$ 143	$	$	$ 711 (c)	$ 854
For the Year Ended December 31, 1978:					
Utility Plant:					
Production - Steam	$114,336	$ 4,304	$ 128	$	$118,512
- Other	3,636	53			3,689
Transmission and Distribution. .	117,595	4,489	896	(4)(a)	121,184
General Plant.	3,865	1,115	551	4 (a)	4,433
Electric Property Held for Future Use	1,339				1,339
Construction Work in Progress .	33,383	17,141		(4,535)(b)	45,989
Total Utility Plant	$274,154	$27,102	$ 1,575	$(4,535)	$295,146
Nonutility Property	$ 143	$	$	$	$ 143

(a) Transfer between classifications.
(b) Transfer to Utility Plant.
(c) Transfer between Utility Plant an[illegible]n-Utility Property.

EASTERN EDISON COMPANY AND SUBSIDIARY
ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Other Charges Add (Deduct)-Describe	Balance at End of Period
For the Year Ended December 31, 1980:					
Accumulated Depreciation, Depletion and Amortization	$77,874	$7,158	$1,086	$	$83,946
Nonutility Property	$ 11	$	$	$	$ 11
For the Year Ended December 31, 1979:					
Accumulated Depreciation, Depletion and Amortization	$71,890	$7,954	$1,970	$	$77,874
Nonutility Property	$ 11	$	$	$	$ 11
For the Year Ended December 31, 1978:					
Accumulated Depreciation, Depletion and Amortization	$65,840	$7,651	$1,601	$	$71,890
Nonutility Property	$ 11	$	$	$	$ 11

SCHEDULE VI
CONSOLIDATED

EASTERN EDISON COMPANY AND SUBSIDIARY

VALUATION AND QUALIFYING ACCOUNTS

(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions-Describe	Balance at End of Period
For the year ended December 31, 1980: Allowance for Doubtful Accounts	$213	$647	$ 45(a)	$ 665(b)	$240
For the year ended December 31, 1979: Allowance for Doubtful Accounts	$173	$419	$ 89(a)	$ 468(b)	$213
For the year ended December 31, 1978: Allowance for Doubtful Accounts	$158	$470	$ 31(a)	$ 486(b)	$173

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

SCHEDULE IX--CONSOLIDATED

EASTERN EDISON COMPANY AND SUBSIDIARY

Short-Term Borrowings
(In Thousands)

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Category of aggregate short-term borrowings	Balance at end of period	Weighted average interest rate	Maximum amount outstanding during the period	Average amount outstanding during the period (a)	Weighted average interest rate during the period (b)
Notes Payable to Banks:					
December 31, 1980	$31,450	22.40%	$51,120	$38,576	17.54%
1979	$37,500	15.51%	$43,080	$31,353	14.41%
1978	$25,450	13.36%	$33,550	$27,183	10.15%

(a) The average amount outstanding during the period was computed by dividing the total of month-end outstanding principal balances by 12.

(b) The weighted average interest rate during the period was computed by dividing the actual interest expense by the average short-term debt outstanding.

EASTERN EDISON COMPANY AND SUBSIDIARY

Supplementary Income Statement Information

COLUMN A	COLUMN B		
	For the Years Ended December 31,		
	1980	1979	1978
	Charged to Costs and Expense (In Thousands)		

Amounts of maintenance and repairs and depreciation expense were as shown in the income statement and notes thereto.

	1980	1979	1978
Taxes -- Other than Income: (a)			
Eastern Edison Company	$5,759	$5,803	$6,110
Montaup Electric Company.	2,683	2,392	2,589
Total	8,442	8,195	8,699
Less: Charged to Other Accounts . .	(12)	52	129
Charged to Operating Expenses . . .	$8,454	$8,143	$8,570

Amounts of rents, advertising costs and research and development costs did not exceed 1% of gross revenues.

NOTES: (a)	Payroll Taxes	Local Property Taxes	State Corporation Tax	State Sales and Use Tax
For the Year Ended December 31, 1980:				
Eastern Edison. . . .	$ 413	$5,346	$	$
Montaup	216	2,462	2	3
Total	$ 629	$7,808	$ 2	$ 3
For the Year Ended December 31, 1979:				
Eastern Edison. . . .	$ 398	$5,406	$	$
Montaup	208	2,179	2	2
Total	$ 606	$7,585	$ 2	$ 2
For the Year Ended December 31, 1978:				
Eastern Edison. . . .	$ 409	$5,693	$	$ 8
Montaup	191	2,393	2	3
Total	$ 600	$8,086	$ 2	$ 11

EXHIBIT A-3

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1981 Commission file number 0-8480

Eastern Edison Company
(Exact name of registrant as specified in its charter)

Massachusetts	04-1123095
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
36 Main Street, Brockton, Massachusetts	02403
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number including area code 617-580-1213

Same
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

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

Common Shares Outstanding at April 30, 1981

2,891,357

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

EASTERN EDISON COMPANY
CONSOLIDATED CONDENSED B*L^ ^E SHEET

ASSETS	March 31, 1981	December 31, 1980
Utility Plant	$356,075,228	$346,999,675
Less Accumulated Provision for Depreciation	85,741,684	83,945,641
Net Utility Plant	270,333,544	263,054,034
Current Assets:		
Cash	881,168	559,294
Accounts Receivable: (Less allowance for doubtful accounts of $218,677 at March 31, 1981 and $240,000 at December 31, 1980)	30,688,856	28,978,767
Materials and Supplies	12,952,170	20,033,801
Other Current Assets	538,314	285,841
Total	45,060,508	49,857,703
Deferred Debits and Other Non-Current Assets	16,622,171	16,044,047
	$332,016,223	$328,955,784

LIABILITIES AND CAPITALIZATION		
Capitalization:		
Common Shares, $25 Par Value	$ 72,283,925	$ 72,283,925
Premium on Common Stock	5,824,633	5,824,633
Common Stock Expense	(39,612)	(39,612)
Unappropriated Retained Earnings	24,498,368	23,319,544
Appropriated Retained Earnings	821,259	821,259
Redeemable Preferred Stock, $100 Par Value	20,198,289	20,198,501
Non-Redeemable Preferred Stock, $100 Par Value	8,948,630	8,948,630
Long-Term Debt (Less Current Maturities)	110,977,330	110,981,815
Total Capitalization	243,512,822	242,338,695
Current Liabilities:		
Notes Payable (Including current maturities of long-term debt)	37,800,000	31,450,000
Redeemable Preferred Stock Sinking Fund Requirement	239,762	304,984
Accounts Payable	19,407,767	28,828,884
Taxes Accrued	4,156,226	1,120,063
Deferred Taxes	667,994	794,408
Interest Accrued	3,427,325	2,749,964
Other Current Liabilities	933,811	933,974
Total	66,632,885	66,182,277
Accumulated Deferred Taxes, Deferred Credits and Other Non-Current Liabilities	21,870,516	20,434,812
	$332,016,223	$328,955,784

See accompanying notes to consolidated condensed financial statements.

EASTERN EDISON COMPANY

CONSOLIDATED CONDENSED STATEMENT OF INCOME

	Three Months Ended March 31, 1981	Three Months Ended March 31, 1980 (Restated)
Operating Revenues	$72,084,152	$60,774,875
Operating Expenses:		
Operation	57,904,068	50,298,945
Maintenance	1,062,756	861,900
Depreciation and Amortization	2,035,039	1,065,712
Taxes - Other Than Income	2,228,674	2,089,461
- Income	1,459,606	(148,038)
- Deferred	900,773	205,864
Total	65,590,916	54,373,844
Operating Income	6,493,236	6,401,031
Allowance for Other Funds Used During Construction	1,081,136	513,615
Other Income and (Deductions) - Net	286,469	82,561
Net Interest Charges	(3,117,962)	(2,396,374)
Income After Interest Charges	4,742,879	4,600,833
Preferred Dividends Requirement	904,005	336,000
Consolidated Net Income	$ 3,838,874	$ 4,264,833
Weighted Average Number of Common Shares Outstanding	2,891,357	2,891,357
Consolidated Earnings Per Average Common Share	$1.33	$1.48
Dividends Declared	$0.92	$0.87

See accompanying notes to consolidated condensed financial statements.

EASTERN EDISON COMPANY

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Three Months Ended March 31, 1981	1980
Income After Interest Charges	$ 4,742,879	$ 4,600,833
Non-Cash Charges (Credits) to Income - Net	613,366	(513,490)
Funds Provided by Operations	5,356,245	4,087,343
Increase in Notes Payable to Banks	6,350,000	250,000
Other Sources	9,106	335,062
Total Funds Provided	$ 11,715,351	$ 4,672,405
Application of Funds		
Construction Expenditures	$ 9,191,874	$ 7,145,588
Allowance for Funds Used During Construction	(2,782,933)	(2,267,188)
Cash Dividends	3,564,053	2,851,481
Purchase of Promissory Notes	720,000	
Increase (Decrease) in Working Capital	910,558	(3,336,353)
Other Applications	111,799	278,877
Total Funds Applied	$ 11,715,351	$ 4,672,405

See accompanying notes to consolidated condensed financial statements.

NOTES TO CONSOLIDATED CONDENSED STATEMENTS

The accompanying Notes should be read in conjunction with the Notes to Consolidated Financial Statements appearing in the Company's 1980 Annual Report on Form 10-K.

Note A - In the opinion of the Company, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 1981 and 1980, and the results of operations and changes in financial position for the three months then ended.

Note B - Results shown above for the respective interim periods are not necessarily indicative of results to be expected for the fiscal years due to seasonal factors. These seasonal factors which are innate to electric utilities in New England are as follows: A greater proportionate amount of revenues is earned in the first and fourth quarters (winter season) of each year because more electricity is sold due to weather conditions, fewer day-light hours, etc.

Note C - Contingencies:

In October 1980 Montaup received approval from the Massachusetts Department of Public Utilities to increase its ownership interest in each of the two 1150 megawatt nuclear generating units being constructed in Seabrook, New Hampshire, from 1.90% to 2.90%. Montaup is acquiring the additional 1% gradually over an Adjustment Period, commencing on January 31, 1981 by paying its pro rata share of the costs otherwise attributable to the lead participant, Public Service Company of New Hampshire (PSNH). All of the necessary state and Federal regulatory approvals for the construction of the units have been obtained. One court appeal from Federal regulatory approvals is still pending and further appeals are possible. PSNH has stated that it is experiencing serious difficulties in financing its construction work in progress. In an effort to reduce its construction expenditures PSNH has received commitments from other utilities to acquire an additional 15% of the project. In March 1980 PSNH decided to reduce the level of construction until capital markets stabilized and the remaining regulatory approvals for the reduction of its ownership interest were obtained. In June 1980 PSNH was ordered by the New Hampshire Public Utilities Commission to delay for three years work on Unit No. 2 of the Seabrook plant, except for those areas that are common to both Units. Upon rehearing, the order was amended to provide that such delay shall continue only until receipt of the regulatory approvals necessary for reduction of PSNH's ownership interest and commencement of such reduction. As of March 31, 1981, Montaup's investment in the project amounted to approximately $30,696,000. Montaup is unable to predict what effect further financing problems or administrative and court actions may have on the Seabrook project or its cost.

Montaup also has a 2.15% ownership interest in a planned nuclear unit, Pilgrim Unit No. 2 (lead participant, Boston Edison Company). In a recent prospectus, the lead participant has stated that when a more definitive schedule is set for the granting of a construction permit it will be able to develop revised cost estimates and financing plans. At that time it will also review the feasibility of the project and decide whether or not to cancel the Unit. As of March 31, 1981 Montaup had spent approximately $9,669,000 in connection with its interest in the Pilgrim Unit No. 2 project. Final costs associated with the cancellation of the project, if ultimately necessary, cannot now be ascertained. In the event of such cancellation, Montaup would apply for appropriate regulatory approval to recover its total costs over an appropriate future period. The exten to which rate relief, if any, would permit recovery of the project costs cannot b determined at this time.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is Management's discussion and analysis of certain significant factors affecting the Company's earnings and financial condition for the interim periods presented in this Form 10-Q.

Operating Revenues

Operating Revenues increased $11.3 million or 18.6% for the first quarter of 1981 as compared to the same period in 1980. Over approximately 57% of the 1981 increase was due to significant increases in fossil fuel costs which are passed on to customers. The remaining increases in first quarter 1981 revenues came from the billing of higher base rates, as a result of rate increases granted in late 1980 and also in February 1981. Approximately $879,000 of the February rate increase is subject to refund. These higher base rates were slightly offset by lower kilowatthour consumption by customers.

Operations Expense

Fuel expense for the first quarter of 1981 as compared to the same period in 1980 increased $6.5 million or 16.8% primarily due to significant increases in the price per barrel of oil. For the first quarter of 1981 the average price per barrel of oil was approximately $33 or $11 higher than the price for the same period in 1980.

Operating expenses for the first quarter of 1981, other than fuel and purchased power, increased approximately $0.8 million or 13.3% over the first quarter of 1980. This increase is primarily due to the impact of inflation on operating expenses.

Depreciation Expense

Depreciation expense for the quarter ended March 1981 was $1.0 million less than the same period in 1980 primarily due to the recording, in 1980, of a credit to depreciation expense as a result of an amended rate order. See Note A of Notes to Consolidated Financial Statements included in the Company's 1980 Annual Report on Form 10-K for further information.

Allowance for Funds Used During Construction (AFUDC)

The total level of AFUDC increased $0.5 million or 22.8% for the first quarter of 1981 over the same period in 1980 primarily as a result of increased construction expenditures and increases in the AFUDC rate which reflects higher borrowing costs.

Interest Charges

Interest on long-term debt increased in the first quarter of 1981 over the same period in 1980 by $.4 million. This increase is primarily the result of higher prime borrowing rates in the first quarter of 1981 and the issue in October 1980 of $15.0 million of 14-1/4% bonds. This issue enabled the Company to reduce its level of short-term borrowings. Short-term interest expense for the periods presented increased approximately $.2 million which also reflects higher borrowing costs.

Preferred Dividends

Preferred dividends increased $.6 million as a result of the issuance in October 1980 of $15.0 million of 15.48% preferred stock.

Liquidity and Sources of Capital

During the first three months of 1981 internally generated funds produced approximately 44% of the $6.4 million in cash construction requirements. The remaining 56% of construction requirements were funded with short-term bank borrowings. There were no other material changes in Sources of Capital or Liquidity since December 31, 1980.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The following statements relate to the indicated paragraphs under Item 3 of Part I of the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1980.

With respect to the paragraph numbered 4 (on page 14), the expected order of FERC approving the settlement there described was issued on April 17, 1981.

With respect to subparagraph (c) under the paragraph numbered 8 (beginning on page 16), the registrant is informed that certain parties, including the Attorney General of Massachusetts, who had intervened in the proceeding before the Atomic Safety and Licensing Board referred to in that subparagraph have appealed the February 1981 decision of the Board to an Atomic Safety and Licensing Appeal Board of the NRC.

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

(a) The Annual Meeting of Stockholders was held March 3, 1981.

(b) Voted to fix at eight the number of Directors to serve until the next Annual Meeting of Stockholders and until each one's successor is elected and qualifies:

William R. Bisson	Robert E. Maguire
Robert I. Dexter	Donald G. Pardus
John F. G. Eichorn, Jr.	Margaret M. Stapleton
Allan K. Hamer	James T. Waldron

(c) Voted to elect Richard M. Burns, Treasurer, and William F. O'Connor, Clerk, of this corporation.

Votes cast with respect to each matter:

Affirmative - 2,891,357
Negative - None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) Reports on Form 8-K

(1) No reports on Form 8-K were filed during the period January 1, 1981 through March 31, 1981.

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 therunto duly authorized.

Eastern Edison Company
(Registrant)

Date: May 15, 1981

Richard M. Burns
Richard M. Burns, Treasurer
(on behalf of the Registrant and as Chief Accounting Officer)

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

PRELIMINARY PROSPECTUS DATED JUNE 5. 1981

Eastern Edison Company

$30,000,000

First Mortgage and Collateral Trust Bonds

Due July 1,

Entitled to Interest from July 1, 1981

The First Mortgage and Collateral Trust Bonds offered hereby (the "Bonds") will be redeemable at the option of Eastern Edison Company ("the Company") at the Regular and Special Redemption prices set forth herein under "Redemption Provisions of the Bonds". Reference is also made therein to the terms of a limitation on the redemption of such Bonds at a Regular Redemption Price prior to July 1, 1986, if such redemption is for the purpose of or in anticipation of the refunding of such Bonds at a lower interest cost. Such limitation does not, however, apply to redemptions at a Special Redemption Price which applies to redemptions through the use of sinking fund or replacement fund moneys or other trust moneys. The Bonds will be issuable only as fully registered bonds. See "Description of the Bonds".

This Prospectus is to be used in connection with the Invitation for Bids for the purchase of the above Bonds. Bids will be received by the Company at the office of Eastern Utilities Associates, 99 High Street (28th Floor) Boston, Massachusetts up to 11:00 a.m. Boston Time, on Thursday, July 23, 1981. Officers of the Company, its auditors and counsel, and counsel for the prospective purchasers will be available at Irving Trust Company, One Wall Street (47th Floor), New York, New York, on Thursday, July 16, 1981 at 11:00 a.m. New York Time to meet with prospective bidders to review the Registration Statement and Invitation for Bids. Copies of the bidding papers may be obtained at the office of Eastern Utilities Associates at 99 High Street (28th Floor), Boston, Massachusetts.

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.

Dated July , 1981

IN CONNECTION WITH THIS OFFERING, THE PURCHASERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

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, as of particular dates, concerning Directors and officers of the Company, their remuneration, options granted to them (of which there are none), and any material interest of such persons in transactions with the Company is disclosed in the Company's Annual Report on Form 10-K. Such reports and other information can be inspected and copied at the Public Reference Room of the Commission, 1100 L Street, N.W., Washington, D.C., and at the Commission's Regional Offices at 26 Federal Plaza, New York, N.Y. 10007; 219 South Dearborn Street, Chicago, Ill. 60064; and 10960 Wilshire Boulevard, Los Angeles, Calif. 90024, and copies of such material can be obtained from the Public Reference Section of the Commission, 500 North Capitol Street, N.W., Washington, D.C. 20549, at prescribed rates.

THE COMPANY

The Company, a Massachusetts corporation incorporated in 1883 with its principal executive offices at 110 Mulberry Street, Brockton, Massachusetts 02403 (telephone 617-580-1213) is a public utility distributing electricity at retail. The Company is a member of the holding company system (the "EUA System") of Eastern Utilities Associates ("EUA"), a Massachusetts voluntary association and registered holding company under the Public Utility Holding Company Act of 1935. The EUA System is composed of EUA, the Company, Montaup Electric Company ("Montaup"), Blackstone Valley Electric Company ("Blackstone"), a Rhode Island retail electric utility company, and EUA Service Corporation, a service company. The Company owns all of the permanent securities of Montaup, a Massachusetts generating company which supplies electricity to the EUA System and to several municipal and other unaffiliated utilities for resale.

The Company is the result of a merger on July 31, 1979 of two EUA System companies. On that date Fall River Electric Light Company was merged into Brockton Edison Company and on August 1, 1979 Brockton's name was changed to Eastern Edison Company.

THE ISSUE IN BRIEF

The following is a summary of certain pertinent facts, and is qualified in its entirety by detailed information and financial statements appearing elsewhere in this Prospectus.

THE OFFERING

Securities Offered	$30,000,000 Principal Amount, First Mortgage and Collateral Trust Bonds
Offering Date	July 23, 1981
Use of Proceeds	To reduce short-term borrowings incurred primarily for construction and repay a $5,000,000 unsecured note due 1984

THE COMPANY

The Company is a subsidiary of Eastern Utilities Associates and supplies retail electric service to approximately 150,600 customers in southeastern Massachusetts. Its service area has an estimated population of 438,000 and the largest communities served are the cities of Brockton and Fall River. The financial information below is for the Company and its subsidiary, Montaup.

FINANCIAL INFORMATION

(dollars in thousands)

	12 Months Ended	
	Dec. 31, 1980	March 31, 1981 (Unaudited)
Consolidated Income Statement Data:		
Operating Revenues	$224,221	$235,530(a)
Consolidated Net Income	11,138	10,712
Ratio of Earnings to Fixed Charges — Actual*	1.78	1.88
— Pro Forma*	—	2.27

(a) Includes $879,500 of revenue subject to possible refund.

* For method of computation and information on ratios, see "Selected Consolidated Financial Data".

Consolidated Capitalization as of March 31, 1981 (unaudited), and as adjusted for the sale of the Bonds and a proposed capital contribution of approximately $8,500,000 from EUA is as follows:

	Actual		As Adjusted(b)	
Long-term Debt	$110,977	45.6%	$135,977	49.1%
Redeemable Preferred Stock (excluding current sinking fund requirements)	20,199	8.3	20,199	7.3
Non-redeemable Preferred Stock	8,950	3.7	8,950	3.2
Common Equity	103,387	42.4	111,887	40.4
Total Capitalization	$243,513	100.0%	$277,013	100.0%

(b) See "Capitalization".

USE OF PROCEEDS AND CONSTRUCTION AND FINANCING PROGRAM

The estimated $30,000,000 proceeds from the sale of the Bonds will be applied, first, to the purchase of $20,000,000 of Common Stock and $5,000,000 principal amount of Debenture Bonds of Montaup, and, second, to the repayment of a $5,000,000 unsecured note due 1984. Montaup will utilize the $25,000,000 proceeds from the sale of its securities to reduce its short-term bank borrowings incurred directly or indirectly to pay for construction. The Company expects to receive a capital contribution of approximately $8,500,000 from EUA prior to the offering of the Bonds. The proceeds from the capital contribution will be utilized by the Company to repay all of its short-term bank borrowings. Montaup's short-term bank borrowings are anticipated to be approximately $38,000,000 at the time of the offering.

Construction expenditures of the Company and Montaup for the years 1981-1983, as set forth below, are estimated to total $151,300,000 (including allowance for funds used during construction of approximately $1,061,000 for the Company and $49,461,000 for Montaup and estimated environmental expenditures and nuclear fuel costs where applicable). Through March 31, 1981 the Company and Montaup had expended approximately $1,900,000 and $7,200,000, respectively, on their 1981 construction programs.

CONSTRUCTION PROGRAM
(Millions of Dollars)

	1981		1982 and 1983		3 Year Total		
	Company	Montaup	Company	Montaup	Company	Montaup	Combined
Generation(a)							
Seabrook Nos. 1 and 2 (Nuclear)	$ —	$23.8	$ —	$45.3	$ —	$ 69.1	$ 69.1
Millstone No. 3 (Nuclear)	—	11.8	—	31.1	—	42.9	42.9
Other	—	4.1	—	2.4	—	6.5	6.5
Transmission	0.1	0.7	—	0.4	0.1	1.1	1.2
Distribution	7.6	—	16.8	—	24.4	—	24.4
General	3.6	—	3.5	0.1	7.1	0.1	7.2
Total	$11.3	$40.4	$20.3	$79.3	$31.6	$119.7	$151.3

(a) See "Business — Uncertainties Regarding Nuclear Plants."

In addition to the above construction program, the Company's total capital requirements include an annual sinking fund requirement on its 13.60% preferred stock of approximately $314,000. There is also long-term debt aggregating $13,996,000 maturing in 1983.

Financing of the Company's and Montaup's construction program and a desired reduction in short-term bank loans represent a major undertaking. The amount of the construction costs to be financed is subject to considerable uncertainty because of various factors including questions as to the timing of the construction of the nuclear generating units identified above. The Company estimates that internally generated funds will finance approximately 58% of its 1981-83 construction program with short-term borrowings providing the remaining requirements. The Company estimates that internally generated funds of Montaup will finance approximately 13% of its 1981 construction pro-

gram with short-term borrowings of Montaup providing the remaining requirements. The Company expects that during 1982 and 1983 Montaup's construction program will be financed temporarily with short-term borrowings of Montaup which are expected eventually to be financed permanently through the sale of additional securities to the Company. The Company expects to finance permanently its short-term borrowings and its purchases of Montaup securities through the sale of additional bonds and preferred stock to the public and the sale of its common stock to or capital contributions from EUA. The feasibility of such financings will be dependent upon a number of factors, including the ability to obtain adequate and timely rate increases, conditions in the securities markets, a favorable market appraisal of the securities of the Company and EUA, economic conditions and the level of kilowatt-hour sales. See "Rates" regarding recent rate increase requests of the Company and Montaup. See also "Business — Uncertainties Regarding Nuclear Plants".

The indenture of mortgage of the Company requires for the issuance of additional bonds, except for certain refunding purposes, a minimum earnings (before income taxes) coverage of twice the pro forma annual interest charges on bonds outstanding, on any prior lien indebtedness, and on the bonds to be issued. Provisions relating to the Company's preferred stock require for the issuance of additional preferred stock, except for certain refunding purposes, a minimum earnings (after income taxes) coverage of one and one-half times pro forma annual interest charges and preferred stock dividends. The computation is made for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding the proposed new issue. On the basis of these requirements, coverages for the five years ended December 31, 1980 and for the twelve month periods ended March 31, 1981 and April 30, 1981, based on the respective amounts then outstanding, were as follows:

Year	Bond Coverage	Preferred Stock Coverage
1976	2.79	1.84
1977	2.29	1.74
1978	3.00	2.01
1979	2.75	1.87
1980	2.28	1.39
Twelve months ended March 31, 1981	2.56	1.52
Twelve months ended April 30, 1981	2.61(a)	1.53

(a) After giving effect to the sale of $30,000,000 of Bonds at an assumed interest rate of 16.00%, the bond coverage ratio would be 2.05. The Company's $10,000,000 note due 1985 has been secured by a lien prior to the lien of the indenture on certain Montaup securities. As a result, the annual interest requirement on this note has been included in the indenture test. The holder of the note has agreed to release the Montaup securities prior to the issuance of the Bonds thereby changing the status of the note from secured to unsecured. The pro-forma coverage indicated reflects this change.

Based on the Bond Coverage at April 30, 1981, the Company would be able to issue approximately $32,000,000 of additional bonds at an assumed interest rate of 16.00%.

CAPITALIZATION

The consolidated capitalization and short-term bank loans as of March 31, 1981 were, and after giving effect to the sale of $30,000,000 of Bonds and the proposed capital contribution of approximately $8,500,000 from EUA, the application of the proceeds thereof and the related reductions o a $5,000,000 unsecured note due 1984 and in short-term bank loans will be, substantially as follows:

	Outstanding	To be Outstanding Amount	%
	(Thousands of Dollars)		
Long-Term Debt (a):			
First Mortgage and Collateral Trust Bonds(b)	$ 95,796	$125,796	
Notes Payable due 1984 and 1985(c)	15,000	10,000	
Unamortized Premium	181	181(d)	
Total Long-Term Debt	110,977	135,977	49.1
Redeemable Preferred Stock (net of related premium and expense)(e)	20,199	20,199	7.3
Non-Redeemable Preferred Stock (net of related premium and expense)(e)	8,950	8,950	3.2
Common Equity:			
Common Stock ($25 par value) 2,891,357 shares authorized and outstanding	72,284	72,284	
Other Paid-In Capital	5,785	14,285	
Appropriated Retained Earnings	821	821	
Consolidated Retained Earnings(f)	24,497	24,497	
Total Common Equity	103,387	111,887	40.4
Total Capitalization	$243,513	$277,013	100.0
Short-Term Bank Loans of the Company	$ 8,200	$ —	
Short-Term Bank Loans of Montaup	29,600	4,600	
Consolidated Bank Loans	$ 37,800	$ 4,600	

(a) See Consolidated Statement of Capitalization and Note F of Notes to Consolidated Financial Statements for details of Long-Term Debt.

(b) While there is no limit, as such, on the amount of additional first mortgage and collateral trust bonds which may be issued upon compliance with the conditions provided in the indenture, see "Use of Proceeds and Construction and Financing Program" with respect to earnings coverage requirements on the issue of such bonds. Also see "Description of the Bonds — Issuance of Additional Bonds and Withdrawal of Cash Deposited Against Such Issuance".

(c) Certain securities of Montaup owned by the Company are pledged to secure $10,000,000 of such notes; however, see "Use of Proceeds and Construction and Financing Program" regarding the release of these securities.

(d) Plus premium, if any, less expenses of issue.

(e) See Consolidated Statement of Capitalization and Notes C and D of Notes to Consolidated Financial Statements for details of preferred stock.

(f) See "Description of the Bonds — Dividend Restriction" and Note E of Notes to Consolidated Financial Statements for restriction on retained earnings available for payment of dividends on common stock.

RATES

The rates for services rendered by the Company are subject to approval by and are on file with the Massachusetts Department of Public Utilities (the "DPU"). Rates charged by Montaup (which sells power only for resale) are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). For the twelve months ended March 31, 1981 Montaup's operations provided 86% of the Company's Consolidated Operating Revenues and 83% of its Consolidated Net Income.

General rate increases granted the Company and Montaup, since the beginning of 1977, are as follows:

	Applied For		Made Effective	
	Annual Revenue	Application Date	Annual Revenue	Effective Date
Massachusetts				
The Company	$4,006,430	07/15/77	$1,260,112	02/08/78
			626,961	04/13/78
	2,099,481	12/15/78	375,756	05/14/80
	9,550,677	05/15/80	5,380,107(a)	11/26/80
Federal				
Montaup	1,672,400	06/27/77	1,341,011	01/01/78
	3,720,697	06/28/78	1,636,464	11/29/78
	10,722,862	07/11/80	9,100,000(b)	12/01/80
	7,879,604(c)	12/19/80	7,879,604	02/19/81

(a) Based on an allowed rate of return on common equity of 14.0%.

(b) An interim settlement of $9,500,000 which was effective as of October 1, 1980 was subsequently reduced to $9,100,000 in a final settlement made effective December 1, 1980.

(c) $8,982,604 originally applied for was subsequently reduced by Montaup to $7,879,604. The increase, which was based on a requested return on common equity of 18%, was made effective subject to refund after a one-day suspension. There is no assurance as to what amount will ultimately be granted.

It is anticipated that both the Company and Montaup will be filing for further rate increases by August 15, 1981.

Massachusetts

Effective April 1, 1978 the Company was authorized by the DPU to institute a forward-looking purchased power adjustment clause thereby removing the two-month lag in recovery of costs under previous clauses; changes in the adjustment clause or the amounts charged under it are the subjects of quarterly hearings. Beginning in the second quarter of 1978 the Company was allowed by the DPU to recover purchased power costs previously unbilled as the result of its transition to the forward-looking purchased power clause.

On December 29, 1977, the DPU promulgated regulations which will require electric utilities to adopt mandatory rate structures based on peak load and time differential pricing and related cost

methodology. The new regulations took effect on January 6, 1978 and were intended to be implemented over a nine-month period. The Company, along with the majority of the Massachusetts electric utilities, was unable to meet the nine-month deadline and received an extension. The Company has filed with the DPU a plan for implementing such rates. It is expected that the implementation period will be of considerable duration.

Federal

Montaup's December 19, 1980 request to FERC originally sought additional wholesale revenues aggregating $8,982,604 on an annual basis. Montaup subsequently reduced the request to $7,879,604. Such request included a return on common equity of 18.0%. Montaup requested that the new rates become effective, subject to refund, on February 19, 1981, after a one-day suspension. Requests for intervention have been filed by Montaup's four non-affiliated wholesale customers and by the Attorneys General of Rhode Island and Massachusetts and by the Rhode Island Public Utilities Commission and its Division of Public Utilities and Carriers. At its public meeting on February 13, 1981, FERC granted Montaup's requested one-day suspension and permitted an increase of $7,879,604 to be put into effect, subject to refund, on February 19, 1981.

SELECTED CONSOLIDATED FINANCIAL DATA

	For the Years ended December 31,					Twelve Months Ended March 31,
	1976	1977	1978	1979	1980	1981
			(In thousands)			
Operating Revenues	$138,946	$144,791	$141,712	$168,127	$224,221	$235,530
Consolidated Net Income from Continuing Operations	8,122	6,483	10,085	10,895	11,138	10,712
Total Assets	232,543	249,042	260,700	290,858	328,956	332,016
Long-Term Debt	100,116	96,219	96,202	100,985	110,982	110,977
Redeemable Preferred Stock	5,921	5,921	5,921	5,607	20,199	20,199
Non-Redeemable Preferred Stock	8,950	8,950	8,950	8,950	8,950	8,95
Ratio of earnings to fixed charges (as defined)(a)						
Actual	2.66	1.88	2.43	2.04	1.78	1.88
Pro Forma	—	—	—	—	—	2.27

(a) For the purposes of determining these ratios, earnings have been computed by adding income after interest charges, excluding the Company's portion of undistributed income of nuclear generating companies attributable to Montaup, taxes based on income and fixed charges. Fixed charges include interest expense, amortization of debt expense less premium and one third of total rentals paid. The pro-forma ratio of earnings to fixed charges for the twelve months ended March 31, 1981 after giving effect to the issuance of $30,000,000 of Bonds at an assumed interest rate of 16.00% (annual interest requirement of $4,800,000), the proposed capital contribution of approximately $8,500,000 from EUA and prepayment of a $5,000,000 unsecured note due 1984 and the reduction of short-term bank loans would be 2.27. A difference of ⅛% in the assumed interest rate on Bonds would change this pro-forma ratio by approximately 0.0059.

Annual interest on first mortgage bonds outstanding on March 31, 1981 was approximately $8,267,000. Annual interest on first mortgage bonds outstanding after giving effect to the sale of the Bonds will be $

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Summary

In reviewing the following analysis, reference should be made to the Consolidated Financial Statements appearing elsewhere in the Prospectus. Consolidated Net Income in 1980 increased 2.2% from 1979 and 1979 increased 8.0% from 1978. The 1980 results were increased by $1.2 million because of an adjustment which resulted from an amended rate order of the DPU. See also Note A of Notes to Consolidated Financial Statements. Cash construction requirements totaled $21.8 million, $20.9 million and $18.8 million, respectively, for the years 1980, 1979 and 1978. Internally generated funds provided none, $4.5 million and $7.6 million of the cash necessary to meet the above-mentioned construction program with the remaining requirements being provided from external sources which are more fully explained under "Liquidity and Sources of Capital".

Results of Operations

Operating Revenues in 1980 increased $56.1 million over 1979 and in 1979 increased $26.4 million over 1978. Approximately 90.9% of the 1980 increase in operating revenues and 97.7% of the 1979 increase were due to significant increases in fossil fuel costs which are, after regulatory review, automatically passed on to customers. The remaining increases in 1980 revenues came from the billing of higher base rates, although these higher rates were slightly offset by lower kilowatthour consumption by customers. This reduction in kilowatthour sales is attributed to the implementation of energy conservation measures by customers and to the generally weak economic conditions that prevailed in 1980.

Approximately 83% of Montaup's generating capacity is fueled by oil. As indicated in the preceding paragraph, the cost of fossil fuel burned in generating stations significantly increased during 1980 and 1979. During 1980, the price per barrel of oil increased from $19 in January to $32 in December. These increases raised fuel expense by $51.0 million or 62.1% over 1979, despite a slight decrease in kilowatthour sales. 1979 fuel expense increased by $25.8 million or 45.9% over 1978 and the cost per barrel of oil increased from $11.42 in January to $19.00 at year end, 1979.

Purchased power expense increased by $4.4 million or 19.8% in 1980. Most of the increase reflects additional maintenance and safety analysis work required at nuclear generating plants in which Montaup has ownership interests or unit contracts. The safety analysis work has been required by the Nuclear Regulatory Commission ("NRC") as a result of findings in its ongoing investigation of the Three Mile Island nuclear plant incident.

Allowance for Funds Used During Construction ("AFUDC") represents the net cost, during the period of construction, of borrowed funds used for construction purposes and a reasonable rate upon equity funds when so used. AFUDC represents a non-cash element of income. The Company and Montaup experienced increases in the level of AFUDC (both equity and debt) totaling $3.6 million in 1980 and $2.4 million in 1979. Continuing expenditures for the construction of future generating facilities have resulted in significant increases in the level of construction work-in-progress balances to which the AFUDC rate is applied. In addition, because of substantially higher borrowing costs to the Company and Montaup, the AFUDC rate has been increased from 8.5% in early 1978 to 11.5% in 1979 to 14.5% in 1980. AFUDC has also become a larger component of consolidated net income increasing from 38.0% in 1978 to 56.9% in 1979 and to 88.4% in 1980.

Increases in interest on long-term debt and other interest expense are reflective of the Company's and Montaup's continuing need to borrow funds to meet those cash requirements of its construction program which cannot be met with internally generated funds. Interest on long-term debt increased by \$.8 million or 9.2% in 1980 primarily as a result of increases in the prime borrowing rate and the issuance of \$15 million of 14¼% bonds in October 1980. The increase of approximately \$1 million in 1979 was as a result of an additional \$5 million in term notes payable being outstanding for most of 1979. In 1980, other interest expense increased \$2.0 million to \$6.8 million. This increase was primarily the result of the continuation of an extremely high level of short-term borrowings for most of the year and record high prime borrowing rates. The issuance of \$15 million of bonds and \$15 million of preferred stock in October 1980 has enabled the Company and Montaup to reduce substantially their level of short-term borrowings. Other interest expense increased \$1.8 million in 1979 as a result of an increased level of short-term borrowings and higher borrowing rates.

Preferred dividends of the Company increased by \$.4 million in 1980 as a result of the dividend requirements on a \$15 million issue of 15.48% preferred stock in October 1980.

Consolidated net income was \$11.1 million in 1980 as compared to \$10.9 million in 1979 and \$10.1 million in 1978. The growth in consolidated net income has been severely restricted by substantial increases in purchased power and interest expense not being offset by increases in kilowatthour sales and by the lack of adequate and timely rate relief.

Liquidity and Sources of Capital

The Company and Montaup are required to make substantial capital expenditures in order to meet the needs of existing customers and to meet the future requirements of these customers as well as new customers. As is customary in the utility industry, construction requirements in excess of internally generated funds are obtained through short-term borrowings which are ultimately funded with permanent capital. In 1978 and 1979, the Company's and Montaup's cash construction requirements were \$18.7 million and \$20.9 million, respectively, and they were able to generate 40.6% and 21.5%, respectively, of such requirements with internally generated funds with the balance coming from short-term borrowings. In 1980, internally generated funds produced none of the \$21.8 million in cash construction requirements primarily because of the extremely high cost of short-term borrowings which were not recovered in rates and by the inability to obtain adequate rate relief on a timely basis. All of the cash construction requirements were funded with short-term bank borrowings, some of which were subsequently permanently funded with the issuance of bonds and preferred stock referred to above.

Current regulatory practices do not permit the Company or Montaup to earn a cash return on new facilities until they are in service. Since the Company and Montaup expect their cash construction requirements to remain at or above current levels, they will be required to raise large amounts of permanent capital. Such capital is expected to be raised through the issuance of additional first mortgage bonds and preferred stock.

The completion of approximately \$30 million in permanent financing during late 1980 has enabled the Company and Montaup to reduce their dependence on short-term bank borrowings and consequently reduce their bank credit lines. At year end 1980 they had \$55.1 million in bank credit lines of which \$31.4 million was being utilized. The ability to reduce short-term borrowings further will be dependent on the Company's ability to sell additional amounts of permanent securities.

The consolidated capitalization, including short-term debt, at year end 1978, 1979 and 1980, was as follows:

	1978		1979		1980	
			(In Thousands)			
Long-Term Debt	$ 96,202	42.4%	$100,985	40.0%	$110,982	40.5%
Redeemable Preferred Stock	5,921	2.6	5,607	2.2	20,199	7.4
Non-Redeemable Preferred Stock	8,950	4.0	8,950	3.6	8,950	3.3
Common Equity	90,278	39.8	99,077	39.3	102,210	37.3
Short-Term Debt	25,450	11.2	37,500	14.9	31,450	11.5
	$226,801	100.0%	$252,119	100.0%	$273,791	100.0%

See Table under "Business — Rates" for a summary of recent rate increase requests. The wholesale rate increase settlement of Montaup, received in late 1980, allowed the use of tax normalization of the debt component of AFUDC and a cash recovery over a five-year period of Montaup's $2.1 million investment in a nuclear project that was cancelled in 1979. These items will provide additional cash flow to meet construction program expenditures.

The ability to raise the required amounts of permanent capital will be contingent upon the ability of the Company and Montaup to obtain increased rate relief in amounts that will enable the Company to meet coverage tests required for the issuance of bonds and preferred stock. In addition, higher earned returns on equity will be required to make the Company's securities more attractive to investors.

Impact of Inflation

Inflation has become a significant element in the operation of a regulated electric utility system. The traditional use of a historical test period for rate making purposes no longer provides a reasonable opportunity for the Company to actually earn a fair return on invested capital. This is evidenced by the comparatively low level of return on equity earned by the Company and Montaup over the last few years. Accordingly, the Company has included requests for "attrition" or "inflation" allowances in its last rate increase filing and will continue to pursue these and other innovative concepts in an effort to reduce the effects of inflation on the results of operations. Although Montaup is permitted by FERC to utilize a forward-looking test period for rate making purposes it has experienced difficulty in earning its allowed returns because inflation has been increasing at a faster rate than anticipated in the future test year. The Financial Accounting Standards Board has developed certain measurement bases for reflecting the effects of inflation. See "Supplementary Information to Disclose the Effects of Changing Prices" for a disclosure of these measurement bases. Explanatory comments are included in those disclosures on the effects of changing prices on the Company's and Montaup's operations.

Twelve Months Ended March 31, 1981 Compared to Year Ended December 31, 1980

Operating Revenues increased $11.3 million or 18.6% due to continued increases in fossil fuel costs and the billing of higher base rates resulting from rate increases granted in late 1980 and in February 1981. Fuel expense increased by $6.5 million or 16.8% as a result of continued increases

in the price of oil burned in generating plants. Income and Deferred Taxes increased by $2.3 million as a result of higher taxable income and higher deferred taxes resulting from the use of tax normalization on the debt component of AFUDC. Total AFUDC increased $.6 million as a result of increased amounts of construction work in progress. Interest on Long-term Debt and Other Interest Expense increased by approximately $.7 million primarily as a result of a larger amount of long-term debt outstanding and higher prime borrowing rates. Preferred dividends increased $.6 million as a result of the issuance in October 1980 of $15.0 million of new preferred stock. The rate increases granted in late 1980 and early 1981 have permitted the Company and Montaup to improve their Sources of Capital and Liquidity.

GENERAL PROBLEMS OF THE UTILITY INDUSTRY

In addition to the problems described under "Business — Uncertainties Regarding Nuclear Plants", the Company and Montaup face, in varying degrees, problems common to the electric utility industry in general, including the effects of inflation upon the cost of operations and upon construction expenditures; difficulties in financing a large construction program (see "Use of Proceeds and Construction and Financing Program"); uncertainties as to the availability and cost of fuel, and governmental restrictions on its use (see "Business — Fuel for Generation" and "Regulatory and Environmental Requirements"), difficulties in obtaining prompt and adequate rate relief (see "Rates"); increased costs attributable to regulatory requirements and environmental considerations (see "Regulatory and Environmental Requirements"); changes in consumer demand, as influenced by energy conservation, and the consequent difficulty in planning the amount of generating capacity needed; and legislation, litigation, technical and operational problems and concern by some segments of the public with respect to nuclear generating units (see "Business — Uncertainties Regarding Nuclear Plants" and "Regulatory and Environmental Requirements").

BUSINESS

General

The Company supplies retail electric service in 22 cities and towns in southeastern Massachusetts. The largest communities served are the cities of Brockton and Fall River. The retail electric service territory covers approximately 390 square miles and has an estimated population of 438,000. In addition, Montaup provides wholesale electric service to the Retail Subsidiaries and to 4 other utility companies. During the twelve months ended March 31, 1981 consolidated operating revenues were 25.1% from residential customers, 21.3% from commercial customers, 7.7% from industrial customers, 33.2% from sales to other electric utilities and 12.7% from other sources.

Montaup owns all of the EUA System's generating facilities and also has arrangements for purchasing power from sources outside the System. Montaup is responsible for all of the transmission facilities of the EUA System. The rights of the Company under the contract which governs the purchases of power from Montaup by the Company and Blackstone (the "Montaup Contract"), together with the securities of Montaup (all owned by the Company), are pledged to secure outstanding bonds or other indebtedness.

All of the transmission facilities of the Company are interconnected with the New England transmission grid. There is no competition from other electric utilities within the retail territories served by the Company. Other electric utilities compete from time to time with Montaup in connection with its sales of electricity to its unaffiliated customers.

Through March 31, 1981 the maximum demand on the EUA System was 695 MW which occurred on July 21, 1980. Montaup's generating capacity of 936 MW consists of the following: oil-fired steam 750 MW, long-term arrangements in regional nuclear generating units 138 MW and gas turbines 48 MW. Montaup has several contracts for sales of unit power (78 MW) from certain of its generating sources. See "Business — Sources of Generation".

ew England Power Pool

Montaup and the Company are members of the New England Power Pool ("NEPOOL"), which is open to all investor-owned, municipal and cooperative electric utilities in New England, under an agreement which provides for coordinated planning of future facilities and operation of approximately 98% of existing generating capacity in New England and of related transmission facilities essentially as if they were one system. The NEPOOL Agreement imposes obligations concerning generating capacity reserve and the right to use major transmission lines, and provides for central dispatch of the generating capacity of the pool's members with the objective of achieving economical use of the region's facilities. Pursuant to the NEPOOL Agreement, interchange sales to NEPOOL are made at a price approximately equal to the fuel cost for generation without contribution to the support of fixed charges. Because of its participation in NEPOOL, the EUA System's operating revenues and costs are affected to some extent by the operations of other members.

Sources of Generation

Except for the two gas turbine units referred to in the table below, which are peaking units, Montaup's solely-owned generating capacity has not been increased since 1959 because the EUA

System has found it more economical to join with other utilities in the joint ownership of large units, and believes that spreading the System's sources of electricity among a number of plants improves the reliability of its power supply. Montaup's interests in five operating nuclear generating units represent 15.0% of its present capacity.

Generating Units in Service at December 31, 1980

Unit	Type	Owner	System Interest	In Service	Net Capability MW	System Share MW
Somerset, Nos. 5 & 6	Oil	Montaup	100%	1951–1959	198(6)	198(6)
Somerset, Nos. J1 and J2 ..	Gas Turbine	Montaup	100%	1970–1971	48	48
Yankee Rowe	Nuclear	Yankee Atomic Electric Company	4.5%(1)	1961	145	7
Connecticut Yankee	Nuclear	Connecticut Yankee Atomic Power Company	4.5%(1)	1968	575	26
Canal No. 1	Oil	Canal Electric Company	25%(2)	1968	568	142
Vermont Yankee	Nuclear	Vermont Yankee Nuclear Power Corporation	2.5%(1)	1972	528	9(7)(8)
Maine Yankee	Nuclear	Maine Yankee Atomic Power Company	4%(1)	1972	830	26(7)(8)
Pilgrim No. 1	Nuclear	Boston Edison Company	11%(2)	1972	670	70(7)
Cleary No. 9	Oil	City of Taunton	— (3)	1975	110	80(3)
Canal No. 2	Oil	Canal Electric Company and Montaup	50%(4)	1976	584	292
New Brunswick, Nos. 1, 2&3	Oil	New Brunswick Electric Power Commission	6.41%(5)	1976	400(5)	26(5)
Wyman No. 4	Oil	Central Maine Power Company	1.96%(4)	1979	615	12
Total						936

(1) Stock ownership.

(2) "Life of unit" purchase contracts (earliest normal expiration year 2000).

(3) Variable purchase contract. Amount under "System Share" represents estimated entitlement through October 31, 1981. Montaup's share is expected to decline each year thereafter until it ceases, now estimated to occur in 1990.

(4) Joint ownership.

(5) Share of contract of several New England utilities for balance of 10-year purchase, starting January 1, 1981 and ending October 31, 1985, of 133 MW (reduced from 400 MW).

(6) Active capability on January 1, 1981.

(7) After giving effect to life-of-unit resales to Newport Electric Corporation aggregating 10 MW for Vermont Yankee, Maine Yankee and Pilgrim No. 1.

(8) After giving effect to reduction in capacity available to EUA System as a result of agreement with certain municipal and cooperative utilities.

The aggregate estimated annual cost, for the EUA System, of commitments under all purchased power contracts at December 31, 1980 was approximately $27,586,000. See Note I of Notes to Consolidated Financial Statements.

Montaup's participation in present and future generating units of which it is not the sole owner takes various forms including stock ownership, joint ownership and purchase contract. In most cases, regardless of the form of participation, Montaup is or will be required to pay its share (i.e., the same percentage as the percentage of its entitlement to the output) of all of the costs of the unit including fixed costs (whether or not the unit is operating), operating costs, costs of additional construction or modification, costs associated with condemnation, shutdown, retirement, or decommissioning of the unit, and certain transmission charges.

Montaup and the other stockholders of Vermont Yankee Nuclear Power Corporation have agreed in principle to guarantee their respective pro rata shares of a $40,000,000 nuclear fuel financing; completion of the financing is subject to the receipt of regulatory approvals and the execution of definitive agreements. Montaup and the other stockholders of Connecticut Yankee Atomic Power Company have agreed to an interim financing arrangement under which each must purchase its pro rata share of up to $40,000,000 of Connecticut Yankee's subordinated notes to meet nuclear fuel financing obligations, construction expenditures and other needs. Through March 31, 1981, $21,000,000 principal amount of such notes had been issued, of which Montaup had purchased $945,000. Connecticut Yankee has also proposed that its stockholders guarantee their respective pro rata shares of a proposed bank line of credit of up to approximately $25,000,000 and a debenture issue of up to $75,000,000; the proceeds of the debentures would be used in part to repay the subordinated notes. The Company believes that the Yankee companies will require additional external financing in the next several years and that Montaup may be asked to provide its pro rata share of additional equity capital or other kinds of financial support.

Because of the rapidly escalating cost of oil Montaup is studying the possibility of converting to alternate fuels, such as coal or natural gas, at its Somerset plant. Such a conversion, particularly to coal, could require significant capital expenditures and could require certain variances from environmental requirements.

The EUA System's share of units presently in service provides sufficient capacity to meet the System's estimated load and reserve requirements through at least the mid-1980's. Based on present estimates of load growth, should any of the nuclear units currently under construction not come into service on schedule, the EUA System might not be able to meet its reserve requirements under the NEPOOL agreement from its existing entitlements. Should such a deficiency materialize, the EUA System would consider purchasing power from other NEPOOL members or reactivating one or both of units Nos. 1 and 2 (82 MW) at its Somerset station.

Uncertainties Regarding Nuclear Plants

Nuclear generating facilities, including those in service in which Montaup participates as shown in the table above and those under construction or projected in which Montaup has an ownership

interest as described in the table below, are subject to extensive regulation by the NRC, which has assumed the licensing and related regulatory functions formerly performed by the Atomic Energy Commission. The NRC is empowered to authorize the siting, construction and operation of nuclear reactors after consideration of public health, safety, environmental and antitrust matters.

Administrative or judicial proceedings are pending with respect to certain of the existing and projected nuclear units in which Montaup has an interest. In addition, various groups have filed law suits, introduced legislation and participated in administrative proceedings seeking to prohibit the construction and operation of nuclear units and the disposal of nuclear waste. Although the Company is unable to predict the outcome of any such actions, the owners' ability to construct or operate such units could be adversely affected or terminated thereby. If construction of any unit were cancelled, the cost, depending on the circumstances, could substantially exceed the owners' investment at the time of cancellation. In addition, in jointly owned projects, Montaup is subject to the risk that another participant may be unable to finance its share of the construction or operating costs of the project.

Jointly Owned Generating Units under Construction or Projected

Unit	Type	Lead Participant	Estimated In Service Date(1)	Estimated Net Capability MW	SYSTEM SHARE %	SYSTEM SHARE Estimated Net Capability MW	SYSTEM SHARE Estimated Construction Cost (1)(2) (Thousands)
Seabrook No. 1 . .	Nuclear	Public Service Company of New Hampshire	1984	1,150	2.90	33	$ 72,100
Seabrook No. 2 . .	Nuclear	Public Service Company of New Hampshire	1986	1,150	2.90	33	50,100
Millstone No. 3 . .	Nuclear	Subsidiary of Northeast Utilities	1986	1,150	4.01(3)	46	126,400
Pilgrim No. 2 . . .	Nuclear	Boston Edison Company	1987	1,150	2.15	25	—

(1) The completion dates of these units have been deferred from time to time and additional deferrals are likely to occur due to licensing delays, economic and political conditions and other factors. Deferrals have the effect of significantly increasing the cost of a unit.

(2) Estimated construction expenditures relating to the jointly owned units shown above are based upon information furnished by the utility responsible for the construction of each unit. Montaup has been advised by each of the sponsoring utilities that construction budgets are continuously under review in light of increased costs due to deferrals, delays and other factors. The utility responsible for construction of Pilgrim No. 2 has announced that due to uncertainties resulting from the Three Mile Island accident and the timing of construction of the plant, it has not recently prepared revised estimates of construction expenditures. No estimate is reflected for Pilgrim No. 2 for that reason. The estimated expenditures, completion dates and completion of all the above units may also be affected by the various factors referred to below and other events and conditions which cannot now be predicted.

(3) See below regarding Montaup's offer to sell a 2.00% share of this unit.

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

The necessary approvals and permits for the construction of the Seabrook 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 1981 (see below). Significant delays (including the suspension of construction for seven months in 1977 and three weeks in 1978) resulting from such opposition have greatly increased costs. There is still one court appeal from an early NRC order pending. In addition, on September 22, 1980 the NRC remanded to the Appeal Board for further limited evidentiary hearing questions relating to the seismic design of the facility. That hearing record was closed on April 9, 1981 and the matter is pending a decision by the Appeal Board. Further proceedings before the NRC relating to the licensing of the units will be required for operation, and other proceedings and appeals are possible. The Company is unable to predict the outcome or timing 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 Montaup.

Public Service Company of New Hampshire ("PSNH"), the utility responsible for construction of the Seabrook units, has been and is experiencing difficulties in financing its construction program, including its share (originally 50%) of the Seabrook units. In view of these difficulties, PSNH initiated efforts to sell a 22% ownership share in the units to other utilities. PSNH has obtained commitments (subject in some cases to the obtaining of regulatory approvals or financing) for sales aggregating about a 15% share to various New England utilities, including 1% to be sold to Montaup over an adjustment period which commenced January 31, 1981. Each utility acquiring an ownership interest does so gradually over an adjustment period, paying pro rata the costs otherwise attributable to PSNH's ownership interest until such acquiring utility's investment in the Seabrook project equals the percentage for which it has committed. Montaup's additional 1% will increase its ownership interest in each of the two units to 2.9%.

On April 10, 1981 PSNH announced that the in-service dates for the units were being deferred until 1984 and 1986. In addition, PSNH announced cost increases for Unit Nos. 1 and 2 which for Montaup amount to approximately $11,000,000 before AFUDC.

Montaup has been advised that at December 31, 1980, engineering on Millstone Unit No. 3 was approximately 73% complete and construction was approximately 33% complete. The Environmental Protection Agency ("EPA") has approved the use of a once-through cooling water system for this unit, but the approval is subject to revision. A construction permit was issued by the NRC in August 1974 and expires in December 1985. It is expected that a provisional operating license will be obtained, or that the construction permit will be extended, before the current expiration date. Each of the three utilities which own in the aggregate 65% of the unit has stated that it wishes to reduce its ownership in Millstone Unit No. 3 and that in the aggregate they have offered for sale up to 8.7% of their ownership.

The reduced consumption of electricity which the EUA System has experienced from customer conservation efforts has resulted in a lowering of the estimated amount of new generating facilities needed by the System. As a result Montaup has made an offer to sell approximately half of its

4.01% interest in the proposed Millstone Unit No. 3. There is no assurance that there will be any other utility interested in buying such interest or that a sale, if agreed to, will receive the necessary regulatory approvals.

Montaup also has a 2.15% ownership interest in a planned nuclear unit, Pilgrim Unit No. 2. Boston Edison Company, the lead participant, has stated that when a more definitive schedule is set for the granting of the construction permit it will be able to develop revised cost estimates and financing plans and that at that time it will also review the feasibility of the project and decide whether to cancel or continue construction of the Unit.

See Note H of Notes to Consolidated Financial Statements regarding the abandonment loss, in 1980, in connection with Montaup's 2.00% ownership interest in the Montague nuclear units. In 1979 Montaup incurred an abandonment loss in connection with its 4.35% ownership interest in two nuclear generating units designated as NEP 1 and 2 (lead participant, New England Power Company) which had been proposed for construction at a site in Charlestown, Rhode Island.

Events at the Three Mile Island Nuclear Unit No. 2 in Pennsylvania ("TMI"), which have resulted in numerous legal actions seeking damages, have prompted a rigorous reexamination of safety-related equipment and operating procedures in all nuclear facilities. The NRC has promulgated numerous requirements in response to TMI, including both near-term modifications to upgrade certain safety systems and instrumentation and long-term design changes which affect items ranging from equipment changes to operational support. All nuclear facilities, including those in which Montaup has an interest, will have to comply with these modifications. However, until the scope of these improvements, as they apply to particular reactors, and the time schedules for compliance have been defined by the NRC, neither the cost of any modifications, which is expected to be substantial, nor their effect, if any, on the operations of particular units nor the method by which their owners will raise the needed capital can be determined. Montaup will be responsible for its proportionate share of the costs of such modifications to units in which it has interests.

The Federal Price-Anderson Act provides, among other things, that the maximum liability for damages resulting from a nuclear incident would be $560,000,000, to be provided by private insurance and governmental sources. As required by the NRC regulations, prior to operation of a nuclear reactor, the licensee of the reactor is required to insure against this exposure by purchasing the maximum available private insurance (presently $160,000,000), the remainder to be covered by retrospective premium insurance and by an indemnity agreement with the NRC. Owners of operating nuclear facilities may be assessed a retrospective premium of up to $5,000,000 for each reactor owned in the event of any one nuclear incident occurring at any reactor in the United States, with a maximum assessment of $10,000,000 within any one calendar year per reactor owned. As a part owner of operating nuclear facilities, Montaup would be obligated to pay its proportionate share of any such assessment.

Fuel for Generation

The availability and cost of fuel to Montaup and to other owners of units burning residual oil in which Montaup has an interest could be adversely affected by policies of oil-producing nations, other factors affecting world supplies and domestic governmental action. Approximately 50% of the residual fuel is imported. It is impossible to predict the impact on Montaup's operations of possible action of Congress or the President with respect to import fees, duties or quotas on oil or restriction on the use of oil for the generation of electricity.

Montaup has agreements with two suppliers for the purchase of 100% of its oil requirements for its Somerset station. The agreements are renewed automatically unless terminated by the respective supplier or Montaup. During 1980, Montaup had an average inventory of 332,500 barrels of fuel oil for its steam generating units at the Somerset Station, the equivalent of 67 days' supply under present load conditions. Montaup's weighted average price per barrel of oil for the years 1978 through 1980 was $11.48, $15.96 and $22.68, respectively. The price of oil in April 1981 averaged approximately $32.75 per barrel.

Canal Electric Company, on behalf of itself and Montaup, has, since January 1, 1981, been negotiating a contract with a single supplier for the fuel-oil requirements of Canal Unit Nos. 1 and 2 for the period ending June 30, 1985. The contract, when signed, will permit limited purchases from other suppliers.

Montaup's costs of fossil and nuclear fuels for the years 1978 through 1980 and for the twelve months ended March 31, 1981, together with the weighted average cost of all fuels, are set forth below:

	Mills per kwh			Twelve Months Ended
	1978	1979	1980	March 31, 1981
Fossil (oil)	18.1	25.1	35.3	40.6
Nuclear	3.0	3.5	4.9	5.0
All Fuels	14.3	19.6	30.8	32.6

The rate schedules of the Company are designed to pass on to customers the increases and decreases in fuel costs and the cost of purchased power, subject to review and approval by appropriate regulatory authorities.

The owners (or lead participants) of the nuclear units in which Montaup has an interest have made, or expect to make, various arrangements for the acquisition of uranium concentrate, the conversion, enrichment, fabrication and utilization of nuclear fuel and the disposition by reprocessing or storage of that fuel after use. Montaup is aware that various electric utilities have been unable to obtain contracts for adequate nuclear fuel supplies and that additional difficulties have been encountered because of a lack of domestic reprocessing facilities and because of objections on environmental and other grounds to proposals for storage and disposal of spent fuel. The Company cannot predict the extent to which such problems will affect fuel or other costs for nuclear units in which Montaup is participating.

Employees and Service Arrangements

As of March 31, 1981, the Company and Montaup had 493 permanent employees. Relations with employees are considered to be satisfactory. Labor union contracts covering employees of Montaup and certain employees of the Company in the Fall River area expire on September 14, 1983 and June 2, 1983, respectively.

EUA Service Corporation performs, at cost, administrative, engineering, planning, financial, accounting and other services for the EUA System including the Company and Montaup.

EASTERN EDISON COMPANY AND SUBSIDIARY

CONSOLIDATED OPERATING STATISTICS

	Year Ended December 31, 1978	1979	1980	Twelve Months Ended March 31, 1981
Number of Customers at End of Period:				
Residential	132,657	134,356	136,551	136,654
Commercial	13,003	13,215	13,477	13,518
Industrial	596	586	581	579
Other electric utilities	14	15	16	16
Other	159	137	23	23
Total customers	146,429	148,309	150,648	150,790
Operating Revenues (Thousands):				
Residential	$ 41,050	$ 45,328	$ 56,209	$ 59,072
Commercial	33,693	37,638	47,749	50,101
Industrial	11,794	14,008	17,416	18,094
Other electric utilities	44,792	54,605	74,489	78,283
Other	4,942	5,282	5,447	5,645
Total primary sales revenues	136,271	156,861	201,310	211,195
Unit contract	5,441	11,266	22,911	24,335
Total operating revenues	$141,712	$168,127	$224,221	$235,530
Average Revenue Per Residential Customer (Dollars)	310	337	412	432
Average Use Per Residential Customer (kwh)	6,226	6,274	6,152	6,220
Average Revenue Per kwh (Cents):				
Residential	4.98	5.38	6.69	6.95
Commercial	4.58	4.96	6.27	6.52
Industrial	4.14	4.48	5.71	5.91
Energy Sales (Millions kwh):				
Residential	824	843	840	850
Commercial	734	759	762	768
Industrial	285	313	305	306
Other electric utilities	1,617	1,623	1,639	1,634
Other	23	25	24	24
Total primary sales	3,483	3,563	3,570	3,582
Losses and company use	208	166	177	145
Total system requirements	3,691	3,729	3,747	3,727
Unit contract	234	386	586	577
Total generated and purchased	3,925	4,115	4,333	4,304
Source of Electric Energy (%)				
Fossil	78.0	78.1	83.0	77.5
Nuclear	22.0	21.9	17.0	22.5
Source of Electric Energy (Millions kwh):				
Generated—by EUA System	660	792	1,041	1,007
—by equity-owned nuclear units	1,865	479	398	459
—by jointly-owned units	530	1,795	1,746	1,745
Interchange with NEPOOL	(620)	(600)	(263)	(373)
Power Purchased—unit power	1,490	1,649	1,411	1,466
Total generated and purchased	3,925	4,115	4,333	4,304
Peak Load (Kilowatts)	671,700	677,000	694,500	694,500

REGULATORY AND ENVIRONMENTAL REQUIREMENTS

Public Utility Regulation

The Company and Montaup are subject to regulation by the DPU with respect to the issuance of securities, the form of accounts, rates to be charged (in the case of the Company), service to be provided and other matters. In addition, by reason of its ownership of fractional interests in certain facilities located in states other than Massachusetts, Montaup is or may be subject to regulation of activities in those states.

All companies in the EUA System are subject to the jurisdiction of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935 by virtue of which such Commission has certain powers of regulation, including jurisdiction over the issuance of securities, change in the terms of outstanding securities, acquisition or sale of securities or utility assets or other interests in any business, intercompany loans and other intercompany transactions, payments of dividends under certain circumstances, and related matters. The Company, insofar as it may be deemed to be a holding company under such Act by reason of its ownership of securities of Montaup, has been exempted from registering under such Act as a holding company by complying with the applicable rules thereunder.

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

Significant regulatory problems are involved in the construction and operation of generating units, particularly nuclear units. Licenses, permits and approvals for construction and operation are required from various governmental regulatory agencies, including the EPA in the case of all units (see "Environmental Regulation" below) and the NRC in the case of nuclear units (see "Business — Uncertainties Regarding Nuclear Plants").

Environmental Regulation

Montaup and the other companies owning generating units from which it obtains power are subject, like other electric utilities, to developing standards administered by federal, state and local authorities with respect to the siting of facilities and environmental factors. The EPA has jurisdiction over discharges into both water and air and has broad authority in connection therewith including the ability to require installation of pollution control and mitigation devices.

The Federal Water Pollution Control Act establishes a national objective of complete elimination of discharges of pollutants (including heat) into the nation's waters and creates a rigorous permit program designed to achieve these effluent limitations. All water discharge permits for plants in Massachusetts, including those for the Somerset and Canal plants, are issued by the state Department of Environmental Quality Engineering, subject to review by the EPA. The Federal Clean Air Act empowers the EPA to establish clean air standards, including standards limiting the sulfur content of fuel burned for electric generation, which are implemented and enforced by state agencies.

Both federal and Massachusetts legislation require consideration of reports evaluating environmental impact as a prerequisite to the granting of various permits and licenses, with a view to mini-

mizing environmental damage. Massachusetts air quality regulations also require that plans (including procedures for operation and maintenance) for construction or modification of fossil fuel generating facilities be approved by the Department of Environmental Quality Engineering. In addition, in Massachusetts, certain electric generation and transmission facilities on which construction commenced after April 1976 will be permitted to be built only if they are consistent with a long-range forecast filed by the utility concerned and approved by the Energy Facilities Siting Council.

Montaup and the companies and municipalities with which it has power supply arrangements are also subject, like other electric utilities, to regulation with regard to zoning, land use and similar controls by various state and local authorities. Under federal energy legislation adopted in 1978 the Secretary of Energy has authority with respect to existing electric power plants to prohibit the burning of oil, but only after finding that a plant has the capability to use coal without substantial physical modification and that the use of coal is financially feasible. Exemptions relating to environmental requirements and other factors are provided. The Department of Energy ("DOE") has issued complex rules under this legislation. Montaup has been informed that the DOE has included Canal Unit No. 1 in a list of oil-fired electric generating facilities which may be required to be converted to an alternate fuel. The Company is unable to predict the effect of this legislation on its sources of power.

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

Other activities of Montaup from time to time are subject to the jurisdiction of various other state and federal regulatory agencies.

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

Environmental Permits

Through December 31, 1980, compliance with applicable environmental regulations required additional capital expenditures by Montaup of approximately $16,340,000 including approximately $13,841,000 for Montaup's ownership in the following units: Canal No. 2, $11,564,000; Wyman No. 4, $516,000; Millstone No. 3, $329,000; Pilgrim No. 2, $80,000; and Seabrook No. 1 and No. 2, $1,352,000. Montaup expects rapidly increasing expenditures to meet environmental requirements for the existing and proposed units in which it is participating.

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

All domestic fossil fuel plants from which Montaup obtains power operate under permits which limit their discharges into the air and require monitoring of the discharges. Air quality requirements adopted by state authorities in Massachusetts pursuant to the Clean Air Act impose limitations with respect to pollutants such as sulfur oxides, oxides of nitrogen and particulate matter. These limitations could not be complied with if Montaup were to burn coal with the present equipment in its Somerset plant and therefore the use of coal would require suspension of these air quality requirements or the installation of control devices. The Somerset plant and the Canal plant are permitted to burn fuel oil with a sulfur content not in excess of 1.21 pounds per million B.T.U. heat release potential (approximately 2.2% sulfur content fuel oil). Burning of such fuel is subject to conditions including provisions that fuel oil having not in excess of 1% sulfur content be used during air pollution emergencies.

National Energy Legislation

National energy legislation, dealing with coal conversion, gas deregulation, energy conservation, energy taxes and utility rate regulation, became effective in late 1978. One portion of this legislation, the Public Utility Regulatory Policies Act of 1978, is designed to affect state regulatory policies and bring about extensive changes in rate structures, pricing, and cost methodology. It is not possible at this time to predict what effects this legislation, and regulations adopted and proposed for adoption to implement it, will have on the Company and Montaup, including their rates and their fuel supply.

LEGAL OPINIONS

The legality of the Bonds is being passed upon for the Company by Messrs. Gaston Snow & Ely Bartlett, One Federal Street, Boston, Massachusetts, except that titles to property (excepting the securities of Montaup and the Montaup Contract) and franchises are being passed upon by Richard C. Reed, Esquire, 231 Main Street, Brockton, Massachusetts.

Certain legal matters in connection with the issuance of the Bonds are being passed on for the Purchasers by Messrs. Ropes & Gray, 225 Franklin Street, Boston, Massachusetts.

EXPERTS

Messrs. Gaston Snow & Ely Bartlett have reviewed the statements made herein as to matters of law and legal conclusions under "Business — New England Power Pool", "Business — Sources of Generation", "Regulatory and Environmental Requirements" (except the statements under "Environmental Permits") and "Description of the Bonds", except those reviewed by other counsel as next mentioned. Richard C. Reed, Esquire, has reviewed the statements made herein as to matters of law and legal conclusions under "Description of the Bonds — Kind and Priority of Lien" (except with respect to the securities of Montaup and the Montaup Contract). Such statements are included on the authority of such counsel as experts.

Alexander Grant & Company, independent certified public accountants, have, to the extent indicated in their report, examined the financial statements herein and such financial statements are included in reliance upon the opinion of that firm and upon their authority as experts in accounting and auditing.

DESCRIPTION OF THE BONDS

General

As used in the following description, the term "New Bonds" means the new series of First Mortgage and Collateral Trust Bonds offered hereby; and the term "bonds" means the New Bonds, the outstanding series of First Mortgage and Collateral Trust Bonds, and any additional series thereof which may be created in the future.

The New Bonds will be issued as a series of the Company's bonds, under the Indenture of First Mortgage and Deed of Trust, dated as of September 1, 1948, between the Company and State Street Bank and Trust Company, Boston, Massachusetts, Trustee, as supplemented and modified (the "Mortgage"), including a Thirteenth Supplemental Indenture to be dated as of July 1, 1981 (the "Supplemental Indenture") creating the New Bonds.

The statements herein concerning the New Bonds, the bonds, the Mortgage and the Supplemental Indenture are merely an outline and do not purport to be complete. Copies of the instruments constituting the Mortgage are filed as exhibits to the Registration Statement and reference is made thereto for further information including definitions of certain terms used herein.

Maturity, Interest, Payment and Redemption

The New Bonds will be issuable only as fully registered bonds without coupons in denominations of $1,000 or any multiple thereof, will mature July 1, and will bear interest at the rate shown in their title, payable semiannually on January 1 and July 1. The first interest period for the New Bonds will commence July 1, 1981. Principal and premium, if any, are payable at the office of the Trustee in Boston, Massachusetts, and in certain circumstances at other locations designated by the Company. Interest will, subject to certain exceptions, be paid by check to holders of record at the close of business on the June 15 or December 15, as the case may be, next preceding the interest payment date and will be payable in Boston, Massachusetts or New York, New York. New Bonds will be exchangeable for a like aggregate principal amount of New Bonds of other authorized denominations, and will be transferable, all at the office of the Trustee in the City of Boston, Massachusetts, without payment of any charge other than for any stamp tax or other governmental charge incident thereto. The terms of redemption are set forth under "Redemption Provisions of the Bonds".

Sinking and Improvement Fund

The Company is required to deposit with the Trustee by August 31 of each year, beginning in 1982, cash equal to 1% of the greatest aggregate principal amount of New Bonds authenticated and delivered prior to the July 10 next preceding such August 31. In lieu of depositing cash, the Company may (1) deliver New Bonds, (2) take credit for New Bonds redeemed within 12 months preceding such August 31 at the Special Redemption Price, (3) take credit for New Bonds redeemed at any time prior

to such August 31 at the Regular Redemption Price, or (4) relinquish the right to issue bonds (see "Issuance of Additional Bonds" below). All sinking fund cash is to be applied to the redemption of New Bonds at the Special Redemption Price.

Kind and Priority of Lien

The New Bonds, together with all other outstanding bonds, will be equally and ratably secured by a direct first mortgage lien on the Company's properties (except as stated below) and by pledge of all Montaup securities owned by the Company and the rights of the Company under the Montaup Contract, subject only to permitted encumbrances and to the prior lien of the Trustee for compensation and expenses. The following, unless specifically mortgaged or pledged, are excepted from the lien of the Mortgage: cash, choses in action, contracts and securities (other than Montaup securities and the Company's rights under the Montaup Contract); goods, merchandise and materials and supplies held for sale, lease or consumption; automobiles and trucks; office furniture and equipment; property not "bondable"; and certain property acquired by merger or consolidation.

The Mortgage by its terms covers the interest of the Company in all after-acquired Montaup securities and bondable property, subject, however, to any prior liens (within limits and subject to certain restrictions contained in the Mortgage) created or existing thereon at the time of acquisition. In the opinion of counsel, under Massachusetts law the provisions subjecting after-acquired property to the lien of the Mortgage may not be effective in some cases prior to the recording of a supplemental indenture specifically mortgaging or pledging the particular property. The Company covenants in the Mortgage to execute such supplemental indentures as may be required to perfect the lien of the Mortgage on the trust estate.

Dividend Restriction

So long as any of the New Bonds remain outstanding, the Company will not (a) declare or pay any dividend or make any distribution on any shares of its Common Stock (except a dividend payable in Common Stock) or (b) directly or indirectly through a subsidiary make any expenditures for the purchase, redemption or other retirement of any shares of its Common Stock (other than in exchange for, or from the proceeds of, new shares of its Common Stock) if the aggregate amount of all such dividends, distributions and expenditures made after January 31, 1953 would exceed the Company's net income available for dividends on its Common Stock accumulated after January 31, 1953. After giving effect to this restriction, $13,453,953 of the Company's retained earnings at March 31, 1981 was available for such dividends, distributions and expenditures as aforesaid. See also Note E of Notes to Consolidated Financial Statements for further information about dividend restrictions.

Replacement Fund

The Company is required to deposit with the Trustee prior to May 1 of each year cash or bonds equal to the excess of the "minimum provision for depreciation" for the preceding calendar year, over optional credits consisting of (1) available property additions not previously funded or used for the replacement fund, (2) available bond credits and/or (3) available Montaup securities. For this purpose the term "minimum provision for depreciation" means, so long as any of the New Bonds shall be outstanding, an amount equal to 2¼% per annum of the average book value of depreciable bondable

property (not subject to prior liens) determined as of the beginning and end of each year. "Bond credits" means unfunded bonds of any series evidenced to the Trustee which have been retired or for the retirement of which provision has been made. The Company may (a) withdraw cash or bonds held by the Trustee in such fund against the credits described in (1), (2) and (3) above, (b) reinstate bonds retired by, or bond credits taken against, the replacement fund, by depositing cash or using credits pursuant to (1) and (3) above, or (c) apply cash held by the Trustee in the fund to the redemption or purchase of bonds of any series at not exceeding the applicable Special Redemption Price.

Maintenance of Properties

Every five years an independent engineer is to examine the bondable property of the Company and report to the Company and the Trustee as to the due maintenance of such bondable property and the making of retirements thereof. Any reported maintenance deficiency is to be made good and reported retirements are to be recorded.

Issuance of Additional Bonds and Withdrawal of Cash Deposited Against Such Issuance

Subject to conditions and restrictions, certain of which are referred to under this subheading, additional bonds of any series may be issued in principal amounts equal to (1) 60% of the amount of available net additions; (2) the amount of cash deposited with the Trustee; (3) the principal amount of available bond credits; and (4) 60% of the amount of available Montaup securities.

Bonds may be issued pursuant to (1), (2) and (4) above (and in certain cases pursuant to (3) above) only if net earnings for a twelve-month period within the last fifteen months (calculated after provision for depreciation but before income taxes) shall have been at least twice the annual interest charges upon the outstanding bonds, the bonds then applied for, and outstanding prior lien indebtedness. Cash deposited with the Trustee pursuant to (2) above may be withdrawn to the extent of 60% of the amount of available net additions and/or available Montaup securities and 100% of available bond credits.

The New Bonds will be issued against available Montaup securities.

Defaults and Notice

A default is defined as (a) failure to pay the principal and premium when due or interest for 30 days after becoming due, (b) failure to satisfy any sinking, improvement, maintenance, or renewal and replacement fund obligation for 90 days after becoming due, (c) failure for 90 days after notice to observe other covenants or conditions, (d) entry of an order for reorganization or appointment of a trustee or receiver and continuance of such order or appointment unstayed for 90 days, (e) certain adjudications, petitions or consents in bankruptcy, insolvency or reorganization proceedings, and (f) rendering of a judgment or judgments in excess of $50,000 for any obligation of the Company and its continuance unsatisfied or unstayed for 90 days.

The Mortgage requires the filing with the Trustee of an annual officers' certificate as to the absence of default and as to compliance with the terms of the Mortgage.

Modification of Mortgage and Waiver of Default

The rights of the bondholders may be modified with the consent of the holders of not less than 66⅔% in principal amount of the bonds outstanding (including not less than 66⅔% of each series affected), except (a) to reduce, or extend the due dates of, principal, premium, or interest on bonds, (b) to impair or change the rank of the lien created by the Mortgage, or alter the equal and proportionate security of the Mortgage, or (c) to reduce the percentage of bondholders required to approve any supplemental indenture modifying or altering the Mortgage or the rights of the Company or the bondholders. The holders of 66⅔% or more in principal amount of the bonds outstanding (including not less than 66⅔% in principal amount of each series) may waive any past default and its consequences, except a default in the payment of principal, premium or interest on any bonds when the same becomes due by the terms thereof. Other modifications not adversely affecting interests of the holders of the bonds may be made with the consent of the Trustee without the consent of the bondholders.

The Trustee

State Street Bank and Trust Company, the Trustee, lends funds to the Company from time to time on a short-term basis.

Action by the holders of a majority in amount of the bonds outstanding is necessary to require the Trustee to enforce the Mortgage, but the Trustee is entitled to receive sufficient indemnity for any expenditures in such action or proceeding and under certain circumstances is not required to act.

AUDITORS' REPORT

To the Shareholder
EASTERN EDISON COMPANY AND SUBSIDIARY

We have examined the consolidated balance sheets and statements of capitalization of Eastern Edison Company (a Massachusetts corporation and wholly-owned subsidiary of Eastern Utilities Associates) and subsidiary as of December 31, 1980 and 1979 and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period 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 consolidated financial position of Eastern Edison Company and subsidiary at December 31, 1980 and 1979 and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1980 in conformity with generally accepted accounting principles applied on a consistent basis.

ALEXANDER GRANT & COMPANY

Boston, Massachusetts
March 12, 1981

EASTERN EDISON COMPANY AND SUBSIDIARY

CONSOLIDATED INCOME STATEMENT

(In Thousands)

	Years Ended December 31,			Twelve Months Ended March 31,
	1978	1979	1980	1981 (unaudited)
Operating Revenues (Note A)	$141,712	$168,127	$224,221	$235,530
Operating Expenses:				
Fuel	56,295	82,133	133,120	139,592
Purchased Power	21,168	21,994	26,383	26,725
Other Operation	22,448	23,328	25,297	26,088
Maintenance	3,911	3,887	5,168	5,369
Depreciation (Note A)	7,565	7,855	7,170	8,139
Taxes — Other Than Income	8,570	8,143	8,454	8,593
Income and Deferred Taxes (Notes A & B)	4,133	2,210	30	2,333
Total Operating Expenses	124,090	149,550	205,622	216,839
Operating Income	17,622	18,577	18,599	18,691
Equity in Earnings of Nuclear Generating Companies (Note A)	680	807	636	697
Allowance for Other Funds Used During Construction (Note A)	969	1,589	2,298	2,865
Other Income and (Deductions) — Net	99	263	291	434
Income Before Interest Charges	19,370	21,236	21,824	22,687
Interest Charges:				
Interest on Long-Term Debt	7,887	8,840	9,649	10,086
Other Interest Expense	2,916	4,763	6,811	7,043
Allowance for Borrowed Funds Used During Construction (Credit) (Note A)	(2,862)	(4,606)	(7,544)	(7,492)
Net Interest Charges	7,941	8,997	8,916	9,637
Income After Interest Charges	11,429	12,239	12,908	13,050
Preferred Dividends Requirement	1,344	1,344	1,770	2,338
Consolidated Net Income	$ 10,085	$ 10,895	$ 11,138	$ 10,712

CONSOLIDATED RETAINED EARNINGS STATEMENT

	1978	1979	1980	1981
Retained Earnings — Beginning of Period	$ 16,849	$ 18,517	$ 20,187	$ 21,935
Income After Interest Charges	11,429	12,239	12,908	13,050
Total	28,278	30,756	33,095	34,985
Dividends Paid:				
Preferred	1,344	1,344	1,770	2,338
Common	8,417	9,225	7,980	8,125
Miscellaneous Adjustments			25	25
Retained Earnings — End of Period (Note E)	$ 18,517	$ 20,187	$ 23,320	$ 24,497

The accompanying notes are an integral part of these statements.

EASTERN EDISON COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In Thousands)

	Years Ended December 31, 1978	1979	1980	Twelve Months Ended March 31, 1981 (unaudited)
Source of Funds:				
Internally Generated:				
Income After Interest Charges	$11,429	$12,239	$12,908	$13,050
Principal Non-Cash Charges (Credits) to Income:				
Depreciation (Note A)	7,650	7,942	7,158	7,914
Amortization	111	41	262	483
Deferred Taxes (Note A)	(254)	1,577	2,047	2,742
Investment Tax Credits — Net (Note A)	2,267	(364)	(3,131)	(3,012)
Equity in Undistributed Earnings of Nuclear Generating Companies (Note A)		(169)	(16)	(104)
Allowance for Funds Used During Construction (Note A)	(3,830)	(6,195)	(9,842)	(10,353)
Funds From Operations	17,373	15,071	9,386	10,715
Less: Dividends Declared:				
Common Dividends	(8,417)	(9,225)	(7,980)	(8,125)
Preferred Stock Dividends	(1,344)	(1,344)	(1,770)	(2,338)
Internally Generated Funds	7,612	4,502	(364)	252
External Sources:				
Proceeds From Sale of Term Notes		20,000		
Proceeds From Sale of Common Stock	9,275	7,133		
Proceeds From Sale of Bonds			15,000	15,000
Proceeds From Sale of Preferred Stock			15,000	15,000
Other — Net	234	1,245	186	141
Total Funds from External Sources	9,509	28,378	30,186	30,141
Total Source of Funds	$17,121	$32,880	$29,822	$30,393
Application of Funds:				
Construction Expenditures	$22,592	$27,131	$31,624	$33,580
Less: Allowance for Funds Used During Construction	(3,830)	(6,195)	(9,842)	(10,358)
Net Construction Expenditures	18,762	20,936	21,782	23,222
Decrease (Increase) in Short-Term Notes Payable to Banks	1,400	(12,050)	6,050	(50)
Retirement of Long-Term Debt	3,880	15,200	5,000	5,000
Retirement of Preferred Stock			300	300
Purchase of Promissory Notes			225	945
(Decrease) Increase in Working Capital	(7,186)	8,008	(5,423)	(1,097)
Other Application — Net	265	786	1,888	2,073
Total Application of Funds	$17,121	$32,880	$29,822	$30,393
Changes in Components of Working Capital (Excluding Short-Term Debt, Current Deferred Taxes and Redeemable Preferred Stock Sinking Fund Requirements):				
Cash	$ 947	$(2,117)	$(1,009)	$(1,390)
Accounts Receivable	(1,685)	4,320	10,881	7,509
Materials and Supplies	(2,474)	7,766	2,276	2,303
Prepaid Expenses and Other Current Assets	13	111	(116)	(31)
Accounts Payable	(294)	(4,763)	(15,033)	(6,358)
Accrued Taxes	(1,821)	1,361	(880)	(2,286)
Accrued Liabilities	(1,872)	1,330	(1,542)	(844)
(Decrease) Increase in Working Capital	$(7,186)	$ 8,008	$(5,423)	$(1,097)

The accompanying notes are an integral part of these statements.

EASTERN EDISON COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET
(In Thousands)

ASSETS

	December 31, 1979	December 31, 1980	March 31, 1981 (Unaudited)
Utility Plant and Other Investments:			
Utility Plant (at cost) (Note A)	$317,543	$347,000	$356,076
Less Accumulated Provision for Depreciation (Note A)	77,874	83,946	85,742
Net Utility Plant	239,669	263,054	270,334
Nonutility Property — Net	843	843	843
Investments in Nuclear Generating Companies (at equity) (Note A)	7,401	7,641	8,411
Other Investments (at cost)	50	50	50
Total Utility Plant and Other Investments	247,963	271,588	279,638
Current Assets:			
Cash (Note G)	1,569	559	881
Accounts Receivable (Note A):			
Customers, Less Allowance for Doubtful Accounts of $213, $240 and $219, respectively	16,801	22,426	24,120
Others	761	422	996
Accrued Unbilled Revenue	233	3,250	(855)
Associated Companies (Note A)	3,553	6,131	6,427
Fuel (at average cost)	10,702	12,486	8,652
Plant Materials, Operating Supplies and Other	3,805	4,298	4,301
Prepayments and Other Assets	401	286	538
Total Current Assets	37,825	49,858	45,060
Deferred Debits:			
Unamortized Debt Expense	485	542	531
Extraordinary Property Losses (Note H)	2,065	2,943	2,821
Other Deferred Debits	2,520	4,025	3,966
Total Deferred Debits	5,070	7,510	7,318
Total	$290,858	$328,956	$332,016

LIABILITIES

	December 31, 1979	December 31, 1980	March 31, 1981 (Unaudited)
Capitalization:			
Common Equity (Note C)	$ 99,077	$102,210	$103,387
Non-Redeemable Preferred Stock (Note C)	8,950	8,950	8,950
Redeemable Preferred Stock (Note D)	5,607	20,199	20,199
Long-Term Debt (Note F)	100,985	110,982	110,977
Total Capitalization	214,619	242,341	243,513
Current Liabilities:			
Notes Payable — Banks (Note G)	37,500	31,450	37,800
Accounts Payable:			
Public	13,071	27,982	18,588
Associated Companies	724	847	820
Redeemable Preferred Stock Sinking Fund Requirement (Note D)	314	305	240
Customer Deposits	820	931	955
Taxes Accrued (Note B)	240	1,120	4,156
Deferred Taxes (Notes A and B)	815	794	668
Interest Accrued	861	2,750	3,427
Other Current Liabilities	463	1	(21)
Total Current Liabilities	54,308	66,180	66,633
Deferred Credits:			
Unamortized Investment Credit (Note A)	8,760	5,689	6,090
Other Deferred Credits	33	33	42
Total Deferred Credits	8,793	5,722	6,132
Accumulated Deferred Taxes (Notes A and B)	12,638	14,713	15,738
Total	$290,858	$328,956	$332,016

The accompanying notes are an integral part of these statements.

EASTERN EDISON COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CAPITALIZATION

(In Thousands)

	December 31, 1979	December 31, 1980	March 31, 1981 (unaudited)
Common Stock			
$25 par value, authorized and outstanding 2,891,357 shares	$ 72,284	$ 72,284	$ 7[illegible]4
Other Paid-In Capital	5,824	5,824	5,824
Common Stock Expense	(39)	(39)	(39)
Appropriated Retained Earnings	821	821	821
Retained Earnings	20,187	23,320	24,497
Total	99,077	102,210	103,387
Non-Redeemable Preferred Stock:			
4.64%, $100 par value 60,000 shares*	6,000	6,000	6,000
8.32%, $100 par value 30,000 shares*	3,000	3,000	3,000
Expense, Net of Premium	(50)	(50)	(50)
Total	8,950	8,950	8,950
Redeemable Preferred Stock:			
13.60%, $100 par value**	6,000	5,700	5,700
15.48%, $100 par value 150,000 shares*		15,000	15,000
Expense, Net of Premium	(79)	(187)	(187)
Sinking Fund and Reacquired Shares	(314)	(314)	(314)
Total	5,607	20,199	20,199
Long-term Debt:			
First Mortgage and Collateral Trust Bonds:			
3¾% due 1983	6,800	6,800	6,800
7⅝% due 1983 (second series)	5,000	5,000	5,000
4⅛% due 1983 (third series)	2,196	2,196	2,196
3⅜% due 1985	6,000	6,000	6,000
12 % due 1985 (second series)	19,800	19,800	19,800
4⅝% due 1987	3,000	3,000	3,000
4⅝% due 1988	3,000	3,000	3,000
14¼% due 1990		15,000	15,000
4½% due 1993	5,000	5,000	5,000
6½% due 1997	7,000	7,000	7,000
8⅝% due 1999	5,000	5,000	5,000
7⅞% due 2002	8,000	8,000	8,000
8⅜% due 2003	10,000	10,000	10,000
Note due 1984 (Prime × 107%)	5,000	5,000	5,000
Note due 1985 (Prime × 111%)	15,000	10,000	10,000
Unamortized Premium	189	186	181
Total	100,985	110,982	110,977
Total Capitalization	$214,619	$242,341	$243,513

* Authorized and outstanding.

** Authorized 60,000 shares. Outstanding 57,000 shares at December 31, 1980 and at March 31, 1981 and 60,000 shares at December 31, 1979.

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information as of and for the twelve months ended March 31, 1981 is unaudited)

(A) Summary of Significant Accounting Policies:

General: The accounting policies and practices of Eastern Edison Company ("Eastern Edison" or the "Company") and of Montaup Electric Company ("Montaup") are subject to regulation by the Federal Energy Regulatory Commission ("FERC") and Massachusetts Department of Public Utilities ("DPU") with respect to their rates and accounting. Eastern Edison and Montaup conform with generally accepted accounting principles, as applied in the case of regulated public utilities, and conform with the accounting requirements and rate-making practices of the regulatory authority having jurisdiction.

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company's financial position as of March 31, 1981 and the results of operations and changes in financial position for the twelve months then ended.

Principles of Consolidation: The consolidated financial statements include the accounts of Eastern Edison and its subsidiary, Montaup. All material intercompany balances and transactions have been eliminated in consolidation.

Unconsolidated Subsidiaries: At December 31, 1980 and 1979, investments in nuclear generating companies represent four investments ranging in percentage of ownership from 2.50 to 4.50 percent. Montaup is entitled to the electricity produced from these facilities based on its ownership interests and is billed pursuant to contractual agreements which are approved by FERC.

Transactions with Affiliates: The Company is a wholly-owned subsidiary of Eastern Utilities Associates ("EUA"). In addition to its investment in the Company, EUA has interests in another utility company and a service corporation.

Transactions between the Company, Montaup and other affiliated companies include the following: sales of electricity of approximately $58,987,000 for the twelve months ended March 31, 1981, $56,323,000 in 1980, $42,185,000 in 1979 and $34,585,000 in 1978; accounting, engineering and other services rendered by EUA Service Corporation of approximately $5,939,000 for the twelve months ended March 31, 1981; $5,624,000 in 1980; $4,889,000 in 1979; and $4,209,000 in 1978; operating revenue from the rental of transmission facilities to Montaup of approximately $2,190,000 for the twelve months ended March 31, 1981; $2,135,000 in 1980; $2,134,000 in 1979; and $2,178,000 in 1978. Transactions with other affiliated companies are subject to review by applicable regulatory commissions.

Utility Plant: Utility plant is stated at original cost. The cost of additions to utility plant includes contracted work, direct labor and material, allocable overhead, allowance for funds used during construction and indirect charges for engineering and supervision.

(Information as of and for the twelve months ended March 31, 1981 is unaudited)

(A) Summary of Significant Accounting Policies: — (Continued)

Depreciation of Utility Plant: For financial statement purposes, depreciation is computed on the straight-line method based on estimated useful lives of the various classes of property.

Provisions for depreciation, on a consolidated basis, were equivalent to a composite rate of approximately 3.2% for the twelve months ended March 31, 1981 and in 1980, 1979, and 1978 based on the average depreciable property balances at the beginning and end of each year.

As a result of an order of the DPU, Eastern Edison has retroactively reduced the composite depreciation rate on certain of its property from 3.5% to 2.5%. Eastern Edison had recorded depreciation on that property at rates of 3% in 1975 and 3.5% since 1975. The change had the effect of increasing consolidated net income in 1980 by $1,[illegible]38,000 of which $974,000 relates to periods prior to 1980.

Operating Revenues: Revenues are based on billing rates authorized by applicable Federal and state regulatory commissions. The Company follows the policy of accruing the estimated amount of unbilled revenues for electricity provided at the end of the month to more closely match costs and revenues. In addition it also accrues unrecovered purchased power costs.

Federal Income Taxes: The general policy of the Company and its subsidiary with respect to accounting for Federal income taxes is to reflect in income the estimated amount of taxes currently payable and to provide for deferred taxes on certain items subject to timing differences to the extent permitted by the various regulatory commissions. See Note B for details of major deferred tax items.

As permitted by the regulatory commissions, it is the policy of the subsidiaries to defer the annual investment tax credits and to amortize these credits over the productive lives of the related assets.

The Company and its subsidiary participate with EUA in filing a consolidated tax return.

Allowance for Funds Used During Construction: Allowance for funds used during construction ("AFUDC") (a non-cash item) is defined in the applicable regulatory system of accounts as "the net cost during the period of construction of borrowed funds used for construction purposes and a reasonable rate upon other funds when so used."

The combined rate used in calculating AFUDC was 14.3% in the twelve months ended March 31, 1981, 14.5% in 1980, 11.5% in 1979 and 8.5% to 9.5% in 1978. In accordance with rate orders received during the last quarter of 1980, Eastern Edison and Montaup began providing deferred income taxes on the borrowed funds component of AFUDC. AFUDC amounted to 96.7%, 88.4%, 56.9% and 38.0% of consolidated net income for the twelve months ended March 31, 1981 and for the years 1980, 1979 and 1978, respectively.

(B) Income and Deferred Taxes:

Components of income and deferred tax expense for the twelve months ended March 31, 1981 and for the years 1980, 1979, and 1978 are as follows:

	1978	1979	1980	Twelve Months Ended March 31, 1981
		(In thousands)		
Operations				
Federal:				
Current	$ 1,406	$ 637	$ 918	$ 2,560
Deferred	(74)	1,542	1,936	2,528
Investment Tax Credit, Net	2,267	(365)	(3,131)	(3,300)
	3,599	1,814	(277)	1,788
State:				
Current	714	361	196	331
Deferred	(180)	35	111	214
	534	396	307	545
Charged to Operations	4,133	2,210	30	2,333
Charged to Other Income	119	7		53
Total	$ 4,252	$ 2,217	$ 30	$ 2,386

Federal income tax expense was less than the amounts computed by applying Federal income tax statutory rates to book income subject to tax for the following reasons:

	1978	1979	1980	Twelve Months Ended March 31, 1981
		(In thousands)		
Federal Income Tax Computed at Statutory Rates	$ 7,400	$ 6,617	$ 5,977	$ 7,012
(Decreases) in Tax from:				
Allowance for Funds Used During Construction	(1,838)	(2,849)	(3,719)	(3,173)
Overheads	(315)	(302)	(318)	(360)
Consolidated Tax Savings	(1,018)	(1,131)	(1,588)	(1,429)
Other	(215)	(148)	(227)	185
Federal Income Tax Expense	$ 4,014	$ 2,187	$ 125	$ 2,235

(B) Income and Deferred Taxes: — (Continued)

The provision for deferred taxes resulting from timing differences is comprised of the following:

	1978	1979	1980	Twelve Months Ended March 31, 1981
		(In thousands)		
Excess Tax Depreciation	$ 1,163	$ 990	$ 902	$ 910
Computer Conversion Costs	(68)	(68)	(68)	(68)
Estimated Unbilled Revenue	(1,176)	35	(22)	(64)
AFUDC			808	1,559
Abandonment Losses		602	310	184
Effect of State and Local Taxes	(180)	35	112	214
Other — Net	7	(17)	5	7
Total	$ (254)	$ 1,577	$ 2,047	$ 2,742

At December 31, 1980, unused investment tax credits of approximately $8,784,000 are available to reduce future Federal income tax liability.

(C) Capital Stock:

The changes in the number of common shares outstanding, resulting from sales to EUA, during the twelve months ended March 31, 1981 and the years ended December 31, 1980 and 1979 were as follows:

Year	Shares Issued	Total
Twelve months ended March 31, 1981	None	$
1980	None	
1979	285,336	7,133,400

In the event of involuntary liquidation, the non-redeemable preferred stock of Eastern Edison is entitled to $100 per share. In the event of voluntary liquidation, or if redeemed at the option of the Company, the non-redeemable preferred stock is entitled to: 4.64% issue, $102.98; 8.32% issue, $107.70 prior to October 1, 1983; $105.62 prior to October 1, 1988; $103.54 prior to October 1, 1983; and $102.30 per share thereafter.

Under the terms and provisions of the issues of preferred stock of Eastern Edison, certain restrictions are placed upon the payment of dividends on common stock by the Company, but at March 31, 1981, December 31, 1980 and 1979, the respective capitalization ratios were in excess of the minimum which would make these restrictions effective.

(D) Redeemable Preferred Stock:

In October 1980, Eastern Edison issued 150,000 shares of 15.48% Preferred Stock.

Eastern Edison's 13.60% and 15.48% Preferred Stock issues are entitled to mandatory sinking funds sufficient to redeem 3,000 and 6,000 shares, respectively, during each twelve-month period commencing October 1, 1980 in the case of the 13.60% issue and October 1, 1985 in the case of the 15.48% issue. The redemption price, for each issue, is equal to the initial public offering price plus accrued dividends. Eastern Edison also has the non-cumulative option of redeeming an additional 3,000 and 6,000 shares, respectively, during each period at such price.

In the event of involuntary liquidation the redeemable preferred stock of Eastern Edison is entitled to $100 per share. In the event of voluntary liquidation or if redeemed at the option of Eastern Edison, the redeemable preferred stock is entitled to: $114.82 prior to October 1, 1985; $111.42 prior to October 1, 1990; $108.02 prior to October 1, 1995; and $105.98 per share thereafter.

The aggregate amount of sinking fund requirements for each of the five years following 1980 is: $314,000 in 1981, 1982, 1983 and 1984; and $923,000 in 1985.

(E) Retained Earnings:

Under the provisions of the Company's Indenture securing the First Mortgage and Collateral Trust Bonds, Retained Earnings in the amount of $13,435,953, $12,667,239 and $11,846,241 as of March 31, 1981, December 31, 1980 and December 31, 1979, respectively, was unrestricted as to the payment of cash dividends on Common Stock.

(F) Long-Term Debt:

Under terms of the Indenture securing the First Mortgage and Collateral Trust Bonds, Eastern Edison is required to deposit annually with the Indenture Trustee, cash in an amount equal to 1% of the greatest aggregate principal amount of bonds previously authenticated and delivered.

Where permitted, Eastern Edison has satisfied sinking fund requirements for 1980 and 1979 under alternate provisions of the Indenture either by depositing cash or by certifying to the Indenture Trustee "available property additions" and Eastern Edison expects to continue such practice during the year 1981.

The First Mortgage and Collateral Trust bonds of Eastern Edison and Eastern's note due 1985 are collateralized by securities of Montaup in the principal amount of $159,975,000. In addition, the First Mortgage and Collateral Trust bonds of Eastern Edison are collateralized by substantially all of its utility plant. See "Use of Proceeds and Construction and Financing Program" regarding the release of securities collateralizing the note due 1985.

The aggregate amount of cash sinking fund requirements and maturities for each of the five years following 1980 are: none in 1980, 1981, and 1982, $13,996,000 in 1983, $10,000,000 in 1984 and $30,800,000 in 1985.

(G) Lines of Credit and Compensating Balances:

Eastern Edison and Montaup had unused short-term lines of credit with various banks of approximately $16,100,000, $19,360,000 and $35,500,000 at March 31, 1981, December 31, 1980 and 1979, respectively. However, portions of these credit lines were also available to other affiliated companies under joint credit line arrangements. In accordance with informal agreements with the various banks, Eastern Edison and Montaup have agreed to maintain operating accounts of minimum average balances or, in certain instances, commitment fees are required to maintain the lines of credit. There are no legal restrictions placed on the withdrawal of these funds. Except for daily working funds, substantially all of the funds included in cash represent compensating balances.

(H) Jointly-Owned Facilities:

At March 31, 1981 and December 31, 1980, Montaup owned the following interests in jointly-owned electric facilities (dollars in thousands):

	December 31, 1980				
	Percent Owned	Plant in Service	Accumulated Depreciation	Net Plant In Service	Construction Work In Progress
Canal No. 2	50.00%	$63,724	$11,042	$52,382	$
Wyman No. 4	1.96	3,947	232	3,715	
Seabrook Nos. 1 & 2	2.90	42	2	40	27,019
Pilgrim No. 2	2.15				9,241
Millstone No. 3	4.01				39,428

	March 31, 1981				
	Percent Owned	Plant in Service	Accumulated Depreciation	Net Plant In Service	Construction Work In Progress
Canal No. 2	50.00%	$63,724	$11,610	$52,114	$
Wyman No. 4	1.96	3,947	262	3,685	
Seabrook Nos. 1 & 2	2.90	42	3	39	30,696
Pilgrim No. 2	2.15				9,669
Millstone No. 3	4.01				42,267

The foregoing amounts represent Montaup's interest in each facility. Financing for all such interests is provided by Montaup. Montaup's share of related operating and maintenance expenses is included in its corresponding operating expenses.

Montaup has a 2.00% ownership interest in two nuclear generating units designated as Montague 1 and 2 (lead participant, of Northeast Utilities) which had been proposed to be built at a site in

(H) Jointly-Owned Facilities: — (Continued)

Montague, Massachusetts. In December 1980, the lead participant announced cancellation of these units and concluded that all capital costs relative to them should be written off as being valueless. As of December 31, 1980, Montaup had incurred approximately $1,081,000 of costs (including allowance for funds used during construction) in connection with the project. Additional costs (which are not expected to be material) relating to cancellation charges, or salvage, if any, are undeterminable at this time. Montaup has reported the costs of the abandoned project as an extraordinary property loss and has received permission from FERC to amortize these costs, net of the related tax savings to be realized in the EUA consolidated 1980 Federal income tax return, over a period of five years and requested approval from FERC for recovery of such costs commencing with the effective date of its December 19, 1980 rate filing.

(I) Commitments:

Eastern Edison and Montaup have leases covering certain facilities and equipment. Total rental expense for these leases for the twelve months ended March 31, 1981 and for the years 1980, 1979 and 1978 amounted to approximately $414,000, $350,000, $177,000 and $275,000, respectively.

These leases are treated as operating leases for rate making purposes and have been accounted for as such; however, certain lease agreements meet the criteria requiring capitalization as set forth in the Statement of Financial Accounting Standards No. 13. If such leases were capitalized, the amounts thereof would not have a material effect on assets, liabilities, or related expenses.

Future minimum rental payments at December 31, 1980, for such leases are estimated to aggregate $532,000 in 1981, $500,000 in 1982, $479,000 in 1983, $406,000 in 1984, $130,000 in 1985, and none for the years after 1985.

Eastern Edison and Montaup participate with other EUA system companies in a pension plan covering substantially all of their employees. The total pension expense charged to operations, which includes amortization of past service costs over 20 years, during the twelve months ended March 31, 1981 and for the years 1980, 1979 and 1978 amounted to approximately $1,387,000, $1,344,000, $1,327,000 and $1,391,000, respectively. Eastern Edison and Montaup make annual contributions to the plan equal to the amounts accrued for pension expense. The accumulated plan benefits and plan net assets for the Employees' Retirement Plan of Eastern Utilities Associates and its Subsidiary Companies is presented below:

	January 1, 1980 (In Thousands)
Actuarial Present Value of Accumulated Plan Benefits:	
Vested	$26,188
Nonvested	1,100
	$27,288
Market Value of Net Assets Available for Benefits	$27,917

(I) Commitments: — (Continued)

The assumed rate of return used in determining the actuarial present value of the accumulated plan benefits was 6.0% for 1980.

Montaup is committed under purchased power contracts to pay demand charges whether or not energy is received. The following table summarizes information concerning such contracts at December 31, 1980.

Unit	Date of Contract Expiration	% Share of Output Being Purchased	Estimated Annual Cost (In Thousands)
Taunton Municipal Cleary No. 9	1984	Various	$ 2,949
New Brunswick	1986	6.41	278
Yankee Atomic Power Co.	1991	4.50	2,076
Conn. Yankee Atomic Power Co.	1998	4.50	3,132
Canal Electric Co. Unit No. 1	1998	25.00	4,874
Pilgrim Unit No. 1	2000	11.00	10,405
Maine Yankee Atomic Power Co.	2002	4.00	2,263
Vermont Yankee Atomic Power Co.	2002	2.50	1,609
			$27,586

Reference is made to "Use of Proceeds and Construction and Financing Program" for information concerning the Company and Montaup's construction program and restrictions with respect to the issuance of First Mortgage Bonds and Preferred Stock.

(J) Contingencies:

Reference is made to "Business — Uncertainties Regarding Nuclear Plants" and to "Regulatory and Environmental Requirements" for additional information regarding Montaup's ownership in certain jointly owned generating units.

EASTERN EDISON COMPANY AND SUBSIDIARY

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 effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than a precise measure, since a number of subjective judgments and estimating techniques were used in developing this information.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumers Price Index for all Urban Consumers. Current cost amounts reflect the changes in specific prices 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 prices in general.

CONSOLIDATED STATEMENT OF INCOME FROM CONTINUING OPERATIONS

Adjusted for Changing Prices
for the year ended December 31, 1980

	Historical Cost	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
		(Thousands of Dollars)	
Operating Revenues	$224,221	$224,221	$224,221
Fuel & Purchased Power Expense	159,503	159,503	159,503
Other Operating & Maintenance Expenses	30,465	30,465	30,465
Depreciation Expense	7,170	15,524	18,564
Taxes Other than Income	8,454	8,454	8,454
Income and Deferred Taxes	30	30	30
Interest Charges — net	8,916	8,916	8,916
Other (Income) & Deductions — net	(3,225)	(3,225)	(3,225)
	211,313	219,667	222,707
Income from Continuing Operations (excluding reduction to net recoverable cost)	$ 12,908	$ 4,554*	$ 1,514
Increase in Specific Prices of Utility Plant Held During the Year**			$ 49,995
Reduction to Net Recoverable Cost		$(19,866)	(2,717)
Effect of Increases in General Price Level			(64,111)
Excess of Increase in General Price Level over Increase in Specific Prices after Reduction to Net Recoverable Cost			(16,833)
Gain from Decline in Purchasing Power of Net Amounts Owed		15,284	15,284
Net		$ (4,582)	$ (1,549)

* Including the reduction to net recoverable cost, the loss from continuing operations on a constant dollar basis would have been $15,312.

** At December 31, 1980, the current cost of net utility plant was $578,556 while historical cost or net cost recoverable through depreciation was $263,054.

The current cost of utility plant, comprising all plant in service, construction work in progress and plant held for future use, represents the estimated cost of replacing existing plant assets and was determined by indexing the surviving plant using various indices which represent the Company's and Montaup's experienced construction costs.

The current year's provision for depreciation on a constant dollar and current cost basis was computed by applying the average composite depreciation rate to the average depreciable balance of property, plant and equipment after adjusting such accounts for inflation.

Fuel inventories, the cost of fuel used in generation, and purchased power for resale have not been restated from their historical cost. Regulation limits the recovery of fuel and purchased power costs through the operation of adjustment clauses. For this reason fuel inventories are effectively monetary assets.

As prescribed in Financial Accounting Standard No. 33, income taxes were not adjusted.

Under the rate-making prescribed by the regulatory commission to which the Company is subject, only the historical cost of plant is recoverable in revenue as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars that exceeds the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. To properly reflect the economics of rate regulation in the Statement of Income from Continuing Operations, the reduction to net recoverable cost of net property, plant and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. 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 and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the System companies do not have the opportunity to realize a holding gain on debt and are limited to recovery only of the embedded cost of debt capital.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA ADJUSTED FOR THE EFFECTS OF CHANGING PRICES

	Years ended December 31,				
	1980	1979	1978	1977	1976
	(In Thousands of Average 1980 Dollars)				
Operating Revenues	$224,221	$190,864	$178,989	$196,884	$201,125
Historical Cost Information Adjusted for General Inflation:					
Income from Continuing Operations Excluding Reduction to Net Recoverable Cost	4,554	5,613			
Income Per Common Share After Preferred Dividend Requirements and Excluding Reduction to Net Recoverable Cost	0.96	1.62			
Net Assets at Year-end at Net Recoverable Cost	125,446	122,361			
Current Cost Information:					
Income from Continuing Operations Excluding Reduction to Net Recoverable Cost	1,514	3,773			
Income (Loss) Per Common Share After Preferred Dividend Requirements and Excluding Reduction to Net Recoverable Cost	(0.09)	0.92			
Excess of Increase in General Price Level Over Increases in Specific Prices after Reduction to Net Recoverable Cost	(16,833)	(17,837)			
Net Assets at Year-end at Net Recoverable Cost	125,446	122,361			
General Information:					
Gain from Decline in Purchasing Power of Net Amounts Owed	15,284	15,814			
Cash Dividends Declared per Common Share	2.76	3.62	4.08	4.65	4.62
Average Consumer Price Index	246.8	217.4	195.4	181.5	170.5

REDEMPTION PROVISIONS OF THE BONDS

The Bonds will be redeemable at the option of the Company as a whole or in part at any time upon at least 30 days' prior written notice at the Regular Redemption Prices expressed in percentages of principal amount as indicated below, together in each case with accrued and unpaid interest to the redemption date; provided, however, that the Bonds shall not be redeemed at the applicable Regular Redemption Price prior to July 1, 1986 (except in connection with certain consolidations or mergers or sales of assets) if such redemption is for the purpose of or in anticipation of refunding the Bonds through the use, directly or indirectly, of funds borrowed by the Company at an effective interest cost to the Company (computed in accordance with generally accepted financial practice) of less than the effective interest cost to the Company of the Bonds. This refunding limitation is not applicable to redemptions of the Bonds at a Special Redemption Price.

If Redeemed During the 12 Months Beginning July 1	Regular Redemption Price	Special Redemption Price

The Special Redemption Price will be applicable to redemptions through the use of sinking and improvement fund or replacement fund moneys, or to obtain a credit on the next annual sinking and improvement fund payment, or with trust moneys received from the sale, taking or release of property pursuant to governmental orders or in anticipation thereof.

PURCHASERS

The Purchasers named below have severally agreed to purchase from the Company the respective principal amounts of Bonds set forth below. The Purchase Agreement provides that the Purchasers will be obligated to purchase all of the Bonds if any are purchased.

After the initial public offering, the public offering price and the concessions may be changed.

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

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PROSPECTUS

Eastern Edison Company

EUA SYSTEM COMPANY

$30,000,000

First Mortgage and Collateral Trust Bonds

% Series Due July 1,

Entitled to Interest from July 1, 1981

Dated July , 1981

EXHIBIT A-5

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

ELECTRIC RATES: Suspension;
Intervention

Before Commissioners: Georgiana Sheldon, Acting Chairman; Matthew Holden, Jr., George R. Hall and J. David Hughes.

Montaup Electric Company) Docket No. ER81-180-000

ORDER ACCEPTING FOR FILING AND
SUSPENDING PROPOSED RATES, DIRECTING
AMENDED FILING, GRANTING INTERVENTIONS,
AND ESTABLISHING PROCEDURES

(Issued February 17, 1981)

On December 19, 1980, Montaup Electric Company (Montaup) submitted for filing a proposed increase in rates to two affiliated 1/ and four non-affiliated 2/ wholesale customers. This proposed increase would result in additional revenues of approximately $8,982,574 (4.3%) for the twelve month period ending December 31, 1981. 3/

1/ Blackstone Valley Electric Company and Eastern Edison Company (Eastern Edison was formed through a merger of Brockton Edison Co. and Fall River Electric Light Company on August 1, 1979).

2/ Newport Electric Corporation, Pascoag Fire District, Town of Middleborough, and Narragansett Electric Company.

3/ Montaup's present rates were submitted as interim rates to reflect a settlement of (1) a proposed rate increase to these same customers which was tendered for filing on July 11, 1980 (Docket No. ER80-520), and (2) an application for the inclusion of certain CWIP in rate base under the severe financial difficulty exception of section 2.16 of our regulations (Docket No. EL80-8). By order issued January 2, 1981, these interim rates were made effective from December 1, 1980, pending final Commission action on the anticipated settlement. An offer of settlement was filed on February 3, 1981.

Montaup concurrently submitted for filing revisions to agreements under which (1) Blackstone Valley Electric Company and Eastern Edison Company rent 115 kv transmission facilities to Montaup, and (2) Montaup rents certain transformers and substation facilities to Eastern Edison Company. 4/ According to Montaup, these revisions which would provide for increased charges for the transmission facilities wh. h are rented to the other parties have been made in order to reflect the current cost of capital, including return on common equity, for each company.

Montaup requests an effective date of February 18, 1981, for the proposed rate increase to its wholesale customers and for the increased transmission rental charges. If the rates are suspended, Montaup further requests that they be suspended for only one day.

Notice of the filing was issued on December 31, 1980, with responses due on or before January 15, 1981. On January 15, 1981, Newport Electric Corporation and the Attorney General of Rhode Island together with the Rhode Island Division of Public Utilities and Carriers filed petitions to intervene. On January 16, 1981, the Town of Middleborough, Massachussetts and the Pascoag Fire District of the Town of Pascoag, Rhode Island jointly filed an untimely protest and petition to intervene. The Narragansett Electric Company filed an untimely petition to intervene on January 26, 1981. Of the foregoing pleadings, only the January 16th protest raised specific substantive issues. One issue 5/ raised in this protest was that Montaup's cost of service should be reduced by $1.2 million to reflect a revised contract, finalized after Montaup's filing was prepared, which provides for a reduction in purchases from the New Brunswick Power Commission's Coleson Cove units. 6/

4/ For rate schedule designations, see Attachment A.

5/ Other issues raised in this protest pertain to (1) rate of return: (2) cash working capital; and (3) various tax items.

6/ That contract was filed with this Commission on December 24, 1980, and assigned Docket No. ER81-205. By letter order dated February 10, 1981, the Director of the Office of Electric Power Regulation accepted the contract for filing pursuant to his delegated authority.

On February 2, 1981, Montaup filed a response to the joint protest of the Town of Middleborough and the Pascoag Fire District. In this response, Montaup disputed the assertions set out in the protest, but did agree to immediately reduce its cost of service by $1,103,000 because of the revised New Brunswick arrangement. 7/ Montaup further stated that if the revised New Bruswick agreement is not accepted, "Montaup will either revert to billing under the demand charge as filed or file whatever revision to the M-6 filing which may be appropriate."

Discussion

Our analysis indicates that Montaup's proposed rates and charges have not been shown to be just and reasonable and may be unjust, unreasonable, unduly discriminatory, preferential, or otherwise unlawful. Accordingly, we shall accept the proposed rates and revised transmission agreements for filing and suspend them as ordered below.

In a number of suspension orders, 8/ we have addressed the considerations underlying the Commmission's policy regarding rate suspensions. For the reasons given there, we have concluded that rate filings should generally be suspended for the maximum period permitted by statute where preliminary study leads the Commission to believe that the filing may be unjust and unreasonable or that it may run afoul of other statutory standards. We have acknowledged, however, that shorter suspensions may be warranted in circumstances where suspension for the maximum period may lead to harsh and inequitable results. Such circumstances are presented here. Although a number of matters raised in this proceeding warrant investigation at hearing, our preliminary analysis reveals that the rates proposed by Montaup may not be substantially excessive. A nominal suspension should minimize any adverse effects on the company while ensuring refund protection for its customers. Accordingly, we shall exercise our discretion to suspend the rates for only one day permitting the rates to take effect subject to refund thereafter on February 19, 1981.

7/ Montaup also stated that it had agreed in its transmittal letter accompanying this filing to file an immediate reduction reflecting the revised New Burnswick contract as soon as that contract is accepted by this Commission.

8/ E.g., Boston Edison Co., Docket No. ER80-508 (August 29, 1980) (five month suspension); Alabama Power Co., Docket Nos. ER80-506, et al. (August 29, 1980) (one day suspension); Cleveland Electric Illuminating Co., Docket No. ER80-488 (August 22, 1980) (one day suspension).

As noted above, Montaup has stated that it would revise its proposed rates downward to reflect the revised New Brunswick arrangement following Commission acceptance of that agreement. According to Montaup, this adjustment has the effect of reducing the M-6 demand charge from \$8.35316/kw/month to \$8.22031/kw/month. Because the New Brunswick contract has now been accepted for filing (see footnote 6, supra), we shall direct Montaup to comply with its representation and to file the lower rates within thirty days of this order.

Additionally, we find that participation in this proceeding by each of the petitioners may be in the public interest and that good cause exists to permit the Town of Middleborough, the Pascoag Fire District, and Narragansett Electric Company to intervene out of time. Furthermore, the Town of Middleborough and the Pascoag Fire District will have full opportunity to pursue the matters set forth in their protest at the hearing convened pursuant to this order.

The Commission Orders

(A) Montaup's December 19, 1980 submittals are hereby accepted for filing and suspended for one day to become effective, subject to refund, on February 19, 1981.

(B) Within thirty (30) days after issuance of this order, Montaup is hereby directed to submit revised rate schedules incorporating its agreement to reduce the proposed M-6 demand charge from \$8.35316/kw/month to \$8.22031/kw/month.

(C) The Newport Electric Company, the Attorney General of the State of Rhode Island and the Rhode Island Division of Public Utilities and Carriers, the Town of Middleborough, Massachussetts, the Pascoag Fire District of the Town of Pascoag, Rhode Island, and Narragansett Electric Company are hereby permitted to intervene in this proceeding subject to the rules and regulations of the Commission; Provided, however, that participation by the intervenors shall be limited to matters set forth in their petitions to intervene; and provided, further, that the admission of any intervenor shall not be construed as recognition by the Commission that it might be aggrieved because of any order or orders by the Commission entered in this proceeding.

(D) Pursuant to the authority contained in, and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission by section 402(a) of the DOE Act, and by the Federal Power Act, particularly sections 205 and 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the Federal Power Act [18 CFR, Chapter I (1979)], a public hearing shall be held concerning the justness and reasonableness of the proposed rates.

(E) The Commission staff shall serve top sheets in this proceeding on or before May 4, 1981.

(F) A presiding administrative law judge, to be designated by the Chief Administrative Law Judge, shall convene a prehearing conference in this proceeding to be held within approximately fifteen (15) days of the service of top sheets in a hearing room of the Federal Energy Regulatory Commission, 825 North Capitol Street, N.E., Washington, D.C. 20426. The presiding judge is authorized to establish procedural dates and to rule on all motions (except motions to consolidate or sever and motions to dismiss), as provided for in the Commission's Rules of Practice and Procedure.

(G) The Secretary shall promptly publish this order in the Federal Register.

By the Commission.

(S E A L)

Kenneth F. Plumb

Kenneth F. Plumb,
Secretary.

Attachment A

Montaup Electric Comp y
Docket No. ER81-180-000
Rate Schedule Designations

Designation	Description
Montaup Electric Company	
1. Tenth Revised Sheet No. 4 under FPC Electric Tariff, Original Volume No. 1 (Supersedes Ninth Revised Sheet No. 4)	M-6 Rates
2. Eleventh Revised Sheet No. 6 under FPC Electric Tariff, Original Volume No. 1 (Supersedes Tenth Revised Sheet No. 6)	Revision of Fuel Clause Base figures
3. Supplement No. 15 to Rate Schedule FPC No. 33 (Supersedes Supplement No. 14)	Newport Electric Corporation M-6 Rates
4. Supplement No. 19 to Rate Schedule FPC No. 36 (Supersedes Supplement No. 18)	Town of Middleboro M-6 Rates
5. Supplement No. 4 to Rate Schedule FPC No. 58 (Supersedes Supplement No. 3)	Revision to Exhibit D (Cost of Capital)
6. Supplement No. 9 to Rate Schedule FERC No. 63 (Supersedes Supplement No. 8)	Pascoag Fire District M-6 Rates
Blackstone Valley Electric Company	
7. Supplement No. 10 to Rate Schedule FPC No. 21 (Supersedes Supplement No. 9)	Revised Cost of Capital
Brockton Edison Company	
8. Supplement No. 10 to Rate Schedule FPC No. 15 (Supersedes Supplement No. 9)	Revised Cost of Capital

EXHIBIT A-5

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

ELECTRIC RATES: Suspension;
Intervention

Before Commissioners: Georgiana Sheldon, Acting Chairman; Matthew Holden, Jr., George R. Hall and J. David Hughes.

Montaup Elec ric Company	))	Docket No. ER81-180-000

ORDER ACCEPTING FOR FILING AND SUSPENDING PROPOSED RATES, DIRECTING AMENDED FILING, GRANTING INTERVENTIONS, AND ESTABLISHING PROCEDURES

(Issued February 17, 1981)

On December 19, 1980, Montaup Electric Company (Montaup) submitted for filing a proposed increase in rates to two affiliated 1/ and four non-affiliated 2/ wholesale customers. This proposed increase would result in additional revenues of approximately $8,982,574 (4.3%) for the twelve month period ending December 31, 1981. 3/

1/ Blackstone Valley Electric Company and Eastern Edison Company (Eastern Edison was formed through a merger of Brockt n Edison Co. and Fall River Electric Light Company on August 1, 1979).

2/ Newport Electric Corporation, Pascoag Fire District, Town of Middleborough, and Narragansett Electric Company.

3/ Montaup's present rates were submitted as interim rates to reflect a settlement of (1) a proposed rate increase to these same customers which was tendered for filing on July 11, 1980 (Docket No. ER80-520), and (2) an application for the inclusion of certain CWIP in rate base under the severe financial difficulty exception of section 2.16 of our regulations (Docket No. EL80-8). By order issued January 2, 1981, these interim rates were made effective from December 1, 198 , pending final Commission action on the anticipated settlement. An offer of settlement was filed on February 3, 1981.

Montaup concurrently submitted for filing revisions to agreements under which (1) Blackstone Valley Electric Company and Eastern Edison Company rent 115 kv transmission facilities to Montaup, and (2) Montaup rents certain transformers and substation facilities to Eastern Edison Company. 4/ According to Montaup, these revisions which would provide for increased charges for the transmission facilities which are rented to the other parties have been made in order to reflect the current cost of capital, including return on common equity, for each company.

Montaup requests an effective date of February 18, 1981, for the proposed rate increase to its wholesale customers and for the increased transmission rental charges. If the rates are suspended, Montaup further requests that they be suspended for only one day.

Notice of the filing was issued on December 31, 1980, with responses due on or before January 15, 1981. On January 15, 1981, Newport Electric Corporation and the Attorney General of Rhode Island together with the Rhode Island Division of Public Utilities and Carriers filed petitions to intervene. On January 16, 1981, the Town of Middleborough, Massachussetts and the Pascoag Fire District of the Town of Pascoag, Rhode Island jointly filed an untimely protest and petition to intervene. The Narragansett Electric Company filed an untimely petition to intervene on January 26, 1981. Of the foregoing pleadings, only the January 16th protest raised specific substantive issues. One issue 5/ raised in this protest was that Montaup's cost of service should be reduced by $1.2 million to reflect a revised contract, finalized after Montaup's filing was prepared, which provides for a reduction in purchases from the New Brunswick Power Commission's Coleson Cove units. 6/

4/ For rate schedule designations, see Attachment A.

5/ Other issues raised in this protest pertain to (1) rate of return; (2) cash working capital; and (3) various tax items.

6/ That contract was filed with this Commission on December 24, 1980, and assigned Docket No. ER81-205. By letter order dated February 10, 1981, the Director of the Office of Electric Power Regulation accepted the contract for filing pursuant to his delegated authority.

On February 2, 1981, Montaup filed a response to the joint protest of the Town of Middleborough and the Pascoag Fire District. In this response, Montaup disputed the assertions set out in the protest, but did agree to immediately reduce its cost of service by $1,103,000 because of the revised New Brunswick arrangement. 7/ Montaup further stated that if the revised New Bruswick agreement is not accepted, "Montaup will either revert to billing under the demand charge as filed or file whatever revision to the M-6 filing which may be appropriate."

Discussion

Our analysis indicates that Montaup's proposed rates and charges have not been shown to be just and reasonable and may be unjust, unreasonable, unduly discriminatory, preferential, or otherwise unlawful. Accordingly, we shall accept the proposed rates and revised transmission agreements for filing and suspend them as ordered below.

In a number of suspension orders, 8/ we have addressed the considerations underlying the Commmission's policy regarding rate suspensions. For the reasons given there, we have concluded that rate filings should generally be suspended for the maximum period permitted by statute where preliminary study leads the Commission to believe that the filing may be unjust and unreasonable or that it may run afoul of other statutory standards. We have acknowledged, however, that shorter suspensions may be warranted in circumstances where suspension for the maximum period may lead to harsh and inequitable results. Such circumstances are presented here. Although a number of matters raised in this proceeding warrant investigation at hearing, our preliminary analysis reveals that the rates proposed by Montaup may not be substantially excessive. A nominal suspension should minimize any adverse effects on the company while ensuring refund protection for its customers. Accordingly, we shall exercise our discretion to suspend the rates for only one day permitting the rates to take effect subject to refund thereafter on February 19, 1981.

7/ Montaup also stated that it had agreed in its transmittal letter accompanying this filing to file an immediate reduction reflecting the revised New Burnswick contract as soon as that contract is accepted by this Commission.

8/ E.g., Boston Edison Co., Docket No. ER80-508 (August 29, 1980) (five month suspension); Alabama Power Co., Docket Nos. ER80-506, et al. (August 29, 1980) (one day suspension); Cleveland Electric Illuminating Co., Docket No. ER80-488 (August 22, 1980) (one day suspension).

As noted above, Montaup has stated that it would revise its proposed rates downward to reflect the revised New Brunswick arrangement following Commission acceptance of that agreement. According to Montaup, this adjustment has the effect of reducing the M-6 demand charge from \$8.35316/kw/month to \$8.22031/kw/month. Because the New Brunswick contract has now been accepted for filing (<u>see</u> footnote 6, <u>supra</u>), we shall direct Montaup to comply with its representation and to file the lower rates within thirty days of this order.

Additionally, we find that participation in this proceeding by each of the petitioners may be in the public interest and that good cause exists to permit the Town of Middleborough, the Pascoag Fire District, and Narragansett Electric Company to intervene out of time. Furthermore, the Town of Middleborough and the Pascoag Fire District will have full opportunity to pursue the matters set forth in their protest at the hearing convened pursuant to this order.

<u>The Commission Orders</u>

(A) Montaup's December 19, 1980 submittals are hereby accepted for filing and suspended for one day to become effective, subject to refund, on February 19, 1981.

(B) Within thirty (30) days after issuance of this order, Montaup is hereby directed to submit revised rate schedules incorporating its agreement to reduce the proposed M-6 demand charge from \$8.35316/kw/month to \$8.22031/kw/month.

(C) The Newport Electric Company, the Attorney General of the State of Rhode Island and the Rhode Island Division of Public Utilities and Carriers, the Town of Middleborough, Massachussetts, the Pascoag Fire District of the Town of Pascoag, Rhode Island, and Narragansett Electric Company are hereby permitted to intervene in this proceeding subject to the rules and regulations of the Commission; <u>Provided</u>, <u>however</u>, that participation by the intervenors shall be limited to matters set forth in their petitions to intervene; and <u>provided</u>, <u>further</u>, that the admission of any intervenor shall not be construed as recognition by the Commission that it might be aggrieved because of any order or orders by the Commission entered in this proceeding.

(D) Pursuant to the authority contained in, and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission by section 402(a) of the DOE Act, and by the Federal Power Act, particularly sections 205 and 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the Federal Power Act [18 CFR, Chapter I (1979)], a public hearing shall be held concerning the justness and reasonableness of the proposed rates.

(E) The Commission staff shall serve top sheets in this proceeding on or before May 4, 1981.

(F) A presiding administrative law judge, to be designated by the Chief Administrative Law Judge, shall convene a prehearing conference in this proceeding to be held within approximately fifteen (15) days of the service of top sheets in a hearing room of the Federal Energy Regulatory Commission, 825 North Capitol Street, N.E., Washington, D.C. 20426. The presiding judge is authorized to establish procedural dates and to rule on all motions (except motions to consolidate or sever and motions to dismiss), as provided for in the Commission's Rules of Practice and Procedure.

(G) The Secretary shall promptly publish this order in the Federal Register.

By the Commission.

(S E A L)

Kenneth F. Plumb

Kenneth F. Plumb,
Secretary.

Attachment A

Montaup Electric Company
Docket No. ER81-180-000
Rate Schedule Designations

Designation	Description
Montaup Electric Company	
1. Tenth Revised Sheet No. 4 under FPC Electric Tariff, Original Volume No. 1 (Supersedes Ninth Revised Sheet No. 4)	M-6 Rates
2. Eleventh Revised Sheet No. 6 under FPC Electric Tariff, Original Volume No. 1 (Supersedes Tenth Revised Sheet No. 6)	Revision of Fuel Clause Base figures
3. Supplement No. 15 to Rate Schedule FPC No. 33 (Supersedes Supplement No. 14)	Newport Electric Corporation M-6 Rates
4. Supplement No. 19 to Rate Schedule FPC No. 36 (Supersedes Supplement No. 18)	Town of Middleboro M-6 Rates
5. Supplement No. 4 to Rate Schedule FPC No. 58 (Supersedes Supplement No. 3)	Revision to Exhibit D (Cost of Capital)
6. Supplement No. 9 to Rate Schedule FERC No. 63 (Supersedes Supplement No. 8)	Pascoag Fire District M-6 Rates
Blackstone Valley Electric Company	
7. Supplement No. 10 to Rate Schedule FPC No. 21 (Supersedes Supplement No. 9)	Revised Cost of Capital
Brockton Edison Company	
8. Supplement No. 10 to Rate Schedule FPC No. 15 (Supersedes Supplement No. 9)	Revised Cost of Capit l

SEABROOK STATION

GENERAL and FINANCIAL INFORMATION

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

SEABROOK, NEW HAMPSHIRE

Volume 4

GENERAL AND FINANCIAL INFORMATION

TABLE OF CONTENTS

NEW ENGLAND POWER 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

New England Power Company

(b) Address of Applicant

25 Research Drive
Westborough, MA. 01581

(c) Description of Business of Applicant.

For a brief description of New England Power Company (NEP), see page 4 of NEP's Form 10-K for 1980 filed herewith.

(d) Corporate Organization

NEP is a corporation organized under the laws of Massachusetts. As of June 24, 1981, NEP had one domestic shareholder owning 6,449,896 common shares and no foreign shareholders owning any common shares.

(e) Corporate Officers and Directors

The names and residence addresses of NEP's directors and principal officers are as follows:

Name	Residence
Robert O. Bigelow	15 Granuaile Road Southboro, MA. 01772
Joan T. Bok	53 Pinckney Street Boston, MA. 02114
Frederic E. Greenman	42 Fuller Brook Road Wellesley, MA. 02181
Russell A. Holden	479 North State Street Concord, N.H. 03301
Alfred D. Houston	Paula Lane Franklin, MA. 02038
Samuel Huntington	20 Berkshire Road Newtonville, MA. 02160
John F. Kaslow	15 Duston Drive Methuen, MA. 01844

Edward M. Keith	Horseshoe Drive Grafton, MA. 01519
Guy W. Nichols	69 Wildwood Drive Needham, MA. 02192
James C. Nesbitt	84 Moffat Road Waban, MA. 02168
Edward A. Plumley	6 Amy Road Framingham, MA. 01701
Donald E. Rose	36 Newbury Park Needham, MA. 02192
Paul J. Sullivan	10 Isaac Miller Road Westborough, MA. 01581
Robert King Wulff	27 Gray Street Boston, MA. 02116

All of the directors and principal officers of NEP are citizens of the United States of America. NEP is not owned, controlled or dominated by an alien, foreign corporation or foreign government.

II. FINANCIAL QUALIFICATIONS

Under the Joint Ownership Agreement, NEP 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 9.95766% 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, NEP's share of these costs should amount approximately to $14,936,000 and $14,936,000 for the first five years of operations of Units 1 and 2, respectively; and approximately $4,182,000 to $8,564,000 for the decommissioning of the two Units. In addition, NEP's share of fuel expenses during the period would be $51,083,000.

As evidence of its financial qualifications to meet those costs, NEP submits herewith:

(i) 1980 Annual Report on Form 10-K incorporating 1980 Annual Report to Stockholders attached thereto (Exhibit F-1).

(ii) 1981 Quarterly Report on Form 10-Q (Exhibit F-2).

(iii) Official Statement, dated March 14, 1980, relating to 9 1/2% Pollution Control Revenue Bonds (Exhibit F-3).

(iv) Federal Energy Regulatory Commission rate order, dated November 26, 1980 (Exhibit F-4).

III. REGULATORY AGENCIES AND PUBLICATIONS

(a) Regulatory Agencies

The following regulatory agencies have jurisdiction over the rates and services of NEP:

Federal Energy Regulatory Commission
Washington, D.C. 20426

Securities and Exchange Commission
500 North Capitol Street, N.W.
Washington, D.C. 20549

The following regulatory agencies have jurisdiction over certain limited activites of NEP:

Massachusetts Department of Public Utilities
100 Cambridge Street
Boston, MA. 02202

New Hampshire Public Utilities Commission
26 Pleasant Street
Concord, N. H. 03301

Vermont Public Service Board
7 School Street
Montpelier, VT 05602

Connecticut Public Utilities Commission
State Office Building
165 Capitol Avenue
Hartford, CT 06115

(b) Publications

The following trade and news publications are used by NEP for official notifications, and/or are otherwise appropriate for notices regarding this unit:

The Boston Globe
135 Morrissey Boulevard
Boston, MA. 02125

Boston Herald American
300 Harrison Avenue
Boston, MA. 02106

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBIT F-1

FORM 10-K

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

For the fiscal year ended December 31, 1980 Commission File Number 0-1229

NEW ENGLAND POWER COMPANY

(Exact name of registrant as specified in its charter)

Massachusetts	04-1663070
(State or other Jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

25 Research Drive, Westborough, Massachusetts 01581
Telephone number, including area code, 617-366-9011

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

Title of Each Class	Name of Each Exchange on Which Registered
Cumulative Preferred Stock $25 Par Value, 11.04% Series	New York Stock Exchange

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

6% Cumulative Preferred Stock
Dividend Series Preferred Stock

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 ____

State the aggregate market value of the voting stock held by non-affiliates of the registrant.

Title	Market Value
6% Cumulative Preferred Stock	$2,684,690

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

Class	Outstanding at February 28, 1981
Common Stock	6,449,896 shares

Documents Incorporated by Reference

Annual Report to Stockholders for fiscal year ended December 31, 1980	Part II Items 5, 6, 7, 8 Part III Item 9
Information Statement dated March 26, 1981 for Special Meeting in Lieu of the Annual Meeting of Stockholders	Part III Item 10

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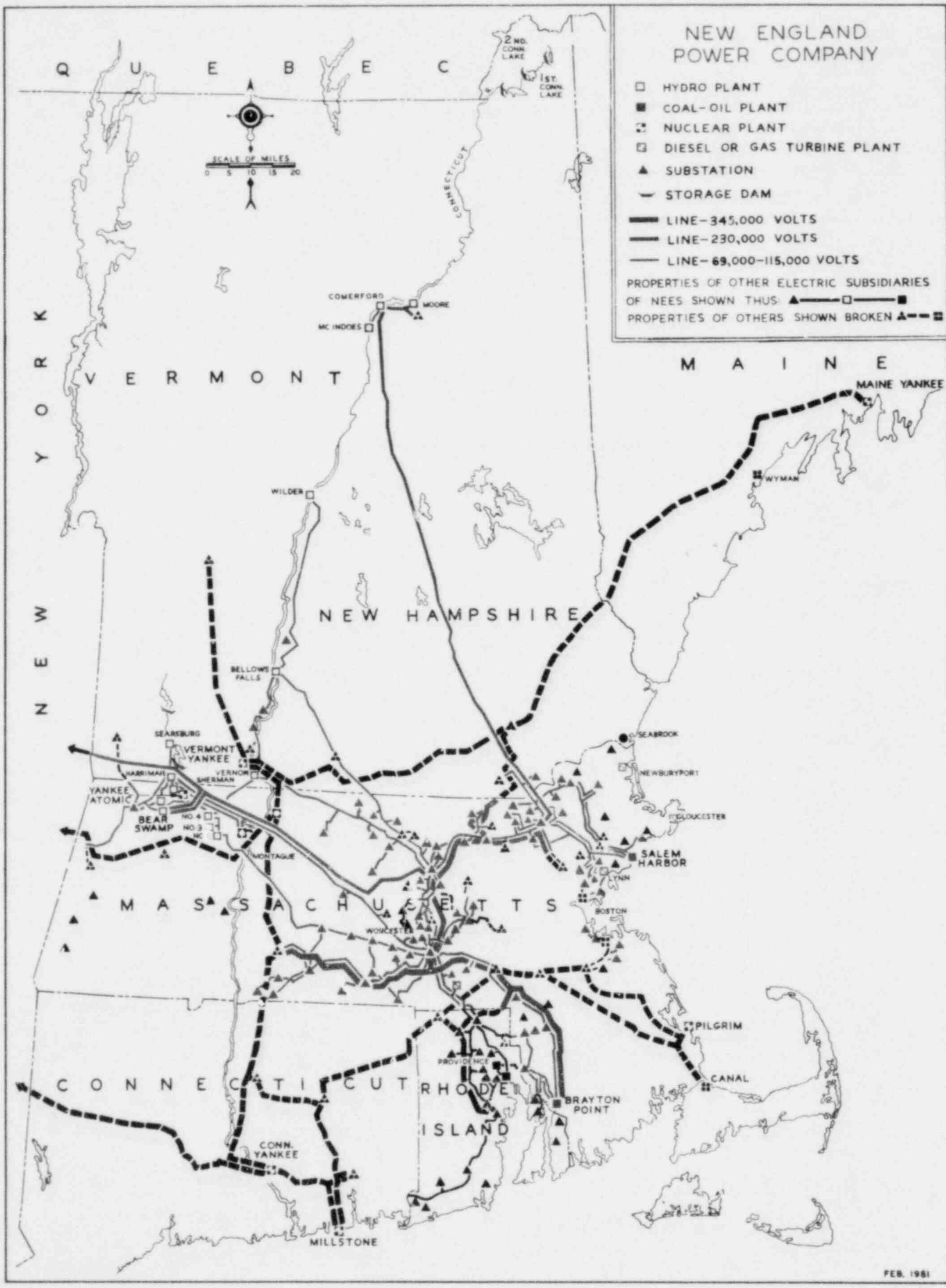

NEW ENGLAND
POWER COMPANY
HYDRO PLANT
COAL-OIL PLANT
NUCLEAR PLANT
DIESEL OR GAS TURBINE PLANT
SUBSTATION
STORAGE DAM
LINE-345,000 VOLTS
LINE-230,000 VOLTS
LINE-69,000-115,000 VOLTS
PROPERTIES OF OTHER ELECTRIC SUBSIDIARIES OF NEES SHOWN THUS
PROPERTIES OF OTHERS SHOWN BROKEN
QUEBEC
SCALE OF MILES
0 5 10 15 20
2ND. CONN. LAKE
1ST. CONN. LAKE
CONNECTICUT
COMERFORD
MOORE
MC INDOES
VERMONT
NEW YORK
MAINE
MAINE YANKEE
WYMAN
WILDER
NEW HAMPSHIRE
BELLOWS FALLS
SEARSBURG
VERMONT YANKEE
HARRIMAN
VERNON
SHERMAN
YANKEE ATOMIC
BEAR SWAMP
NO. 4
NO. 3
MC
MONTAGUE
SEABROOK
NEWBURYPORT
GLOUCESTER
SALEM HARBOR
BOSTON
MASSACHUSETTS
WORCESTER
PILGRIM
CANAL
PROVIDENCE
BRAYTON POINT
RHODE ISLAND
CONNECTICUT
CONN. YANKEE
MILLSTONE
FEB. 1981

Part I

Item 1. Business

New England Power Company, consolidated in 1916, is a wholly-owned subsidiary of New England Electric System, a registered holding company under the Public Utility Holding Company Act of 1935. The following table shows the relationship among NEP and its affiliates in the NEES System.

Name of Company	State of Organization	Type of Business	%-Voting Securities Owned by NEES	%-Voting Securities Owned by NEP
Parent				
New England Electric System (NEES)	Mass.	Utility Holding Compan'		
Subsidiaries				
Granite State Electric Company (Granite)	N.H.	Retail Electric	100	
Massachusetts Electric Company (Mass Electric)	Mass.	Retail Electric	100	
The Narragansett Electric Company (Narragansett)	R.I.	Retail Electric	100	
New England Energy Incorporated (NEEI)	Mass.	Fuel Procurement Activities	100	
New England Power Service Company (NEPSCO)	Mass.	Service Company	100	
New England Power Company (NEP)	Mass.	Wholesale, Generation & Transmission	98.77(a)	
Connecticut Yankee Atomic Power Company (Conn. Yankee)	Conn.	Generation		15
Maine Yankee Atomic Power Company (Maine Yankee)	Me.	Generation		20
Vermont Yankee Nuclear Power Corporation (Vermont Yankee)	Vt.	Generation		20
Yankee Atomic Electric Company (Mass. Yankee)	Mass.	Generation & Nuclear Services		30

Notes:

(a) Holders of common stock and 6% Cumulative Preferred Stock of NEP have general voting rights. The 6% Cumulative Preferred Stock represents 1.23% of the total voting power.

NEP's business is principally that of generating, purchasing, transmitting, and selling electric energy in wholesale quantities. Of these sales of energy, 91% are to affiliated companies for resale and 9% are to municipal and other utilities for resale. NEP is the wholesale supplier of substantially all of the electric energy requirements of its retail affiliates: Mass. Electric, Narragansett, and Granite State. Narragansett, however, receives credits against its purchases of power from NEP for the cost of generation from its Providence units which are integrated with NEP's facilities to achieve maximum economy and reliability. Discussions of generating properties, load growth, and fuel supplies include the related properties of Narragansett. Purchases, sales, and revenues are on the basis of NEP's net sales to Narragansett.

The business of NEP is not highly seasonal; electrical usage is, however, higher than average during periods of cold or hot weather. For details of Sales of Energy and Operating Revenue for the last five years, see "Operating Statistics" on page 15 of NEP's Annual Report to Shareholders.

On December 31, 1980, NEP had 726 employees.

Properties

The properties of NEP include fossil-fuel base load and intermediate load steam-generating units; conventional and pumped storage hydroelectric stations; internal combustion peaking units; ownership interests in the nuclear generating units of the Yankee Companies; and an integrated system of transmission lines and substations (see Map). This integrated system is interconnected with other major electric utilities in the Northeast region, including utilities in New York State, and is also indirectly interconnected with utilities in Canada. For details of mortgage liens on NEP's properties, see Note G of Notes to Financial Statements.

NEP's net capability at December 31, 1980, and the net generation for the twelve months ending December 31, 1980, from all sources, including entitlements in nuclear generating companies, were as follows:

Source	Location	Energy Source	Net Capability (MW)	Net Generation (000 of MWH)
Fossil Fuel Units				
Brayton Point Station	Somerset, Mass.			
Unit 1, 2, and 3		Oil-Coal(a)	1,164	6,369
Unit 4		Oil	455	2,006
Salem Harbor Station	Salem, Mass.			
Unit 1, 2, and 3		Oil-Coal(a)	318	1,792
Unit 4		Oil	455	1,524
Other System Stations(b)	Mass., Me., and R.I.	Oil(c)	329	623
		Oil-Coal(a)	103	468
Hydroelectric Stations				
Conventional	Mass., N.H., and Vt.	Water	592	1,182
Pumped Storage Bear Swamp	Rowe, Mass.		602	(160)
Nuclear Entitlements (d)	Conn., Me., Mass., and Vt.	Nuclear	384	1,947
Other (e)			25	1,614
Total			4,427	17,365

(a) See Conversion to Coal for information relating to these units.

(b) Includes (i) Narragansett units which are operated as an integral part of NEP's power supply; (ii) an interest in a jointly owned unit in Yarmouth, Maine; and (iii) diesel and gas turbine units.

(c) Three generating units at Manchester Street, Providence, R.I. with a net capability of 144 MW burn oil or, when available, gas. Two of these units burned gas for four months in 1980. Another generating unit with a net capability of 103 MW located at South Street, Providence can be converted to burn coal, if current environmental restrictions are eased.

(d) NEP's entitlements are equal to its ownership interests. (See Table on relationship among NEP and its affiliates in the NEES System page 4.)

(e) Includes megawatts and megawatthours from contracted purchases (some of which are life of the unit contracts and others for terms of years), unit sales contracts, economy interchanges through the New England Power Exchange, and other minor purchases and sales.

NEP has approximately 2,214 circuit miles of transmission lines and 110 substations. Additionally, NEP has contractual arrangements with other utilities providing for the transmission of power.

Each of the Yankee Companies owns a nuclear generating plant. The utility stockholders, including NEP, purchase the entire output of these plants in the same percentages as their respective stock ownerships except for minor entitlements taken by municipal utilities. The purchasing companies pay for such output on the basis of their respective shares of total fixed and operating costs of the plants plus a return on equity. NEP uses the equity method of accounting for its investments in these companies which are unconsolidated subsidiaries. The cost to NEP of decommissioning generating units owned by the Yankee Companies has not yet been finally determined. It is expected, however, that all such costs will ultimately be included in the cost of electric energy generated by such units and recovered through the rate making process.

NEP has agreed to lend an aggregate of $6 million to Connecticut Yankee to assist it in meeting its fuel requirements and construction program. Subject to obtaining necessary regulatory approvals, NEP has also agreed to provide financial support to Vermont Yankee in the form of an $8 million guarantee of Vermont Yankee obligations under a fuel financing arrangement.

NEP is a member of the New England Power Pool (NEPOOL) which, under the NEPOOL Agreement, provides for coordination of the planning and operation of the generation and transmission facilities of its members and incorporates generating capacity reserve obligations, provisions regarding the use of major transmission lines, and provisions for payment for facilities usage. Approximately 99% of the generating capacity in New England is represented in NEPOOL. The NEPOOL Agreement further provides for New England-wide central dispatch of generation through the New England Power Exchange. Under NEPOOL, operating and capital economies are made possible and reserves are established on a region-wide rather than an individual company basis. Therefore, the electric energy available to the NEES System and other participants is determined by the aggregate available to NEPOOL. At the time of maximum demand, which occurred on January 12, 1981, NEPOOL participants had 21,372 MW of capacity to meet the pool's peak load of 15,502 MW.

Load Growth and NEESPLAN

The 1980-1981 winter peak load of NEP was 3,144 megawatts and occurred on January 12, 1981. The summer peak was 3,140 megawatts and occurred September 2, 1980. NEP has been moving in recent years from a winter peak toward a summer peak system. The growth of System load is the subject of a comprehensive load forecasting program, with continuing review based on current information and developments. Plans for providing additional generating capability are developed from these load forecasts.

During the past five years System peak load growth (adjusted to normal weather conditions) has increased at an average rate of 2.5% per year. Prior to the 1973 oil embargo, average peak load growth was significantly higher. Projections of long-term peak demand indicate continued growth at the current rate in the absence of a concerted load management and conservation program - such as that proposed in NEESPLAN discussed below.

Because of the sudden reduction in rate of growth in recent years NEP currently has capacity, built on the basis of earlier load forecasts, which is in excess of what would otherwise be necessary to meet present load. As a result of uncertainties in future load growth, it is not clear how long this capacity, substantially built at pre-oil-crisis costs, will continue to be adequate. If the growth rate were to continue at 2.5%, present capacity would be sufficient to meet projected load and reserve requirements through the year 1989. Completion on time of the new units described below in which NEP is a joint owner and achievement of the conservation objectives of NEESPLAN would allow NEP to defer construction of any new generating capacity above that to which NEP is currently committed, to some time after 1996.

The NEES System companies instituted a 15-year plan (NEESPLAN) late in 1979 and updated the plan objectives in 1980. The plan is based on two principal objectives: to minimize increases in the cost of electricity to customers, and to reduce System reliance on foreign oil. The System has undertaken, through a major conservation and load management program, to reduce its annual peak load growth to 1.8% thereby reducing substantially the need for additional new generating capacity. It is estimated that such reductions would decrease NEP's capital requirements through 1996 by approximately two-thirds.

The conservation and load management program includes new rate incentives to encourage shifts of electricity use from peak periods of demand to off-peak periods, and special rates for customers who install heat storage devices. In addition, NEESPLAN contemplates the use of an automatic load control system. NEPSCO owns patented technology for such a system which has been licensed to Emerson Electric Co. of St. Louis, Missouri. Equipment incorporating this technology manufactured by Emerson is being tested on distribution lines of Mass Electric. Additional elements of the conservation and load management program involve solar applications and cogeneration.

With achievement of the conservation and load management goals of NEESPLAN, NEP will still require the full amount of additional capacity represented by its interests in the units described below under Additions to Generation in order to meet the reduced System load during the period through 1996. By 1996 NEP plans to purchase or generate approximately one million megawatthours of energy per year from alternate energy sources such as wood, wind, solid waste, and low-head hydro. This energy will be used to displace energy from oil-fired capacity.

A second major objective of NEESPLAN is to reduce NEP's reliance on foreign oil for power production from 73% of total energy requirements to no more than 10% by 1996. This would be accomplished (i) by conversion to coal of seven oil-fired units totaling 1,585 megawatts (see Conversion to Coal below) and (ii) by reducing NEP's reliance on foreign sources of oil through expansion of the exploration and development activities of NEEI (see Fossil Fuel Supply-Oil Procurement Program below). The conversion of the seven oil-fired units would reduce NEP's annual oil requirement by 15.7 million barrels.

Additions to Generation

NEP's construction program calls for estimated expenditures of about $205 million in 1981, $194 million in 1982, and $236 million in 1983, including Allowance for Funds Used During Construction (AFDC). NEP, along with the electric utility industry in general, continues to require new capital to meet its construction program. The ability to secure this needed capital is dependent upon obtaining a fair rate of return on capital which, among other things, is a function of pricing its product. (See Rates below.)

To provide for new generating capacity, options believed by NEP to be available include additional nuclear or coal capacity, expansion into alternate energy sources, and the possible purchase of Canadian hydroelectric energy. The other possibilities, oil-fired and gas-fired generation, are effectively precluded by Federal law, except for peaking use. NEP has elected to meet its requirements for major new generating capacity through participation with other New England utilities in the construction, under joint ownership agreements, of the nuclear generating units shown in Note J of Notes to Financial Statements. These units are designed to meet New England's future power supply needs under plans developed by NEPOOL.

Environmental and safety standards must be satisfied before and after construction of new generating units. Many of these standards and the technology available to meet them are changing rapidly. To meet these standards on a continuing basis, changes may be required in planned units, as well as modifications in units already under construction or in operation. Furthermore, it has been necessary for NEP to make substantial investments in new facilities prior to the issuance of required construction permits and operating licenses, with no assurance that such licenses will be issued. Moreover, the lead owners of the proposed nuclear units, in which NEP is joint owner, may defer completion of these units beyond the scheduled dates. The failure of a joint owner to meet its payment obligations under the joint ownership agreement may also cause delay in completion of the units. If completion of a proposed unit is delayed for any reason, the estimated total cost will increase or in the extreme case might require NEP to turn to other sources.

NEP estimates that in 1981, 1982 and 1983, it will invest $96 million, $117 million, and $141 million, respectively, including AFDC and initial fuel loads, in the proposed nuclear units.

Although NEP believes nuclear power is a viable and economic means of generating additional electricity at this time, the incident at Three Mile Island Unit No. 2 in Pennsylvania has caused widespread concern about the safety of nuclear generating plants and extensive public controversy concerning the further development of nuclear energy in the United States. The Nuclear Regulatory Commission (NRC) has instituted new safety requirements and is considering significant further revisions. As a result of increased opposition to nuclear power, legislation has been filed in Congress and various state legislatures to severely restrict or eliminate nuclear power as

an energy source. Legislation has also been proposed in Congress to mandate a utility insurance pool to indemnify utilities for clean up and plant rehabilitation costs arising from a nuclear accident. While the ultimate effect of this controversy cannot be predicted, it is likely to cause costly delays and modifications to the planned units in which NEP has an interest.

The Price Anderson Act, a Federal statute, limits liability for damages from a nuclear accident to $560 million, to be provided by commercial insurers, the Federal government, and retrospective premium assessments against the owners of nuclear reactors. The maximum assessment per year per operating reactor is $10 million. NEP's interests in the Yankee Companies, which would pay assessments, if any, are such that a maximum of $8.5 million per year could be charged against its interests.

Seabrook Units

The lead owner of the Seabrook Units, Public Service Company of New Hampshire (PSNH), has acquired the necessary permits for construction of the units. On December 31, 1980, Unit 1 and the portion of the project common to both units were about 43% complete and Unit 2 was about 7.5% complete.

PSNH has experienced difficulty in obtaining external financing and in maintaining cash flow adequate to fund continued construction of the units. PSNH has attempted to reduce its ownership by selling an aggregate of 22% of the units. PSNH received commitments to purchase 15% and is currently in the process of reducing its ownership from 50% to 35% of the units. This reduction should assist PSNH in alleviating the financial burden of constructing the units. It is probable that PSNH will require rate relief in future years in order to construct the units.

Another joint owner, The United Illuminating Company (UI), offered to sell 10% of the units. As a result of this offer, UI sold 2.5% of the units reducing its current ownership to 17.5% of the units.

Construction of the Seabrook Units may be suspended if court appeals or other challenges in licensing or other proceedings are decided adversely. An NRC decision in 1976 not to suspend the construction permit for the units has been appealed to the U. S. Court of Appeals for the First Circuit. The NRC has decided that certain seismic related issues should be reconsidered in a limited evidentiary hearing. PSNH has stated that it cannot predict the timing or outcome of these proceedings.

Millstone Unit No. 3

This unit is being constructed on a site in Waterford, Connecticut, where two other nuclear units are currently located. The NRC issued a construction permit for this unit in 1974 and on December 31, 1980, the unit was about 33% complete. Due to unfavorable rate treatment in Connecticut, subsidiaries of Northeast Utilities, the lead owners of the unit, were forced to defer completion of the unit until 1986. In light of this deferral, construction activity on this unit has been reduced.

Subsidiaries of Northeast Utilities have offered to sell 8.7% of the Millstone No. 3 Unit. These subsidiaries currently have a 65% interest in the unit.

Pilgrim Unit No. 2

This unit is proposed to be constructed on a site in Plymouth, Massachusetts, where one nuclear unit is currently located. The NRC has not issued a construction permit for this unit and construction has not started. Boston Edison Company, as lead owner of the unit, has developed a revised construction schedule. If a construction permit is received in 1981, the unit would be scheduled to commence commercial operation in 1987. The MDPU has been investigating the capacity needs of Boston Edison and the construction program required to meet those needs. Boston Edison has stated that it cannot predict when the MDPU will issue a decision on this matter.

Cancellation of Montague Units

On December 31, 1980 Northeast Utilities, the lead owner of these units, announced cancellation of the project. NEP had invested about $6 million in the project prior to cancellation. NEP will request regulatory approval to amortize and recover any loss through rates. See Note F of Notes to Financial Statements.

Conversion to Coal

A program to convert Units 1, 2, and 3 at Brayton Point to long-term coal burning in conformance with applicable state and Federal environmental requirements is underway. In connection with the long-term conversion of the Brayton Point units, NEP requested, and the Environmental Protection Agency (EPA) granted, permission for the interim burning of coal in two of these units, using existing facilities, until August, 1980. After the interim coal burn, the coal handling system at Brayton Point was removed from service for rebuilding on a permanent basis. This interim coal burning, which began December 1, 1979 and ended on July 25, 1980, reduced oil requirements by approximately 3 million barrels and saved approximately $27 million for customers of the NEES system.

Coal burning on a permanent basis in the three units is scheduled to begin in the Spring, Summer and Fall of 1981. The estimated cost of this conversion is approximately $180 million. The work includes major modifications to the units, as well as installation of substantial additional pollution control equipment.

NEP also hopes that three of its units at Salem, Massachusetts and a Narragansett unit at Providence, Rhode Island totaling 421 MW will be able to convert from oil to coal burning. Due to questions concerning the economic feasibility and environmental requirements, however, a definitive conversion plan has not yet been established. In March, 1980 the Department of Energy (DOE) issued a proposed order which, if finalized, would prohibit the burning of both gas and oil at the Salem Harbor Units which total 318 MW of capacity.

Fossil Fuel Supply

Except for the interim coal burn at Brayton Point and a four month use of natural gas at Providence, NEP burned oil in all its fossil fuel generating units during 1980. Of the 17.1 million barrels of residual fuel oil used, approximately 74% was imported.

The price of residual fuel oil purchased by NEP generally follows the trend of the world crude oil prices, which are determined primarily by the Organization of Petroleum Exporting Countries (OPEC). OPEC announced substantial price increases in 1980 resulting in a year-end cost to NEP of $31.50 per barrel, as compared to $22.11 per barrel in 1979. The conflict between Iran and Iraq has contributed to the increases in oil prices and uncertainties about availability of supply.

The availability and price of oil to NEP may be affected by many factors, including actions of the Federal government, and actions of foreign governments in oil producing and refining countries, actions of suppliers in allocating supplies or honoring their contracts, as well as the success of NEEI's oil and gas exploration and development program described below. The recent Presidential order which removed domestic oil price controls is expected to increase NEP's cost per barrel by about $1.50.

The price and availability of oil may also be affected by state and Federal air pollution control requirements. These requirements are reviewed and approved by EPA.

Oil Procurement Program

NEP pursues an aggressive and flexible buying policy to obtain a reliable supply of oil at the lowest available prices. Oil storage facilities are currently maintained by NEP and Narragansett with total capacity of approximately 2.7 million barrels.

NEP obtains its oil requirements through short-term arrangements with oil suppliers and purchases on the spot market. Its current arrangements provide for maximum annual purchases of approximately 23.2 million barrels and minimum annual purchases of approximately 15.2 million barrels through July 31, 1981. There are renewal options available to NEP which would extend most contracts through July 31, 1982. These arrangements enable NEP to reduce purchases in the event of favorable spot market prices, or when coal or gas burning is permitted. These commitments are in addition to any exchanges which may be arranged for the production of New England Energy Incorporated (NEEI).

NEEI

NEEI was created as the fuel subsidiary of the NEES system following the oil embargo of 1974. Its purpose was to find and develop domestic sources of oil and gas which could be converted to a reliable and economical fuel supply to the NEES system. In partnership with Samedan Oil Corporation, a subsidiary of Noble Affiliates, Inc., NEEI has engaged in oil and gas exploration and development in the United States, including the acquisition of offshore leases. From the inception of this program, NEEI has invested a total of $145 million in the partnership, of which $55 million was invested in 1980. NEEI

has financed this investment by bank loans, NEES investments and internal sources. As of December 31, 1980, NEEI's share of proved and probable reserves discovered by the partnership was approximately 2.1 million barrels of oil and 11.4 million equivalent barrels of natural gas. As of the same date, NEEI's share of the total oil and gas production from these reserves was 1.5 million equivalent barrels. Substantially all of this production has been sold to non-affiliates, and the proceeds used to purchase fuel oil for delivery to NEP pursuant to a fuel purchase agreement approved by the Securities and Exchange Commission. These deliveries have resulted in total savings to NEP customers of about $4.3 million. NEEI production in 1980 was approximately 900,000 equivalent barrels, and the estimate for 1981 is approximately 1.8 million equivalent barrels.

In October 1980, NEEI entered into a similar partnership agreement with Dorchester Exploration, Inc., a subsidiary of Dorchester Gas Corporation, for joint explorations and development of domestic oil and gas. NEEI invested $15 million in the partnership in 1980. NEEI expects to invest $110 million in these exploration and development partnerships in 1981.

NEEI from time to time may purchase fuel oil for sale to NEP, and has authority to engage in various other procurement and inventory activities for the System.

Coal Procurement Program

When the Brayton Point units are fully converted, NEP's estimated coal requirements will be approximately 3 million tons per year. Conversion of three units at Salem Harbor and one unit at Providence will add approximately one million tons per year to NEP's coal requirements.

During the calendar year 1981 the phase-in of the coal fired generation at Brayton Point will be completed. NEP has arrangements with coal suppliers in Pennsylvania, Virginia and West Virginia to obtain its coal requirements. Under these arrangements NEP will purchase a maximum of approximately 1,100,000 tons, and a minimum of approximately 900,000 tons in calendar year 1981. These arrangements allow NEP to increase its coal purchases to a minimum of 2,700,000 tons, and a maximum of 3,200,000 tons by 1983. Coal will also be purchased on a spot basis for test burning.

Transportation of Coal

NEP will take delivery of its purchased coal at loading ports on the East Coast, after transportation by railroad from the mine. The coal will be transportated from the loading ports to Brayton Point, Salem Harbor, and Providence by ocean-going collier and barge.

In October 1980, NEEI entered into a joint venture with Keystone Shipping Co., a subsidiary of Chas. Kurz & Co., Inc., to build, own or lease, and operate a coal-fired, self-unloading collier, to be chartered to NEP for twenty-four and one-half years. It is estimated that this vessel, when completed in 1983, will be capable of carrying 80% of the coal requirements of Brayton Point, or 60% of the combined requirements of Brayton Point, Salem Harbor, and Providence. Under the terms of the charter, NEP will pay charges at an annual rate equal to 90% of the current market rate for similar

coal-carrying vessels. Termination of the charter under certain conditions, could require NEP to assume the joint venture's obligations under a contemplated financing arrangement. The charter is subject to approval of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935. The total cost of the vessel will be approximately $66 million. NEES has guaranteed the performance of the joint venture under the construction contract.

NEP has chartered two additional vessels to transport coal from the loading ports to Brayton Point during the period prior to the in-service date of the NEEI-Keystone collier. Additional charters will be maintained thereafter to transport NEP's coal requirements in excess of the transportation capability of the NEEI-Keystone collier.

Hydroelectric Energy

NEP owns and operates hydroelectric facilities located on the Connecticut and Deerfield Rivers. Each of NEP's hydroelectric facilities is licensed by FERC, with expiration dates ranging from 1993 to 2020. These plants, consisting of 592 MW of conventional hydro and 602 MW of more flexible pumped storage, make NEP the largest hydroelectric operator in New England.

NEP will also purchase electricity produced by a 15 MW hydro development in Lawrence, Massachusetts. The project, under construction during 1980, is scheduled to be completed in 1981.

In New Hampshire a statute prohibits a company engaged in the generation of electrical energy by water power within that state from transmitting such energy outside of New Hampshire unless the company first obtains the consent of the New Hampshire Public Utilities Commission. On December 23, 1980, the New Hampshire Supreme Court issued a decision upholding the constitutionality of the New Hampshire Public Utilty Commission (NHPUC) order requiring NEP to sell all its hydroelectric power that is generated in New Hampshire to New Hampshire utilities, municipals, or persons. In the December 23, 1980 New Hampshire Supreme Court decision, the case was remanded to the NHPUC to determine a procedure for implementing the order. The implementation proceeding is underway at the NHPUC, and NEP has appealed the New Hampshire Supreme Court's ruling to the U.S. Supreme Court. The ultimate resolution of this matter is not expected to have any impact on NEP's earnings.

Nuclear Fuel Supply

As noted above, NEP participates with other New England utilities in the ownership of several nuclear units. The respective utilities primarily responsible for these units must arrange advance commitments for certain stages of the nuclear fuel cycle. NEP has been advised by those responsible for the units now in operation that adequate near-term commitments have been made for uranium concentrate, conversion to hexafluoride, enrichment of that gas, and fabrication of fuel assemblies. They anticipate that these contracts will be renegotiated or replaced as their expiration dates approach. The prices and terms of these new commitments cannot be predicted at this time. The lead owners of the nuclear units that are planned or under construction will also be negotiating and contracting for future commitments related to each of these elements of the fuel cycle.

Federal authorities have deferred indefinitely the commercial reprocessing of spent fuel and are currently developing policies for its disposal. Resolution of these issues could eventually affect the fuel supply and operation of the nuclear units in which NEP participates. These nuclear units all have on-site storage capacity for spent fuel through at least the late 1980's.

Regulation

NEP is subject to the jurisdiction of various federal and state regulatory bodies, including the Securities Exchange Commission under the Public Utility Holding Company Act of 1935, the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, state public utility commissions, and state and federal environmental bodies. Specific aspects of regulation are addressed in Additions to Generation, Conversion to Coal, Hydroelectric Energy, Rates, and Environmental Requirements.

Rates

NEP's resale rate to its affiliates and others is subject to the jurisdiction of the FERC. NEP's rates contain a fuel adjustment clause which automatically allows the rates for sales of power to be adjusted on a current basis to reflect changes in NEP's cost of fuel.

Recent rate cases are listed in the tabulation below. All other pending rate cases were settled during 1980.

Company Rate Designation	Rate Increase Requested	Effective Date	Amount of Increase (Decrease) Allowed Annual Basis
W-1	$ 1,200,000	7/1/79	($3,700,000)
W-2	$50,900,000	(a)	$36,200,000
W-3	$88,900,000	(b)	$79,106,000

(a) Approximately $10 million of the increase relating to coal burning expense was allowed to go into effect, subject to refund, on January 2, 1980. The FERC also denied approximately $10 million of the requested increase but allowed the balance to go into effect, subject to refund, on June 1, 1980, pending a final determination or approval of a settlement agreement. On November 26, 1980, FERC approved a settlement agreement reached by NEP and certain intervenors regarding the W-2 rates.

(b) On October 31, 1980, NEP filed with FERC its W-3 rate increase proposed to be effective January 1, 1981, which would increase revenues by $88.9 million annually based on a test year of 1981. On December 30, 1980 FERC issued an order allowing about $20 million of the increase reflecting costs associated with coal cnversion to go into effect, subject to refund, on January 2, 1981. The order also rejected about $9.9 million of the increase and allowed the balance of about $59 million, to become effective on June 1, 1981, subject to refund.

Environmental Requirements

NEP is subject to Federal, state, and local regulation of, among other things, air and water quality; storage, transportation, and disposal of hazardous substances and wastes; and environmental land use restrictions.

All agencies of the Federal government must prepare, for all major Federal actions significantly affecting the quality of human environment, a detailed statement of the environmental impact of each action. The New England states have environmental laws which require various agencies to prepare reports of the environmental impact of certain proposed actions; the Massachusetts' statute mandates minimization of environmental impact in connection with various state actions.

In Massachusetts, before electric generation and transmission facilities are constructed, the Massachusetts Energy Facilities Siting Council must approve the proposed construction location. In cases where an approval for a facility by a state or local agency has been unduly delayed, the Council may issue a certificate of environmental impact and public need, which would eliminate the necessity for such agency's approval.

Other New England states require, in certain circumstances, regulatory approval for site selection or construction of electric generating facilities. Connecticut, Maine, Massachusetts, and Rhode Island also have programs of coastal zone management which might restrict construction of power plants and other electrical facilities in coastal areas.

As discussed above, NEP is converting three units at Brayton Point to coal. Environmental expenditures relating thereto were about $34 million in 1980 and are estimated at $41 million for 1981 and $17 million in 1982. Additional expenditures will be required if the three units at Salem Harbor Station are converted to coal burning.

Pursuant to an agreement with certain Federal and state agencies and private environmental groups, NEP is constructing fish passage facilities on a staggered time schedule at three of its Connecticut River dams. The fish passage facility at Vernon Dam is essentially complete and is scheduled to begin operation in May 1981. The fish passage facility at Bellows Falls Dam is in the final design process and construction is scheduled to begin in May 1981. A third fish passage facility will be constructed at Wilder Dam in 1983 if salmon return in sufficient numbers to the Connecticut River. Expenditures for these fish passage facilities were approximately $6 million in 1980 and are estimated at $2 million in 1981, and $4 million in 1982.

NEP may be required by the EPA to make structural modifications to the water intake system at its Brayton Point Station. No cost estimate is currently available.

Additional capital expenditures for other environmental facilities were $3.9 million in 1980 and are estimated at $6.5 million in 1981, and $6.7 million in 1982.

Air

Pursuant to Federal regulations, each New England state has issued an implementation plan that limits air pollutants emitted from facilities such as generating stations. The EPA has issued regulations concerning the prevention of significant deterioration of air quality in areas where the existing air quality meets ambient air quality standards. The EPA also requires states to prepare plans to improve air quality in those areas not meeting ambient air quality standards. The New England states are revising their pollution control regulations to conform to these requirements. It is possible that revised regulations could restrict possible future fossil-fired plant siting or adversely affect fuel selection.

In November 1980, NEP applied to the Governor of Massachusetts for a temporary emergency suspension of certain portions of the Massachusetts Implementation Plan. The suspension would have allowed two units at Salem Harbor to burn coal on a temporary basis in order to alleviate a regional energy emergency. Similarly, Narragansett applied to the Governor of Rhode Island for a temporary emergency suspension of certain portions of the Rhode Island Implementation Plan which would allow temporary coal burning at South Street Station. Although it was found that the stringent statutory requirements for an emergency suspension could not be met, both the Governor of Massachusetts and the Governor of Rhode Island petitioned the President of the United States for relief under the President's general authority.

The EPA recently approved the burning of 2.2% sulfur content oil at South Street Station, Providence when the nearby Manchester Street Station is burning natural gas or is not operating. Prior to this time both plants burned 1.0% sulfur content oil. The new arrangement, which improves the overall air quality in and around Providence, is the first such plan to be approved by the EPA. The burning of natural gas, when available, at Manchester Street also saves approximately 50,000 barrels of foreign oil per month.

Massachusetts has regulations to prevent air pollution NEP has been notified, on occasion, of minor violations of these regulations.

Water

A Federal statute prohibits the discharge of any pollutant (including heat), except in compliance with a discharge permit issued by the EPA for an initial term of no more than five years. NEP and Narragansett have received required permits for all their steam-generating plants. Occasional minor violations of the terms of these permits have occurred.

In 1979 a citizens group brought suit against EPA alleging failure of the EPA to regulate and require discharge permits on existing and proposed dams. NEP, along with other electric utilities, filed a motion to intervene in the suit because an adverse determination could increase costs and adversely affect NEP's ability to operate its hydroelectric facilities. To date no decision has been reached in this matter.

Nuclear

The NRC, along with other Federal and state agencies, has extensive regulations pertaining to environmental aspects of nuclear reactors. The NRC has extensive regulations pertaining to safety aspects of nuclear reactors, including design controls and inspection programs to mitigate any possibility of nuclear accidents and to reduce any damages therefrom. See Additions to Generation for further information.

Other

NEP participates from time to time along with the other NEES subsidiaries in administrative rulemaking proceedings and law suits initiated by their representative trade associations.

Research and Development

The NEES System, acting principally through NEPSCO, is engaged in various research and development projects. Areas in which work is being carried out include coal-oil mixture combustion, methods of reducing stack emissions, methods of avoiding biological entrainment and entrapment in plant cooling water, and an automatic load control system. Total research and development costs expensed were approximately $3 million in each of the years 1978 and 1979 and $2.9 million in 1980.

Executive Officers

The Treasurer and the Clerk are elected by the stockholders to hold office until the next Annual Meeting of Stockholders and until their successors are duly chosen and qualified. The other officers are elected by the Board of Directors to hold office subject to the pleasure of the Directors and until the first meeting of Directors after the next Annual Meeting of Stockholders and until their successors are duly chosen and qualified. Certain officers of NEP are, or at various times in the past have been, officers and directors of affiliated companies within the NEES System with which NEP has entered into contracts and had other business relations.

Guy W. Nichols - Age 55 - Chairman of NEP since 1978, Chairman, President and Chief Executive of NEES. Served as President of NEES since 1970 and Chief Executive of NEES since 1972 and was elected Chairman of NEES and NEP in 1978.

Joan T. Bok - Age 51 - Vice Chairman of NEP and NEES - Served as Assistant to the President of NEES until 1977 and as Vice President of NEES from 1977 to 1979 when elected Vice Chairman.

John F. Kaslow - Age 48 - President of NEP and Senior Vice President of NEES - Served as Vice President of NEP until 1979 when elected President and as Vice President of NEES from 1973 to 1979.

Robert O. Bigelow - Age 54 - Vice President of NEP since 1979 - Director of Planning and Power Supply for New England Power Service Company since 1973.

Frederic E. Greenman - Age 44 - Vice President of NEP since 1979 and Associate General Counsel - Served as Assistant General Counsel from 1973 to 1978 when appointed Associate General Counsel.

Russell A. Holden - Age 56 - Vice President of NEP since 1969.

Samuel Huntington - Age 41 - General Counsel and Vice President of NEP and NEES - Served as Assistant General Counsel from 1976 to 1978 and Associate General Counsel in 1978 when appointed General Counsel.

Edward M. Keith - Age 56 - Vice President of NEP since 1978 - Director of Thermal Production since 1975.

James C. Nesbitt - Age 57 - Vice President-Finance of NEP and NEES - Served as Treasurer from 1970 to 1980 when elected Vice President-Finance.

Edward A. Plumley - Age 61 - Vice President of NEP since 1969 in charge of environmental affairs.

Donald E. Rose - Age 53 - Treasurer of NEP and NEES - Served as Assistant Treasurer of NEES from 1971 to 1980 when elected Treasurer.

Paul J. Sullivan - Age 56 - Vice President of NEP and Senior Vice President of NEES - Served as Vice President of NEES from 1974 to 1979 when elected Senior Vice President.

Robert King Wulff - Age 42 - Clerk of NEP and Assistant General Counsel - Served as Clerk and Assistant General Counsel since 1975.

Item 2. Properties (See Map, and Item 1. Business)

Item 3. Legal Proceedings (See Item 1. Business-Rates, Environmental Requirements, and Note K of Notes to Financial Statements)

Item 4. Security Ownership of Certain Beneficial Owners and Management

NEES owns all of the common stock of NEP constituting 98.77% of the voting securities of NEP.

All directors and officer's of NEP own an aggregate of 9,655 common shares of NEES which is less than 1/10 of 1% of total shares issued and outstanding. The common shareholdings listed here are shares beneficially owned, directly or indirectly, at March 1, 1981. Fractional shares are not included.

Part II

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

There is no market since all of the registrant's common stock is owned by NEES.

Item 6. Selected Financial Data

Incorporated herein by reference to the 1980 NEP Annual Report.

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

Incorporated herein by reference to the 1980 NEP Annual Report. (See: Financial Review)

Item 8. Financial Statements and Supplementary Information

Incorporated herein by reference to the 1980 NEP Annual Report.

Part III

Item 9. Directors and Executive Officers of the Registrant

Directors - Incorporated herein by reference to the Information Statement dated March 26, 1981 for the Special Meeting in Lieu of the Annual Meeting of Stockholders.

Executive Officers - See Item 1 Business - Officers

Item 10. Management Remuneration and Transactions

Incorporated herein by reference to the Information Statement dated March 26, 1981 for the Special Meeting in Lieu of the Annual Meeting of Stockholders.

Part IV

Item 11. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

Exhibits

See Index to Exhibits on page 22.

Financial Statement Schedules:

See Index to Financial Statement on page 23.

Reports on Form 8-K:

There were no reports on Form 8-K filed during the fourth quarter of 1980.

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.

NEW ENGLAND POWER COMPANY

March 26, 1981

By J. F. Kaslow
J. F. Kaslow

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

(Signature and Title)	Directors (a majority)
Principal Executive Officer	Samuel Huntington Samuel Huntington
J. F. Kaslow J. F. Kaslow	Joan T. Bok Joan T. Bok
Principal Financial Officer	Guy W. Nichols Guy W. Nichols
J. C. Nesbitt J. C. Nesbitt	J. C. Nesbitt J. C. Nesbitt
Principal Accounting Officer	J. F. Kaslow J. F. Kaslow
D. E. Rose D. E. Rose	

List of Exhibits

(3) By-Laws of the Company....................................Filed herewith

(4) (a) Indenture of Trust and First Mortgage dated as of November 15, 1936 (First Mortgage Indenture) and twenty-three Supplements thereto, incorporated herein by reference and filed as follows:

First Mortgage Indenture dated
November 15, 1936....................................File No. 2-4126
Exhibit B-1

First Supplemental Indenture to First
Mortgage Indenture, July 1, 1948....................File No. 2-7573
Exhibit 7-B

Second Supplemental Indenture to First
Mortgage Indenture, July 1, 1949....................File No. 2-8008
Exhibit 7-C

Third Supplemental Indenture to First
Mortgage Indenture, February 1, 1951 ....File No. 2-8762
Exhibit 7-D

Fourth Supplemental Indenture to First
Mortgage Indenture, June 1, 1952....................File No. 2-9683
Exhibit 4-E

Fifth Supplemental Indenture to First
Mortgage Indenture, January 1, 1955.................Filed herewith

Sixth Supplemental Indenture to First
Mortgage Indenture, February 1, 1957................Filed herewith

Seventh Supplemental Indenture to First
Mortgage Indenture, June 1, 1958....................Filed herewith

Eighth Supplemental Indenture to First
Mortgage Indenture, November 1, 1961................Filed herewith

Ninth Supplemental Indenture to First
Mortgage Indenture, December 1, 1962................Filed herewith

Tenth Supplemental Indenture to First
Mortgage Indenture, November 1, 1963................Filed herewith

Eleventh Supplemental Indenture to First
Mortgage Indenture, December 1, 1966................Filed herewith

Twelfth Supplemental Indenture to First
Mortgage Indenture, October 1, 1967.................Filed herewith

Thirteenth Supplemental Indenture to First
Mortgage Indenture, July 1, 1968....................Filed herewith

Fourteenth Supplemental Indenture to First
Mortgage Indenture, December 1, 1968.................Filed herewith

Fifteenth Supplemental Indenture to First
Mortgage Indenture, September 1, 1969................Filed herewith

Sixteenth Supplemental Indenture to First
Mortgage Indenture, December 1, 1970.................Filed herewith

Seventeenth Supplemental Indenture to First
Mortgage Indenture, July 1, 1972.....................Filed herewith

Eighteenth Supplemental Indenture to First
Mortgage Indenture, August 1, 1973...................Filed herewith

Nineteenth Supplemental Indenture to First
Mortgage Indenture, December 1, 1973.................Filed herewith

Twentieth Supplemental Indenture to First
Mortgage Indenture, March 1, 1975....................Filed herewith

Twenty-first Supplemental Indenture to First
Mortgage Indenture, January 1, 1977..................Filed herewith

Twenty-second Supplemental Indenture to First
Mortgage Indenture, July 1, 1978.....................Filed herewith

Twenty-third Supplemental Indenture to First
Mortgage Indenture, March 15, 1980...................Filed herewith

(b) General and Refunding Mortgage Indenture and Deed of Trust dated as of January 1, 1977 (G & R Indenture) and two Supplements thereto, incorporated herein by reference and filed as follows:

G & R Indenture dated January 1, 1977.................Filed herewith

First Supplemental Indenture to G & R
Indenture, July 1, 1978..............................Filed herewith

Second Supplemental Indenture to G & R
Indenture, March 15, 1980............................Filed herewith

(10) Material Contracts

Unless otherwise indicated the copies of contracts listed below are incorporated by reference to the appropriate exhibit numbers and the Commission file numbers indicated in parenthesis.

(a) Boston Edison Company et al and New England Power Company: Agreement for Joint Ownership, Construction, and Operation of Pilgrim Unit No. 2 dated October 13, 1972 (Exhibit 5-3(d), File No. 2-45990): Amendments dated August 15, 1973, September 15, 1974, and December 1, 1974 (Exhibit 5-2(c), File No. 2-52820): Amendments dated February 15, 1975, April 30, 1975, June 30, 1975, and November 30, 1975: Agreement for Sharing Costs Associated with Pilgrim Unit No. 2 Transmission dated October 13, 1972 (Exhibit 5-3(e), File No. 2-45990): Instrument of Transfer to the Company with respect to Pilgrim Unit No. 2 and Assumption of Obligations dated December 17, 1975 (Exhibit 5-3(c), File No. 2-57831).

(b) The Connecticut Light and Power Company et al and New England Power Company: Sharing Agreement for Joint Ownership, Construction and Operation of Millstone Unit No. 3 dated as of September 1, 1973, and Amendment dated as of August 1, 1974 (Exhibit 5-5, File No. 2-52820). Transmission Support Agreement dated August 9, 1974; Instrument of Transfer to the Company with respect to the 1979 Connecticut Nuclear Unit, and Assumption of Obligations, dated December 17, 1975 (Exhibit 5-6(b), File No. 2-57831).

(c) Connecticut Yankee Atomic Power Company and New England Power Company: Stockholders Agreement dated July 1, 1964: Power Purchase Contract dated July 1, 1964: Capital Funds Agreement dated September 1, 1964; Transmission Agreement dated October 1, 1964 (Exhibit 13-9-A through D, File No. 2-23006): Agreement revising transmission Agreement dated July 1, 1979; filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 1979.

(d) Connecticut Yankee Atomc Power Company and New England Power Company: Supplementary Power Contract dated March 1, 1978. (Exhibit 5-8(b), File No. 2-61881). Agreement amending Supplementary Power Contract dated August 22, 1980. Filed as an Exhibit to NEES's Form 10-K for the year ended December 31, 1980.

(e) Connecticut Yankee Atomic Power Company and New England Power Company: Five Year Capital Contribution Agreement dated November 1, 1980. Filed as an Exhibit to NEES's Form 10-K for the year ended December 31, 1980.

(f) Maine Yankee Atomic Power Company and New England Power Company: Capital Funds Agreement dated May 20, 1968 and Power Purchase Contract dated May 20, 1968 (Exhibit 4-5, File No. 2-29145); Stockholders Agreement dated May 20, 1968 (Exhibit 5-20, File No. 2-34267).

(g) Massachusetts Electric Company and New England Power Company: Primary Service for Resale dated February 15, 1974 (Exhibit 5-17(a), File No. 2-52969). Amendment of Service Agreement dated November 27, 1978; filed as an Exhibit to Massachusetts Electric Company's Form 10-K for the year ended December 31, 1978.

(h) The Narragansett Electric Company and New England Power Company: Primary Service for Resale dated February 15, 1974 (Exhibit 4-1(b), File No. 2-51292); and revised pages dated January 28, 1976 (Exhibit 5-12, File No. 2-57831); Amendment of Service Agreement dated November 27, 1978; Filed as an Exhibit to The Narragansett Electric Company's Form 10-K for the year ended December 31, 1978.

(i) Partnership Agreement with Samedan Oil Corporation dated September 20, 1974; Amendment dated effective January 1, 1977 (Exhibit 5-12(c), File No. 2-59182); Addendum to Partnership Agreement dated July 17, 1978; filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 1978.

(j) Partnership Agreement with Dorchester Exploration, Incorporated dated as of October 21, 1980 (Exhibit B-1A to Form U-1, File No. 70-6513).

(k) Construction Contract between New England Collier Company, a joint venture organized by Keystone Shipping Company and New England Energy Incorporated and General Dynamics Corporation dated as of February 17, 1981. Filed as an Exhibit to NEES's Form 10-K for the year ended December 31, 1980.

(l) New England Power Pool Agreement (Exhibit 4(e), File No. 2-43025); Amendments dated July 1, 1972, and March 1, 1973 (Exhibit 5-15, File No. 2-48543); Amendment dated March 15, 1974 (Exhibit 5-5, File No. 2-52775); Amendment dated June 1, 1975 (Exhibit 5-14, File No. 2-57831); Amendment dated September 1, 1975 (Exhibit 5-13, File No. 2-59182); Amendments dated December 31, 1976, January 31, 1977, July 1, 1977, and August 1, 1977 (Exhibit 5-16, File No. 2-61881). Amendments dated August 15, 1978, January 3, 1980, and February 1980 (Exhibit 5-3, File No. 2-68283).

(m) Public Service Company of New Hampshire and New England Power Company et al: Agreement for Joint Ownership, Construction and Operation of New Hampshire Nuclear Units dated as of May 1, 1973; Amendments dated May 24, 1974, June 21, 1974, September 25, 1974 and October 25, 1974 (Exhibit 5-18(b), File No. 2-52820); Amendment dated January 31, 1975 (Exhibit 5-16(b), File No. 2-57831); Amendments dated April 18, 1979, April 25, 1979, June 8, 1979, October 11, 1979, December 15, 1979, June 16, 1980, December 31, 1980. Filed as an Exhibit to NEES's Form 10-K for the year ended December 31, 1980.

Transmission Support Agreement dated as of May 1, 1973 (Exhibit 5-23, File No. 2-49184); Instrument of Transfer to the Company with respect to the New Hampshire Nuclear Units and Assumption of Obligations dated December 17, 1975; Agreement Among Participants in New Hampshire Nuclear Units, certain Massachusetts Municipal Systems and Massachusetts Municipal Wholesale Electric Company dated May 28, 1976 (Exhibit 5-16(b), File No. 2-57831).

(n) Vermont Yankee Nuclear Power Corporation and New England Power Company: Capital Funds Agreement dated February 1, 1968: Amendment dated March 12, 1968; Power Purchase Contract dated February 1, 1968 (Exhibit 4-6, File No. 2-29145).

(o) Yankee Atomic Electric Company and New England Power Company: Research Agreement dated June 30, 1959: Power Purchase Contract dated June 30, 1959; Indenture dated October 27, 1958; Transmission Agreement dated June 30, 1959 (Exhibits 13-6-B through 13-6-E, File No. 2-15798).

(p) NEES Companies' Retirement Supplement Plan, dated November 1, 1979. Filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 1979.

(q) NEES Companies' Executive Supplemental Retirement Plan, dated December 4, 1978. Filed as an Exhibit to NEES's Form 10-K for the year ended December 31, 1980.

(r) NEES Companies' Incentive Compensation Plan, revised as of December 5, 1978. Filed as an Exhibit to NEES's Form 10-K for the year ended December 31, 1980.

NEW ENGLAND POWER COMPANY
INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

Other Regulation S-X schedules have been omitted since the required information is not applicable or is not material, or because the information required is included in the financial statements or the notes thereto.

CONSENT AND REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

We consent to the incorporation by reference of our report dated January 21, 1981 which is included on page 3 of the annual report to shareholders of New England Power Company for the year 1980. Our examination of the financial statements included an examination of the supporting schedules listed in the index on page 23 of this Form 10-K.

In our opinion, the supporting schedules referred to above (pages 25 through 32 inclusive), when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be set forth therein in conformity with generally accepted accounting principles applied on a consistent bases.

Boston, Massachusetts
January 21, 1981

Coopers & Lybrand

NEW ENGLAND POWER COMPANY

SCHEDULE III - INVESTMENTS IN EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM RELATED PARTIES

Year Ended December 31, 1980
(Thousands of Dollars)

Column A	Column B		Column C		Column D		Column E	
	Balance at Beginning of Period		Additions		Deductions		Balance at End of Period	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Name of Issuer and Description of Investment and Percent Ownership	Number of Shares	Amount	Equity in Income(Loss)	Other	Distributed Earnings	Other	Number of Shares	Amount
Yankee Atomic Electric Company (30%)	46,020	$ 6,167	$ 514		$ 564		46,020	$ 6,117
Connecticut Yankee Atomic Power Company (15%)	55,200	7,313	927	750(A)	420		55,200	8,570
Vermont Yankee Nuclear Power Corporation (20%)	80,002	11,639	1,160		1,200		80,002	11,599
Maine Yankee Atomic Power Company (20%)	100,000	13,700	1,315		1,300		100,000	13,715
Nuclear Power Companies, at equity		$38,819	$3,916	$750	$3,484			$40,001

(A) Subordinated Note.

NEW ENGLAND POWER COMPANY

SCHEDULE III - INVESTMENTS IN EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM RELATED PARTIES

Year Ended December 31, 1979
(Thousands of Dollars)

Column A	Column B		Column C		Column D		Column E	
	Balance at Beginning of Period		Additions		Deductions		Balance at End of Period	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Name of Issuer and Description of Investment and Percent Ownership	Number of Shares	Amount	Equity in Income(Loss)	Other	Distributed Earnings	Other	Number of Shares	Amount
Yankee Atomic Electric Company (30%)	46,020	$ 6,202	$ 610		$ 645		46,020	$ 6,167
Connecticut Yankee Atomic Power Company (15%)	55,200	6,919	819		425		55,200	7,313
Vermont Yankee Nuclear Power Corporation (20%)	80,002	11,678	1,161		1,200		80,002	11,639
Maine Yankee Atomic Power Company (20%)	100,000	13,360	1,330		990		100,000	13,700
Nuclear Power Companies, at equity		$38,159	$3,920		$3,260			$38,819

NEW ENGLAND POWER COMPANY

SCHEDULE III - INVESTMENTS IN EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM RELATED PARTIES

Year Ended December 31, 1978
(Thousands of Dollars)

Column A	Column B		Column C		Column D		Column E	
	Balance at Beginning of Period		Additions		Deductions		Balance at End of Period	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Name of Issuer and Description of Investment and Percent Ownership	Number of Shares	Amount	Equity In Income(Loss)	Other	Distributed Earnings	Other	Number of Shares	Amount
Yankee Atomic Electric Company (30%)	46,020	$ 6,118	$ 821		$ 737		46,020	$ 6,202
Connecticut Yankee Atomic Power Company (15%)	55,200	7,086	300		467		55,200	6,919
Vermont Yankee Nuclear Power Corporation (20%)	80,002	11,902	1,174		1,398		80,002	11,678
Maine Yankee Atomic Power Company (20%)	100,000	13,360	1,340		1,340		100,000	13,360
Nuclear Power Companies, at equity		$38,466	$3,635		$3,942			$38,159

NEW ENGLAND POWER COMPANY

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1980
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at beginning of period	Additions at cost	Retirements or sales (B)	Other changes-debit and/or credit-describe (C)	Balance at end of period
Steam production plant	$440,497	$ 2,646	$ 7,484		$435,659
Other production plant	227,114	366	94		227,386
Transmission plant	217,559	4,015	347		221,227
Distribution plant	2,262	67	7		2,322
General plant (E)	52,016	5,188	191		57,013
Total utility plant (D)	$939,448	$ 12,282	$ 8,123		$943,607
Construction work in progress	$237,406	$138,184 (A)		$(5,914)	$369,676

(A) Net increase during period. Cost of additions to property, plant and equipment are first charged to construction work in progress and when additions are completed they are transferred to plant accounts.

(B) Comprises $8,097,000 of retirements and sales charged against accumulated provisions for depreciation and $26,000 of nondepreciable property sold or written off.

(C) $5,914,000 transferred from construction work in progress to unamortized property losses. (See note F of Notes to Financial Statements).

(D) For depreciation method and rate see note A-3 of Notes to Financial Statements.

(E) Includes general plant, property held for future use and completed construction not classified.

NEW ENGLAND POWER COMPANY

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1979
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at beginning of period	Additions at cost	Retirements or sales (B)	Other changes-debit and/or credit-describe (C)	Balance at end of period
Steam production plant	$437,701	$ 3,319	$ 523		$440,497
Other production plant	226,918	280	74	$ (10)	227,114
Transmission plant	208,586	9,446	709	236	217,559
Distribution plant	2,251	23	13	1	2,262
General plant (E)	49,738	2,629	124	(227)	52,016
Total utility plant (D)	$925,194	$15,697	$1,443		$939,448
Construction work in progress	$199,916	$71,188 (A)		$(33,698)	$237,406

(A) Net increase during period. Cost of additions to property, plant and equipment are first charged to construction work in progress and when additions are completed they are transferred to plant accounts.

(B) Comprises $1,434,000 of retirements and sales charged against accumulated provisions for depreciation and $9,000 of nondepreciable property sold or written off.

(C) Comprises reclassification between plant accounts and $33,698,000 transferred from construction work in progress to unamortized property losses ($30,562,000) and deferred charges and other assets ($3,136,000). (See note F of Notes to Financial Statements.)

(D) For depreciation method and rate see note A-3 of Notes to Financial Statements

(E) Includes general plant, property held for future use and completed construction not classified.

NEW ENGLAND POWER COMPANY

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1978
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at beginning of period	Additions at cost	Retirements or sales (B)	Other changes-debit and/or credit-describe (C)	Balance at end of period
Steam production plant	$434,816	$ 3,231	$ 478	$132	$437,701
Other production plant	226,788	198	67	(1)	226,918
Transmission plant	204,050	5,175	646	7	208,586
Distribution plant	1,981	306	32	(4)	2,251
General plant (E)	20,183	29,675	9[illegible]	(25)	49,738
Total utility plant (D)	$887,818	$38,585	$1,31[illegible]	$109	$925,194
Construction work in progress	$160,570	$39,346 (A)			$199,916

(A) Net increase during period. Cost of additions to property, plant and equipment are first charged to construction work in progress and when additions are completed they are transferred to plant accounts.

(B) Comprises $1,316,000 of retirements and sales charged against accumulated provisions for depreciation and $2,000 of nondepreciable property sold or written off.

(C) Comprises reclassification between plant accounts and $109,000 transferred from nonutility property.

(D) For depreciation method and rate see note A-3 of Notes to Financial Statements.

(E) Includes general plant, property held for future use and completed construction not classified.

NEW ENGLAND POWER COMPANY

SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1980, 1979 and 1978
(Thousands of Dollars)

Column A	Column B	Column C Additions		Column D Deductions from reserves		Column E
		(1)	(2)	(1)	(2)	
Description	Balance at beginning of period	Charged to profit and loss or income (A)	Charged to other accounts-describe (B)	Retirements, renewals and replacements	Other-describe (C)	Balance at end of period
1980						
Accumulated provisions for depreciation of electric property	$243,789	$26,600	$290	$8,097	$476	$262,106
1979						
Accumulated provisions for depreciation of electric property	$218,849	$26,100	$581	$1,434	$307	$243,789
1978						
Accumulated provisions for depreciation of electric property	$194,774	$24,900	$803	$1,317	$311	$218,849

(A) Does not include amortization on property losses of $6,100,00 in 1980 and $2,600,000 in each of the years 1979 and 1978. (See note F of Notes to Financial Statements.)
(B) Salvage value of property retired ($290,000) in 1980, ($581,000) in 1979 and ($654,000) in 1978 and transfer from accumulated provisions for depreciation on nonutility property ($149,000) in 1978.
(C) Cost of removing property retired.

NEW ENGLAND POWER COMPANY

SCHEDULE IX - SHORT-TERM BORROWINGS (A)
Year Ended December 31, 1980, 1979 and 1978
(Thousands of Dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Category of aggregate short-term borrowings	Balance at end of year	Weighted average interest rate at end of year	Maximum amount outstanding at any month end	Average daily amount outstanding during the year	Weighted daily average interest rate during the year
1980					
Commercial Paper	$90,855	19.3%	$90,855	$38,874	13.2%
1979					
Commercial Paper	$10,500	13.3%	$17,000	$ 3,204	11.1%
1978					
Commercial Paper	$ 3,500	10.1%	$60,200	$24,353	7.4%

(A) See note D of Notes to Financial Statements.