

THE UNITED ILLUMINATING COMPANY
1993 ANNUAL REPORT

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UI AT A GLANCE

Company and Customer Profiles



Number of employees	1,490
Total payroll (000)	\$ 75,305
Total taxes (000)	\$ 84,401
Total operating revenue (000)	\$ 653,023
Net utility plant at year-end (000)	\$ 1,361,106
Fuel and energy cost (000)	\$ 138,050
Shareowners (total)	21,919
In Connecticut	8,888
Number of shares at year-end	14,083,291
Dividends Declared per Share	\$ 2.66
Average kwh use per residential customer	6,736
Average fuel cost per kwh generated	2.06¢
Generating capability at year-end (MW)	1,515.4
Peak Load (MW)	1,113.9
Barrels of oil burned (42 gal/BBL)	3,241,203
Coal burned (tons)	744,667
Coal burned oil equivalent (BBL)	3,047,468
Gas (MCF)	266,250

Customer Profile:

	Residential	Commercial	Industrial	Other	Total
Average number	273,752	28,968	959	1,175	304,854
Kwh Sales (000)	1,844,043	2,359,023	1,036,547	50,715	5,290,326
Sales Revenue (000)	238,185	256,559	97,466	11,549	603,559
Average Revenue per kwh	12.92¢	10.88¢	9.40¢	22.38¢	11.41¢

UI Generating Stations, Nuclear Capacity & Facilities



New Haven Harbor Station, New Haven, CT
Bridgeport Harbor Station, Bridgeport, CT

Nuclear Capacity

Name	Location	In Service Date	Capacity (MW)	UI Share (MW)	UI Share (%)
Connecticut Yankee	Haddam Neck, CT	1968	585.2	55.4	9.5%
Millstone Unit 3	Waterford, CT	1986	1,148.7	42.3	3.685%
Seabrook Unit 1	Seabrook, NH	1990	1,150.0	201.3	17.5%

UI Facilities

Headquarters and Administrative Offices:
Located at 157 Church Street, New Haven, CT

Transmission & Distribution:
UI maintains approximately 95 circuit miles of overhead transmission lines and approximately 47 circuit miles of underground transmission cables. The Company also owns and operates 23 bulk substations and 50 distribution substations. There are more than

3,100 pole-line miles of overhead distribution lines and about 135 conduit-bank miles of underground distribution cables in UI's system.

Eastern Division (Towns east of the Housatonic River): Division Headquarters in Hamden. Satellite service centers are also maintained in New Haven and in Milford.

Western Division (Towns west of the Housatonic River): Division Headquarters in Shelton. A satellite service center is also maintained in Bridgeport.

Customer Service Centers:
New Haven, Bridgeport and Shelton.

East Shore Test Center:
Corporate environmental and analytical testing services facility in New Haven.

FINANCIAL HIGHLIGHTS

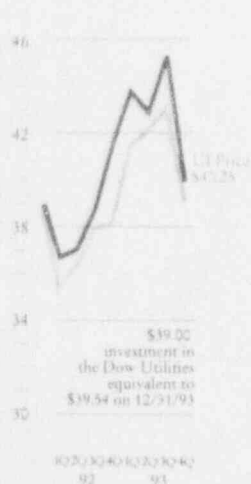
The United Illuminating Company, incorporated in 1899, serves approximately 305,000 customers in a 335-square-mile service territory in southern

Connecticut. The population of the 17-town service area, approximately 698,000, represents 21% of the State's population.

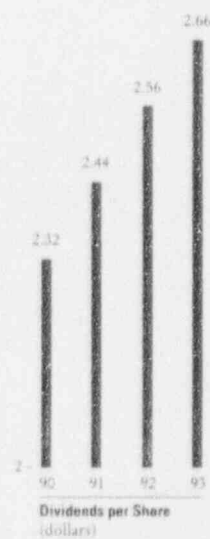
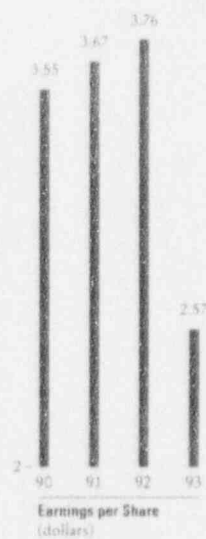
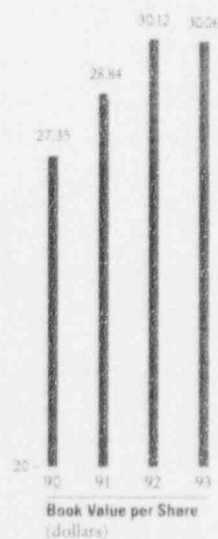
	1993	1992
Operating Revenues (000)	\$ 653,023	\$ 667,325
Balance for Common Stock (000)	\$ 36,163	\$ 52,430
Earnings per Share of Common Stock	\$ 2.57 ^a	\$ 3.76 ^a
Dividends Declared per Share of Common Stock	\$ 2.66	\$ 2.56
Payout Ratio	103%	68%
Average Return on Equity	8.45%	12.67%
Book Value per Share	\$ 30.06	\$ 30.12
Equity Capitalization	31.1%	30.7%
Average Common Stock Shares Outstanding (000)	14,064	13,941
Sales of Energy (mwh)	5,290,326	5,152,824

^aIncludes a reorganization charge of \$6e per share.

^aIncludes net gains of \$9e per share exclusive to 1992.



UI Common Stock Price compared with Dow Jones Utility Average

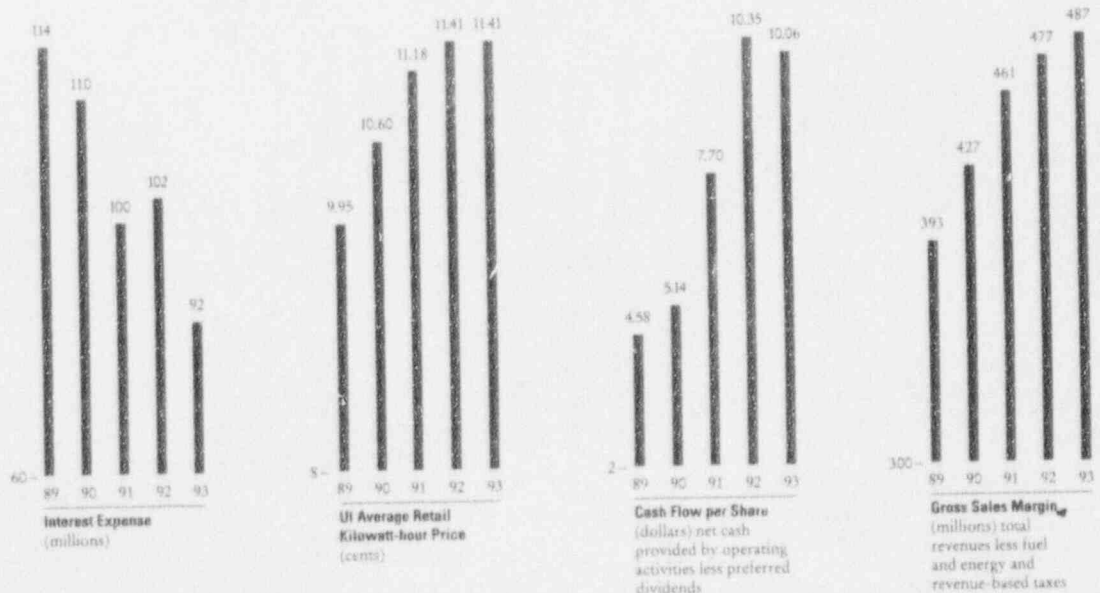


With change in the air and a new century only six years away, United Illuminating is working aggressively to ensure the continuing success of the Company in both the near- and long-term. UI has a history of setting ambitious yet realistic goals and delivering on its promises. UI's performance in 1993 demonstrated once again our commitment to provide value-added service to our customers and favorable returns to shareowners.

In February, the Board of Directors voted a 3.9% increase in the common stock quarterly dividend to an indicated annual rate of \$2.66. This action was consistent with UI's goal of delivering regular increases in keeping with growth in earnings and cash flow. The Company also established a 4% long-term target for growth in earnings from operations (excluding one-time items) from a 1992 level of \$3.17. Although 1993 earnings from operations were down slightly from the prior year, the Company continues to believe its long-term growth goal is realistic.

Total earnings also were down, due to significant one-time gains recorded in 1992 and a significant one-time charge in 1993. This charge was associated with the restructuring costs of an early retirement program and a Company Organization Review. Total cash flow per share in 1993 was a healthy \$10.06, or 3.8 times the declared common dividends.

High temperatures in summer months resulted in improved kilowatt-hour sales for 1993. And, in spite of several severe winter storms and a hundred-year blizzard in mid-March, overall reliability of service was excellent at 99.988%.



We also established goals to develop sales and control costs. In 1993, we saw a net gain in companies moving into our area or increasing their electric power requirements. In addition, our program to retire high cost debt is well underway and is expected to produce a \$20 - \$25 million reduction in annual interest charges by 1996.

The Seabrook nuclear facility continues to perform at high levels of reliability. Last year, it operated at a capacity factor of 89.81%, providing clean, low-cost power and contributing greatly to both UI's financial performance and a cleaner environment.

And this brings us to another factor in our success — our fuel mix. During the 1970s and 1980s, UI made major investments in order to reduce a 92% dependence on oil. Today, we utilize a variety of fuels including oil, nuclear, coal, gas, hydro and trash-to-energy. As a result, we can shift among fuels according to market conditions, guaranteeing stable prices for electricity and forcing the fuel market to compete for our business.

Strategic goals for the next few years are as follows:

- To achieve annual growth at a challenging level of 4% in recurring earnings and dividends, and to reduce Company debt by at least \$20 million per year
- To operate in a highly-efficient and cost-effective manner
- To be responsive to the needs of our customers and keep prices as reasonable as possible with no increases projected
- To continue the Company's leadership role in fostering economic development in Connecticut
- To influence public policy that will make Connecticut more attractive to business
- To ensure that UI continues to operate in an environmentally-responsive and safe manner and participate in programs to achieve a cleaner environment for the State
- To strive for a higher quality of life in the communities we serve by continuing and enhancing our support of broad-based community programs



THOSE ARE OUR GOALS. THE QUESTION NOW IS: HOW DO WE ACHIEVE THEM? TO ANSWER THIS QUESTION, WE MUST BEGIN BY ADDRESSING THE MOST IMPORTANT ISSUE FACING OUR INDUSTRY — COMPETITION.

"Competition" may seem like an odd word coming from an electric utility, but it poses the greatest challenge to our industry today. It arises from the high cost of doing business in our State, businesses relocating to other areas, today's economic climate and the effects of regulatory activity. Consequently, UI's future success will depend on our ability to retain and attract customers using the traditional tools of competition: value, price and quality of service.

In the early eighties, UI leaders sensed that the days of the protected monopoly utility were ending. They believed survival in a competitive environment would require a sea change in company culture and a new focus on the people and businesses that purchase our "product."

UI began by breaking an old habit. We stopped calling our customers "rate-payers," a small step that signaled a profound shift in thinking, a recognition that our responsibility to our customers did not end at the meter.

UI also developed a host of economic development, conservation, environmental and community-oriented programs. These programs reach beyond the traditional generation and distribution functions of an electric utility to establish strong ties to our customers and communities. This year, the Department of Public Utility Control (DPUC) acknowledged UI's service excellence describing our Company as "a leader of the State's utilities in becoming a more customer-oriented company by offering innovative rates, conservation programs and customer service."

UI adds value to its unique and necessary product through superior reliability, responding quickly to problems and helping our customers reduce costs and increase efficiency.

To meet the needs of our customers, we are determined to hold rates at current levels. We are accomplishing this in a variety of ways, including outsourcing some operations and streamlining the Company, through a recent Organization Review, to perform more effectively and efficiently.



**IN ADDITION TO ADDRESSING THESE ASPECTS OF COMPETITION, UI IS FINDING OPPORTUNITIES TO
"GROW" ITS MARKET AND INCREASE SALES.**



*There's a word for what's happening in our industry...competition.
And it means that we can't just be an electric company anymore. We have to
think and act like a business.*

1993 Competitive Initiatives

Refinancing Programs

October 1993. UI refinances \$64.5 million of 14.5% bonds at 5.7%. Annual savings after payment of expenses: \$5.3 million.

December 1993. UI sells \$100 million of notes at 6.2%. Proceeds repay principal of other debt, including a \$5 million 13.1% term loan and \$55.3 million of 10.32% bonds. Annual savings: \$3 million.

Organization Review

Company-wide reorganization is initiated in second quarter to develop a structure that will be more streamlined and better able to respond to customer needs.

Outsourcing

June 1993. UI enters into an agreement to outsource data processing operations. Annual savings: \$1 million.

1993

**Economic
Development
Milestones**

New Customers

Executone relocates to Millford. Brings 200 new jobs to the area. *Projected additional sales: 2,500,000 kwh annually.*

Bindley Western, built 185,000 square foot facility in Orange. *Projected additional sales: 2,200,000 kwh annually.*

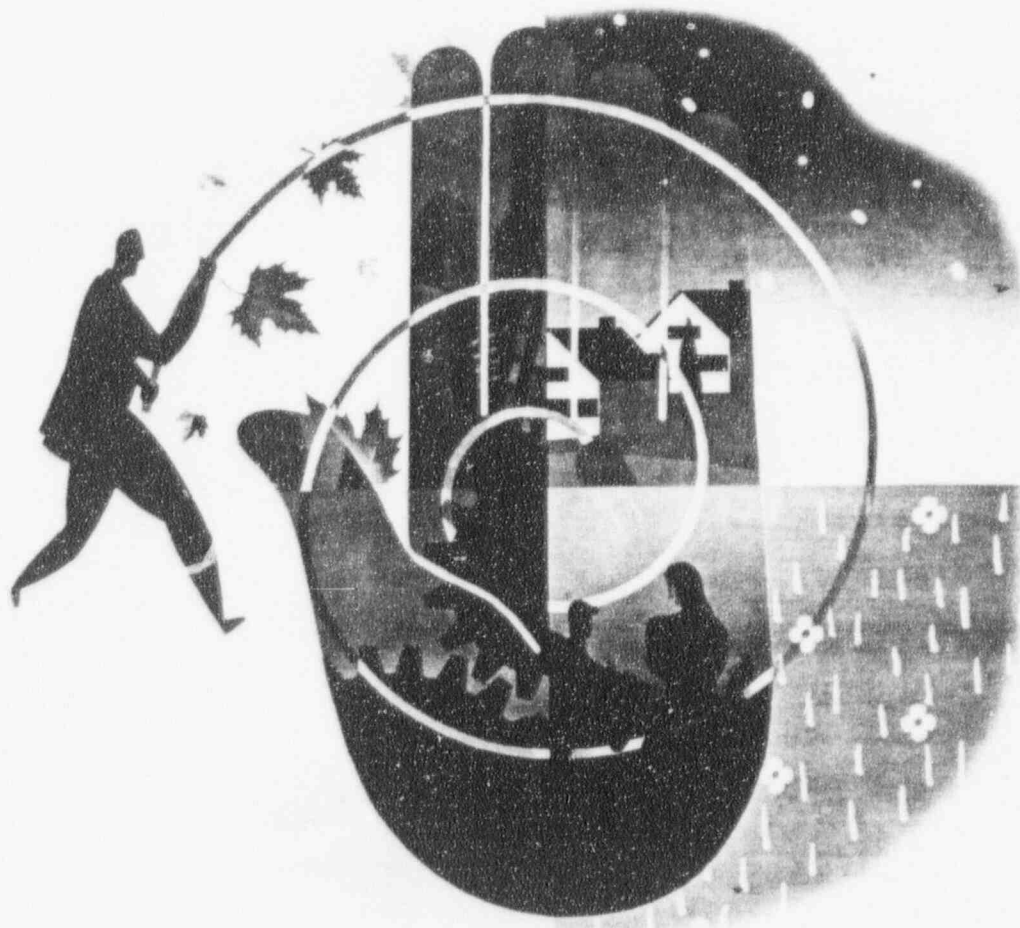
Existing Customers

Ansonia Copper & Brass expands operations. *Projected additional sales: 4,200,000 kwh annually.*

Dun & Bradstreet Companies consolidate operations in Shelton. *Projected additional sales: 900,000 kwh.*

BIC reverses decision to relocate and remains in Millford. Recalls Research and Development operations from out of state. *Sales retained: 44,000,000 kwh annually.*

Casco Product Corporation expands operations in Bridgeport's West End rather than sites in Ohio and Arkansas. *Projected retained sales: 4,400,000 kwh.*



One of our great strengths is the fact that we touch every business, factory and home in the area. We understand our customers better than any outsider could and can offer them real solutions.

Emerging technologies and economic development hold the key to revenue growth for UI. In fact, UI has been active along both of these lines for several years, and the results are beginning to show.

UI's current mission in the area of electrotechnology is to keep customers abreast of new developments, many of which have potential applications in our service area. Microwave technology is being applied to everything from food service to sterilizing medical waste. Commercial and residential heat pumps heat and cool more efficiently than fossil fuels. Electric transportation is becoming increasingly feasible. Widespread acceptance of such technologies holds the promise of greater efficiencies for our customers, and increased sales for the Company.

On the economic development front, the news is highly encouraging. In 1993, more than 26 companies moved into our franchise area or significantly expanded their operations, including many previously considered "at risk." Others that might leave Connecticut are coming to us first. They're doing it because of the strong relationships we've built with them, relationships which, by themselves, may not cure their ills, but which give us an opportunity to help them.

Another positive sign is the emergence of southern Connecticut as a biomedical center. With Miles Pharmaceutical in West Haven, United States Surgical Corporation in North Haven, Yale University, Yale-New Haven Hospital, The Hospital of Saint Raphael and a proposed biomedical park in New Haven, our service area is becoming a magnet for the medical industry. Most recently, a major pharmaceutical distributor moved to Orange, building a 185,000 square foot facility and bringing in 130 new jobs.

All this is important because, as a utility, UI has a stake in the region's success. We do everything we can to make it work because, in doing so, we develop our customer base and reap the benefits of an expanding economy.



**IN ADDITION TO WORKING FOR A HEALTHY BUSINESS ENVIRONMENT, UI IS PLAYING A LEADERSHIP
ROLE IN PROMOTING THE HEALTH OF OUR STATE'S NATURAL ENVIRONMENT.**

The future of any electric utility also depends on how it performs environmentally. UI's approach to environmental issues has always been progressive. We view it as the natural result of listening to our customers who, by voicing their concerns at the voting booth, have made Connecticut one of the leadership States in adopting stringent pro-environment laws. UI has responded by investing in clean fuels and emission controls, obeying not only the letter of the law, but its spirit as well.

We established an Environmental Department in 1969 — before the first Earth Day. In the early eighties, our mission statement included a commitment to go beyond the law. As a result, environmental responsibility is now so ingrained in UI's culture that it is "business as usual."

But is this good business? It is. Effective planning has put off the need for constructing new generating capacity until at least the year 2007. And the programs we have undertaken in demand-side management and conservation mean that, unlike many utilities, UI may not be required to make major capital investments in the next few years. In fact, while other utilities are going to have to make major capital investments to comply with Federal and State regulations, UI has already achieved emission levels that other utilities will not match until the next century.

And UI may profit from having had the foresight to attack the problem of emissions as quickly and completely as we did. Under the Clean Air Act Amendments of 1990, a trading system was set up that allows utilities to buy and sell emission allowances of sulfur dioxide (SO₂), a contributor to acid rain. UI has already made the first publicly-announced futures transaction involving these allowances, having sold a midwestern utility an option to buy 5,000 of UI's surplus emission allowances annually, beginning in the year 2000.

Finally, although UI's decision to invest in nuclear generation was controversial and costly, it has been highly successful, especially from an environmental viewpoint. With Seabrook on-line, sulfur and carbon dioxide emissions in New England have dropped significantly.



STILL, THE ECONOMIC CLIMATE IN CONNECTICUT HAS BEEN HARD ON BUSINESS. UI HAS WORKED CONSISTENTLY OVER THE PAST FEW YEARS TO CORRECT THAT SITUATION.



Environmentally speaking, we've paid our dues. In fact, UI is in better shape today than most of the other utilities in the Northeast will be by the year 2000.

Environmental Milestones

Sulfur Dioxide (SO₂)
Since the early 1970s, UI has emitted SO₂ at levels which the Federal Clean Air Act will not require until the year 2000.

Seabrook Nuclear facility reduces SO₂ emissions in New England by 40,000 tons per year.

Nitrogen Oxides (NO_x) UI oil and gas units already emit at or close to proposed 1995 limits. UI installed its coal unit controls in 1993 to achieve proposed 1995 limits. Most other utilities in the Northeast will have to make larger reductions at greater costs.

Carbon Dioxide (CO₂)
President Clinton's National Action Plan seeks to stabilize emissions at 1990 levels by 2000. Changes in UI generation mix have lowered CO₂ emissions to that level already. UI expects to stay well below the requirement.

**Changes in
Connecticut Laws
Promoted by UI**

Phase out of 5%
gross receipts tax
for manufacturers
on electric and gas
utility services.

19% cut in Workers
Compensation costs.

Cut in corporate
income tax rate from
11.5% to 10%.

Corporate income
tax credit on
research and devel-
opment costs for new
products.

Reform of Connecticut
unemployment com-
pensation system.

UI Partnerships

Manufacturing
Alliance of
Connecticut (MAC).
Lobbies on behalf
of manufacturing
companies.

Connecticut Fund
for the Environment.
Department of Envi-
ronmental Protection,
Department of Trans-
portation, The
Rideshare Company.
Funding studies of
transportation
control strategies.

Regional Economic
Development Steer-
ing Committee.
Developing regional
strategies for south
central Connecticut.

Connecticut
Economic Resource
Center. Provides
information to
companies con-
sidering relocating
to Connecticut.



*We're not waiting for the future to happen to us. We're taking charge
of our destiny by forming non-traditional alliances with business
and government. We're looking Connecticut's problems right in the eye...
and solving them.*

UI has always worked with State and municipal governments, business associations and civic organizations to make Connecticut more "business-friendly." We've earned tremendous respect for becoming involved with the communities we serve — and some we do not. Whether we're helping customers navigate the intricacies of a State agency, supporting an association's lobbying effort or the Special Olympics, we feel that it's in our best interest to do everything possible to enhance the business climate of Connecticut.

In 1993, UI helped form a business coalition that succeeded in repealing Connecticut's onerous Gross Receipts Tax for manufacturers. The elimination of this tax will help reduce the cost of doing business in the State.

UI is also working with the Regional Council of Governments, mayors, first selectmen and business leaders from 14 towns to develop strategies for the economy of the south central Connecticut region. A regional approach is important because individual towns can no longer afford to compete against one another. In September 1993, this group published a plan that addresses the region's strengths and weaknesses and promises bold action to retain and attract business.

To combat the problem of air pollution caused by mobile sources (transportation), UI has joined with the Connecticut Fund for the Environment, the Department of Environmental Protection, the Department of Transportation and The Rideshare Company to form a consortium studying transportation control strategies. This will help our industrial customers by finding ways to reduce mobile emissions rather than the fixed source industrial emissions that hurt them financially.

Of course there are other qualities that make an area attractive to business, such as education and culture. To this end, UI encourages a high level of community participation by its employees. These activities involve significant time and effort, but we believe that anything that enhances the quality of life in an area helps it compete. And if the area can compete and remain viable, UI will benefit as well.



In short, the restructuring of our debt is expected to save tens of millions over the next five years. Economic development efforts are gaining momentum and expanding our customer base. Advances in electrotechnology will unlock opportunities we can now only imagine.

The Organization Review, while not without pain, will produce a Company that is strengthened, streamlined and better able to provide customers with the superior service they need and deserve.

Despite the uncertainties facing our industry, there are many reasons to be optimistic about United Illuminating. Our proven track record of making sound business decisions and our continuing efforts to hone our competitive edge, along with the commitment and dedication of our employees, have prepared UI to move forward. We understand the issues before us and the needs of our customers. We know what must be done to deal with those issues. And we are confident that our efforts today will help us meet the challenges that lie ahead.

A handwritten signature in dark ink, reading "Richard J. Grossi". The signature is fluid and cursive, with the first name "Richard" and last name "Grossi" clearly legible.

Richard J. Grossi
Chairman and Chief Executive Officer

BOARD OF DIRECTORS AND OFFICERS

David E. A. Carson

(Member, Audit Committee; Committee on Directors and Strategic Direction Committee.) President and Chief Executive Officer since January 1985, and Director since July 1988, People's Bank. President, Chief Executive Officer and Trustee, People's Mutual Holdings. Director of Bridgeport Hospital, Savings & Community Bankers of America, Old State House, Private Industry Council of Southwestern Connecticut and American Skandia Trust.

John F. Crowe

(Chairman, Executive Committee; Member, Compensation and Executive Development Committee.) Chairman of the Board of Directors since April 1988 and President and Chief Executive Officer and Director since April 1985, Blue Cross & Blue Shield of Connecticut, Inc. Director of BCS Financial, New Haven Savings Bank and Quinnipiac College.

J. Hugh Devlin

(Chairman, Committee on Directors; Member, Compensation and Executive Development Committee and Strategic Direction Committee.) Managing Director and Consultant, Barr Devlin Associates. Chairman of the Board of Trustees, River-view Medical Center.

John D. Fassett

(Member, Audit Committee.) Former Chairman and Chief Executive Officer of The United Illuminating Company. Consultant, Author. Director of New Haven Savings Bank.

Robert L. Fiscus

President since May 1991, Director since May 1992 and Chief Financial Officer since August 1983, The United Illuminating Company. Director of The Aristotle Corporation, Griffin Health Services Corporation and Griffin Hospital. Member, Board of Governors of the University of New Haven. President of the United Way of Greater New Haven.

Richard J. Grossi

(Member, Executive Committee.) Chairman of the Board of Directors and Chief Executive Officer since May 1991, The United Illuminating Company. Director of Tennis Foundation of Connecticut, Inc., Connecticut Public Broadcasting, New Haven Savings Bank and Blue Cross & Blue Shield of Connecticut, Inc. Trustee of Yale-New Haven Hospital and North American Electric Reliability Council. Vice Chairman of Northeast Power Coordinating Council. Chairman, New Haven Regional Leadership Council. Member of West Haven Planning and Finance Assistance Board.

Betsy Henley-Cohn

(Member, Audit Committee; Compensation and Executive Development Committee and Strategic Direction Committee.) Chairwoman, Birmingham Utilities, Inc. Chairman of the Board, Joseph Cohn & Son, Inc. Director of The Aristotle Corporation.

F. Patrick McFadden, Jr.

(Chairman, Strategic Direction Committee; Member, Executive Committee and Committee on Directors.) President and Chief Executive Officer, The Bank of New Haven and BNH Bancshares, Inc. Director of The New Haven Foundation and Science Park Development Corporation. Chairman, Yale-New Haven Health Services Corporation.

Dr. Leland W. Miles

(Chairman, Audit Committee.) Consultant. President Emeritus, University of Bridgeport. President Emeritus, International Association of University Presidents. Chief, IAUP Mission to the United Nations. Chairman IAUP/UN Commission on Arms Control. Trustee of Wright Managed Investment Funds. Director and Chairman, Advisory Council, Save The Children.

Frank R. O'Keefe, Jr.

(Chairman, Compensation and Executive Development Committee; Member, Strategic Direction Committee and Committee on Directors.) Independent business consultant. Former President of Long Wharf Capital Partners, Inc. Retired Chairman of the Board of Directors and President and Chief Executive Officer of Armtek Corporation. Director of The Southern New England Telecommunications Corporation, Aetna Life and Casualty Company and Echlin Incorporated.

James Albert Thomas

(Member, Compensation and Executive Development Committee; Audit Committee and Committee on Directors.) Master, Saybrook College, Yale University. Associate Dean, Yale Law School. Trustee of People's Mutual Holdings. Advisory Director of People's Bank and New Haven Enterprise Development Corporation.

William S. Warner

(Member, Audit Committee and Executive Committee.) Chairman of the Board of Directors, Aquarion Company (formerly The Hydraulic Company). Director, Bridgeport Hospital. Trustee, The Mountain Grove Cemetery Association.

OFFICERS

Walter E. Barker

Vice President Transmission & Distribution

James L. Benjamin

Controller

Rita L. Bowlby

Vice President Corporate Affairs

James F. Crowe

Executive Vice President & Chief Customer Officer

Robert L. Fiscus

President & Chief Financial Officer

Stephen F. Goldschmidt

Vice President Information Resources

Richard J. Grossi

Chairman & Chief Executive Officer

Albert N. Henricksen

Vice President Administration

David W. Hoskinson

Vice President Generation

Robert H. Hyde

Vice President Customer Services

E. Jon Majkowski

Vice President & President UI Subsidiaries

Kurt D. Mohman

Treasurer & Secretary

Charles J. Pope

Assistant Treasurer & Secretary

Anthony J. Vallillo

Vice President Marketing

FIVE YEAR SUMMARY OF SELECTED FINANCIAL AND STATISTICAL DATA

	1993	1992	1991	1990	1989
Financial Results of Operation (\$000's)					
Sales of electricity:					
Retail					
Residential	\$ 238,185	\$ 226,455	\$ 226,751	\$ 211,891	\$ 205,183
Commercial	256,559	253,456 ⁽²⁾	255,782	234,704	219,852
Industrial	97,466	97,010 ⁽²⁾	91,895	94,526	92,855
Other	11,349	11,065	10,886	10,536	9,943
Total Retail	603,559	587,986	585,314	551,657	527,833
Wholesale ⁽¹⁾	45,931	75,484	84,236	85,657	77,925
Other operating revenues	3,533	3,855	3,821	3,332	3,348
Total operating revenues	653,023	667,325	673,371	640,646	609,106
Fuel and interchange energy - net:					
Retail - own load	98,694	108,084	123,010	119,285	128,739
Wholesale	39,356	55,169	61,858	69,117	62,681
Capacity purchased - net	47,424	43,560	44,668	42,827	50,234
Depreciation	56,287	50,706	48,181	36,526	35,618
Other operating expenses, excluding tax expense	205,207	193,841	189,327	180,592	155,282
Gross earnings tax	27,955	27,362	27,223	25,595	24,506
Other non-income taxes	29,977	31,869	28,673	24,648	20,294
Total operating expenses, excluding income taxes	504,900	510,591	522,940	498,590	477,354
Deferred return Seabrook Unit 1	7,497	15,959	17,970	21,503	0
AFUDC	4,067	3,232	5,190	3,443	65,443
Other non-operating income (loss)	71	18,545	2,697	22,654	(219,742)
Interest expense:					
Long-term debt	80,030	88,666	90,296	94,056	91,126
Other	12,260	12,882	9,847	15,468	22,849
Total	92,290	101,548	100,143	109,524	113,975
Income tax expense:					
Operating income tax	33,309	48,712	47,231	43,493	37,963
Non-operating income tax	(6,322)	(12,558)	(19,299)	(17,409)	(101,135)
Total	26,987	36,154	27,932	26,084	(63,172)
Income (loss) before cumulative effect of accounting change	40,481	56,768	48,213	54,048	(73,350)
Cumulative effect of change in accounting for property taxes - net of tax	0	0	7,337	0	0
Net income (loss)	40,481 ⁽³⁾	56,768	55,550	54,048	(73,350)
Preferred and preference stock dividends	4,318	4,338	4,530	4,751	8,233
Income (loss) applicable to common stock	\$ 36,163	\$ 52,430	\$ 51,020	\$ 49,297	\$ (81,583)
Operating income	\$ 114,814	\$ 108,022	\$ 103,200	\$ 98,563	\$ 93,789
Financial Condition (\$000's)					
Plant in service - net	\$1,243,426	\$1,224,058	\$1,219,871	\$1,209,173	\$ 562,473
Construction work in progress	77,395	59,809	54,771	50,257	675,831
Plant-related regulatory asset	0	0	0	0	81,768
Other property and investments	58,096	65,320	79,009	90,006	91,648
Current assets	187,981	247,954	164,839	161,066	170,823
Regulatory assets	567,394	556,493	554,365	553,986	605,696
Total Assets	\$2,134,292	\$2,153,634	\$2,072,855	\$2,064,488	\$2,188,239
Common stock equity	\$ 423,324	\$ 422,746	\$ 401,771	\$ 379,812	\$ 362,584
Preferred and preference stock	60,945	60,945	62,640	69,700	70,000
Long-term debt excluding current portion	875,268	893,457	909,998	899,993	868,884
Noncurrent liabilities	29,119	25,853	96,973	99,933	107,781
Current portion of long-term debt	143,333	92,833	37,500	41,667	18,667
Notes payable	0	84,099	13,000	15,000	45,000
Other current liabilities	150,890	133,471	127,524	149,090	142,878
Regulatory liabilities and other	451,413	440,230	423,449	409,293	572,445
Total Capitalization and Liabilities	\$2,134,292	\$2,153,634	\$2,072,855	\$2,064,488	\$2,188,239

(1) Operating Revenues, for years prior to 1992, include wholesale power exchange contract sales that were reclassified from Fuel and Capacity expenses in accordance with Federal Energy Regulatory Commission requirements.

(2) Includes reclassification of certain Commercial and Industrial customers.

(3) Includes the effect of a reorganization charge of \$7.8 million.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL AND STATISTICAL DATA

	1993	1992	1991	1990	1989
Common Stock Data					
Average number of shares outstanding	14,063,854	13,941,150	13,899,906	13,887,748	13,887,748
Number of shares outstanding at year-end	14,083,291	14,033,148	13,932,348	13,887,748	13,887,748
Earnings (loss) per share (average)	\$ 2.57 ⁽¹⁾	\$ 3.76	\$ 3.67 ⁽¹⁾	\$ 3.55	\$ (5.87)
Book value per share	\$ 30.06	\$ 30.12	\$ 28.84	\$ 27.35	\$ 26.11
Average return on equity					
Total	8.45%	12.67%	13.01%	13.39%	-18.88%
Utility	10.97%	14.46%	13.39%	13.97%	20.21%
Dividends declared per share	\$ 2.66	\$ 2.56	\$ 2.44	\$ 2.32	\$ 2.32
Market Price:					
High	\$ 45.875	\$ 42.000	\$ 39.125	\$ 34.125	\$ 34.25
Low	\$ 38.500	\$ 34.125	\$ 30.000	\$ 26.875	\$ 24.75
Year-end	\$ 40.250	\$ 41.500	\$ 39.000	\$ 31.125	\$ 34.25
Net cash provided by operating activities, less dividends (\$000's)	\$102,989	\$109,020	\$ 73,865	\$ 39,189	\$ 31,437
Capital expenditures, excluding AFUDC	\$ 94,743	\$ 66,390	\$ 63,157	\$ 64,018	\$ 77,041
Other Financial and Statistical Data					
Sales by class (MWH's)					
Residential	1,844,041	1,799,456	1,851,447	1,826,700	1,883,363
Commercial	2,359,023	2,303,216 ⁽²⁾	2,347,757	2,259,340	2,254,099
Industrial	1,036,547	997,168 ⁽²⁾	980,071	1,060,751	1,109,119
Other	50,715	52,984	55,118	58,013	60,427
Total	5,290,326	5,152,824	5,234,393	5,204,804	5,307,008
Number of retail customers by class (average)					
Residential	273,752	273,936	274,064	275,637	276,385
Commercial	28,968	28,848 ⁽²⁾	29,768	29,808	29,526
Industrial	959	1,017 ⁽²⁾	268	319	347
Other	1,175	1,358	1,361	1,352	1,316
Total	304,854	305,159	305,461	307,116	307,574
System requirements (MWH)	5,630,581	5,475,664	5,541,477	5,501,495	5,603,502
Peak load - kilowatts	1,114,900	1,034,440	1,145,820	1,054,600	1,094,400
Generating capability - peak (kilowatts)	1,515,420	1,402,800	1,474,190	1,449,600	1,289,800
Fuel generation mix percentages					
Coal	31	34	34	43	39
Oil	16	17	21	24	37
Nuclear	38	35	29	20	11
Cogeneration	8	8	9	9	9
Gas	1	1	4	3	3
Hydro	6	5	3	1	1
Revenues - retail sales (\$000's)					
Base	\$605,887	\$608,176	\$607,997	\$589,346	\$577,611
Fuel Adjustment Clause	(2,328)	(41,221)	(37,497)	(45,900)	(49,778)
Sales Provision Adjustment	0	21,031	14,814	8,211	0
Total	\$603,559	\$587,986	\$585,314	\$551,657	\$527,833
Revenue - retail sales per KWH (cents)					
Base	11.45	11.80	11.62	11.32	10.88
Fuel Adjustment Clause	(0.04)	(0.80)	(0.72)	(0.88)	(0.93)
Sales Provision Adjustment	0.00	0.41	0.28	0.16	0
Total	11.41	11.41	11.18	10.60	9.95
Fuel and energy cost per KWH (cents)					
Fossil	1.75	2.43	2.67	2.63	2.78
Nuclear	2.08	2.98	3.11	2.89	2.98
Total	1.23	1.42	1.62	1.55	0.89
Number of employees	1,490	1,554	1,571	1,587	1,627
Total payroll (\$000's)	\$ 75,305	\$ 74,052	\$ 71,888	\$ 69,237	\$ 65,175

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

(2) Includes reclassification of certain Commercial and Industrial customers.

(3) Includes the effect of a reorganization charge which decreased earnings by \$0.56 per share.

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

Major Influences On Financial Condition

The Company's financial condition should continue to improve as a result of the December 16, 1992 rate decision by the DPUC. The DPUC decision granted levelized rate increases of 2.66% (\$15.8 million) in 1993 and 2.66% (an additional \$17.3 million) in 1994.

However, the Company's financial condition will continue to be dependent on the level of retail and wholesale sales. The two primary factors that affect sales volume are economic conditions and weather. The regional recession has restricted retail sales growth and been largely responsible for a weak wholesale sales market during the past two years. Sales

increases due to economic recovery would help to increase the Company's earnings.

Another major factor affecting the Company's financial condition will be the Company's ability to control expenses. A significant reduction in interest expense has been achieved since 1989, and additional savings of \$10 million are expected in 1994 due to debt refinancing. Since 1990, annual growth in total operation and maintenance expense, excluding one-time items and cogeneration capacity purchases, has averaged approximately 2.7%, and the Company hopes to restrict future increases to less than the rate of inflation.

Liquidity And Capital Resources

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

(000's)	1994	1995	1996	1997	1998
Capital Expenditure Program	\$ 73,424	\$ 84,876	\$82,632	\$ 51,324	\$ 74,304
Long-term Debt Maturities	53,000	97,000	—	50,000	100,000
Mandatory Redemptions/Repayments	60,333	66,134	12,770	15,171	15,562
Total Capital Requirements	\$186,757	\$248,010	\$95,402	\$116,495	\$189,866

The Company presently estimates that its cash on hand and temporary cash investments at the beginning of 1994, totaling \$48.2 million, and its projected net cash provided by operations, less dividends, of \$102 million, less capital expenditures of \$73.4 million, will be insufficient to fund the Company's 1994 requirements for long-term debt maturities and mandatory redemptions and repayments, amounting to \$113.3 million, by \$36 million. The Company currently anticipates that its projected net cash provided by operations, less dividends and capital expenditures, for 1995 will be insufficient to fund the Company's 1995 requirements for long-term debt maturities and mandatory redemptions and repayments, by approximately \$138 million. The Company currently anticipates that its projected net cash provided by operations, less dividends and capital expenditures, for 1996 through 1998 will be insufficient to fund the Company's requirements for long-term debt maturities and mandatory redemptions and repayments in the years 1996 through 1998, in amounts that cannot now be predicted accurately, but which may be substantial in the aggregate, depending on the levels of the Company's sales, wholesale and retail rates, operation and maintenance costs and taxes. All of the Company's capital requirements that exceed available net cash will have to be provided by external financing; and the Company has no commitment to provide such financing from any source of funds. The Company expects to be able to satisfy its external financing needs by issuing common stock and additional short-term and long-term debt, although the continued availability of these methods of financing will be dependent on many factors, including conditions in the securities markets, economic conditions, and the level of the Company's income and cash flows.

At December 31, 1993, the Company had \$48.2 million of cash and temporary cash investments, an increase of \$37.1 million from the balance at December 31, 1992. The components of this increase, which are detailed in the Consolidated Statement of Cash Flows, are summarized as follows:

(Millions)	
Balance, December 31, 1992	\$11.1
Net cash provided by operating activities	145.9
Net cash provided by (used in) financing activities:	
-Financing activities, excluding dividend payments	(67.3)
-Dividend payments	(41.3)
Net cash provided by investing activities, excluding investment in plant	94.5
Cash invested in plant, including nuclear fuel	(94.7)
Net Increase	37.1
Balance, December 31, 1993	\$48.2

The Company has a revolving credit agreement with a group of banks, which currently extends to January 19, 1995. The borrowing limit of this facility is \$75 million. The facility permits the Company to borrow funds at a fluctuating interest rate determined by the prime lending market in New York, and also permits the Company to borrow money for fixed periods of time specified by the Company at fixed rates determined by the Eurodollar interbank market in New York, or by the certificate of deposit market in New York, or by

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

bidding, at the Company's option. If a material adverse change in the business, operations, affairs, assets or condition, financial or otherwise, or prospects of the Company and its subsidiaries, on a consolidated basis, should occur, the banks may decline to lend additional money to the Company under this revolving credit agreement, although borrowings outstanding at the time of such an occurrence would not then become due and payable. As of December 31, 1993, the Company had no short-term borrowings outstanding under this facility.

The Company's long-term debt instruments do not limit the amount of short-term debt that the Company may issue. The Company's revolving credit agreement described in the previous paragraph requires it to maintain an available earnings/interest charges ratio of not less than 1.5:1.0 for each 12-month period ending on the last day of each calendar quarter.

The Company had a \$50 million revolving loan facility with a group of banks during 1993. Under this agreement, the Company chose an interest rate from among three alternatives: (i) a fluctuating interest rate determined by the prime lending market in New York; (ii) a fixed interest rate determined by the Eurodollar interbank market in London; and (iii) a fixed interest rate determined by the certificate of deposit market in New York. On February 1, 1993, the Company borrowed \$50 million from the group of banks, using the proceeds to repay short-term borrowings and other current obligations. On December 3, 1993, the Company repaid the \$50 million borrowing and terminated the agreement.

The Company had a term loan agreement with PruLease, Inc. (PruLease) that expired on December 1, 1993. This agreement was executed on December 31, 1992, when the Company borrowed \$49.1 million from PruLease and purchased all the nuclear fuel that was owned by PruLease and leased to the Company on that date. This loan, which was collateralized by a first lien on the Company's ownership interest in the nuclear fuel for Seabrook Unit 1, was repaid in full at maturity.

The Company has a Fossil Fuel Supply Agreement with a financial institution providing for financing up to \$37.5 million in fossil fuel purchases. Under this agreement, the financing entity acquires and stores natural gas, coal and fuel oil for sale to the Company, and the Company purchases these fossil fuels from the financing entity at a price for each type of fuel that reimburses the financing entity for the direct costs it has incurred in purchasing and storing the fuel, plus a charge for maintaining an inventory of the fuel determined by reference to the fluctuating interest rate on thirty-day, dealer-placed commercial paper in New York. The Company is obligated to insure the fuel inventories and to indemnify the financing entity against all liabilities, taxes and other expenses incurred as a result of its ownership, storage and sale of fossil fuel to the Company. This agreement currently

extends to February 1995. At December 31, 1993, approximately \$10.1 million of fossil fuel purchases were being financed under this agreement.

UI has four wholly-owned subsidiaries. Bridgeport Electric Company, a single-purpose corporation, owns and leases to UI a generating unit at Bridgeport Harbor Station. Research Center, Inc. (RCI) has been formed to participate in the development of one or more regulated power production ventures, including possible participation in arrangements for the future development of independent power production and cogeneration facilities. United Energy International, Inc. (UEI) has been formed to facilitate participation in a proposed joint venture relating to power production plants abroad. United Resources, Inc. (URI) serves as the parent corporation for several unregulated businesses, each of which is incorporated separately to participate in business ventures that will complement and enhance UI's electric utility business and serve the interests of the Company and its shareholders and customers.

Four wholly-owned subsidiaries of URI have been incorporated. Southwestcon Properties, Inc. is participating as a 25% partner in the ownership of a medical hotel building in New Haven. A second wholly-owned subsidiary of URI is Thermal Energies, Inc., which is participating in the development of district heating and cooling water facilities in the downtown New Haven area, including the energy center for an office tower and participation as a 37% partner in the energy center for a new city hall and office tower complex. A third URI subsidiary, Precision Power, Inc., provides power-related equipment and services to the owners of commercial buildings and industrial facilities. A fourth URI subsidiary, American Payment Systems, Inc., manages agents and equipment for electronic data processing of bill payments made by customers of utilities, including UI, at neighborhood businesses. In addition to these subsidiaries, URI also has an 82% ownership interest in Ventana Corporation (Ventana), which offers energy conservation engineering and project management services to governmental and private institutions. In September 1993, URI recorded a \$1.2 million after-tax write off of outstanding debt owed to URI by Ventana, which represented the difference between the amount owed to URI by Ventana and the value of an additional equity interest in Ventana received by URI in November 1993. This additional equity interest in Ventana was received in exchange for the forgiveness of debt owed to URI by Ventana.

The Board of Directors of the Company has authorized the investment of a maximum of \$13.5 million, in the aggregate, of the Company's assets in all of URI's ventures, UEI and RCI, and, at December 31, 1993, approximately \$10.6 million had been so invested.

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

Results Of Operations

1993 vs. 1992 Earnings for the year 1993 were \$36.2 million, or \$2.57 per share, down \$16.3 million, or \$1.19 per share, from 1992. This decrease reflects a one-time reorganization charge of approximately \$7.8 million after-tax, or \$.56 per share, and the non-recurrence of one-time gains of \$.59 per share in 1992. Earnings per share for 1993, excluding one-time items and accounting changes, decreased by \$.04 per share, to \$3.13 per share from \$3.17 per share for 1992.

Sales margin increased by \$10.3 million for the year. Retail revenues increased \$36.6 million; \$20.7 million from a recent rate decision (\$12.1 million from rate changes and \$13.2 million for the fold-in to base rates of the 1992 sales adjustment revenues, partly offset by the pass through to customers of expense credits of \$4.6 million), and \$15.9 million from increased retail sales. Retail sales increased by 2.7%, mostly due to a return to more normal summer weather.

The retail revenue increases were offset by anticipated reductions of \$21 million from the sales adjustment provision and \$13.7 million in wholesale capacity revenues. Other operating revenues decreased by \$0.3 million. Reductions in wholesale energy revenues of \$15.8 million were directly offset by reductions in energy expense.

Other factors affecting sales margin were lower retail fuel expense, increasing margin by \$9.4 million, and higher revenue related taxes, decreasing margin by \$0.6 million.

Other operation and maintenance expenses, including purchased capacity charges, increased by \$10.2 million, or 4.5%, in 1993 relative to 1992. Major generating station overhauls and unscheduled repairs accounted for \$5.2 million of this increase. Employment costs increased by \$4.0 million, most of which resulted from the adoption of a liability for postretirement benefits other than pensions that the implementation of Statement of Financial Accounting Standards (SFAS) No. 106 requires to be accrued over employees' careers. Purchased capacity charges (cogeneration and Connecticut Yankee power purchases) for 1993 increased by \$4.0 million, transmission costs increased by \$2.4 million; but other nuclear operation and maintenance expenses decreased by \$4.0 million.

Other operating expenses, including income taxes but excluding a 1993 fourth quarter one-time reorganization charge, decreased by \$20.3 million in 1993 from 1992, as the effect of accounting treatments ordered in recent rate decisions for recovery of canceled plant, the flow-through to income of certain income tax benefits and lower property taxes more than offset increases in depreciation expense.

Other income declined by \$23 million in 1993 from 1992, \$9.4 million of which was attributable to the absence of net one-time gains realized in 1992. The remainder was due primarily to an expected decline in deferred revenue and income tax benefits associated with the DPUC's 1992 rate decision, offset, in part, by lower interest charges of \$9.3 million. "Net" interest margin (interest income less interest expense) improved by \$6.6 million in 1993 over 1992.

1992 vs. 1991 Earnings for 1992 were \$52.4 million, or \$3.76 per share, up \$1.4 million, or \$.09 per share, over 1991. Earnings per share for 1992, excluding one-time items and accounting changes, increased by \$.27, to \$3.17 from \$2.90 per share for 1991. Non-recurring earnings declined to a level of \$.59 per share in 1992 from \$.77 per share in 1991.

Operating revenues in 1992, exclusive of retail and wholesale fuel recovery revenue, were up \$4.3 million over 1991 levels, adding \$.18 per share after taxes. Increased rates provided only \$11 million of an expected annual \$15 million revenue increase, because commercial and industrial customers shifted into lower priced time-of-use rates. An additional \$6 million of revenue was accrued under the terms of the sales adjustment provisions of the Company's 1990 rate decision by the Department of Public Utility Control (DPUC). Retail sales volume declined 1.6% from the prior year, reducing retail revenues by \$10.6 million and sales margin (revenue minus fuel expense and revenue-based taxes) by \$7.4 million. Most of this decline reflected the cool, wet weather for the summer of 1992. On a weather-adjusted basis, retail sales were about even with 1991. Wholesale capacity sales declined by \$2.1 million for the year, reflecting the end of a major contract in October 1992.

Other sales margin improvements were derived from increased nuclear generation, which added \$10.5 million to margin in 1992 over 1991. An overall capacity factor of 76% for the nuclear units was achieved in 1992, compared to 65% for 1991. Offsetting this gain, the Company experienced unusually low and intermittent demand by the New England Power Pool for the operation of the Company's fossil generating units, thus degrading their efficiency, increasing fuel expense and decreasing sales margin by \$2.5 million from 1991. These amounts are not recoverable through the fuel adjustment clause.

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

Operation, maintenance and capacity expense for 1992 nuclear generation declined only \$1.7 million from 1991 levels, compared to a savings of \$4 - \$5 million the Company originally expected to realize (principally from reduced Seabrook expenses). Other operation and maintenance expenses, excluding fuel and energy expenses, increased by \$2.6 million for the year (excluding net non-recurring charges for 1992).

Other taxes increased by \$3.7 million (excluding a one-time charge in 1991), reflecting primarily the increased property tax placed on Seabrook by the State of New Hampshire. Depreciation increased by \$2.5 million in 1992 over 1991. Net changes in interest income and expense added \$2.9 million to pre-tax income in 1992, excluding one-time credits in 1991 and 1992. Reductions in plant balances not in rate base (Seabrook and other) led to reductions in deferred revenue of about \$4 million after-tax.

Non-recurring items decreased by \$.18 per share compared to 1991 levels, to a net earnings figure of \$.59 per share. In 1992, a net \$2.7 million in income, or \$.19 per share, was booked for Seabrook Unit 1 adjustments; \$3.6 million, or \$.26 per share, in non-operating income tax credits were realized; a net \$3.0 million in income, or \$.21 per share, from a gain on the sale of property was realized; and there were one-time charges to operating expenses of a net \$1.0 million, for a loss of \$.07 per share.

Outlook

The Company's financial condition should continue to improve as a result of the December 16, 1992 retail rate decision by the DPUC. The DPUC decision granted levelized rate increases of 2.66% (\$15.8 million) in 1993 and 2.66% (an additional \$17.3 million) in 1994. However, the Company did not realize the full anticipated benefit of the 1993 rate increase, realizing about \$4 million less than awarded due to differences between the sales realized in individual rate classes and the sales projections used for rate case purposes. The differences arose principally from rate class shifting by customers and differential growth in sales among rate classes. A similar shortfall may develop in 1994.

The Company's financial condition will continue to be dependent on the level of retail and wholesale sales. The two primary factors that affect sales volume are economic conditions and weather. The regional recession has restricted retail sales growth and been largely responsible for a weak wholesale sales market during the past two years. Sales increases due to economic recovery would help to increase the Company's earnings. A 1% increase in sales would add about \$6 million in revenue and about \$5 million in sales margin (revenue minus fuel expense and revenue-based taxes). Wholesale capacity sales are expected to be approximately \$6 million in 1994.

Another major factor affecting the Company's financial condition will be the Company's ability to control expenses. Fuel expense, excluding wholesale fuel expense, is expected to decline by approximately \$2.3 million in 1994 from the 1993 level, reflecting significantly lower nuclear fuel prices. Also, significant reductions in interest expense have been achieved since 1989, and additional savings of \$10 million are expected in 1994 due to debt refinancing. For 1994, operation and maintenance expenses are expected to increase from normal inflationary pressures, but these increases should be substantially offset by savings from the phase-in of the Company's corporate structure reorganization. Since 1990, annual growth in total operation and maintenance expense, excluding one-time items and cogeneration capacity purchases, has averaged approximately 2.7%, and the Company hopes to restrict future increases to less than the rate of inflation.

The final portion of the cost of Seabrook Unit 1 has been added to rate base (and retail revenues) for 1994. This will eliminate deferred revenues and reduce net income by \$7.4 million after-tax in 1994 from 1993 levels.

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

Inflation

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

LEGAL PROCEEDINGS

On October 27, 1992, the Company's wholly-owned subsidiary, Bridgeport Electric Company (BEC) received personal property tax bills from the City of Bridgeport (the City) for the then current and two past tax years, aggregating \$26.7 million, based on an assertion that BEC did not list its only asset, Bridgeport Harbor Station generating Unit No. 3, on the City's tax lists during the three years. The Company listed and paid taxes on this generating unit in each of the three years, based on values agreed upon in a 1988 court-approved settlement with the City of prior years' tax litigation. BEC subsequently commenced an action in the Superior Court against the City to enjoin the City from any effort to collect the personal property tax bills it had sent to BEC. On June 10, 1993, the Superior Court, in denying the City's motion to strike BEC's complaint, decided that the City had not followed the prescribed procedures in assessing and levying taxes on BEC. Since the time period for assessing and levying taxes for the earliest of the three years at issue has expired, the effect of this decision was to remove \$10 million of the City's \$26.7 million claim from the controversy and to require the City to reinstitute its assessment and levying proceeding with respect to the other two years, and the remaining \$16.7 million, at issue. The City, without prejudice to its taking such an appeal, has attempted to remedy the assessment and levying procedures found deficient by the Superior Court by holding hearings. On October 14, 1993, following these hearings, the City issued "corrected" personal property tax bills to Bridgeport Electric Company for the tax years 1986-1987 through 1992-1993 aggregating \$81.6 million, with interest through June 30, 1993 in the aggregate

amount of \$61.5 million. BEC has stated that it will not pay these tax bills, and it and the Company are contesting the City's tax claim vigorously. BEC has commenced a second action in the Superior Court to enjoin the City from any effort to collect these tax bills. It is the present opinion of the Company's Counsel that the City will not prevail in efforts to collect these tax bills, and that BEC and the Company will be able to defend against such efforts successfully.

On November 2, 1993, the Company received "updated" personal property tax bills from the City of New Haven (the City) for the tax year 1991-1992, aggregating \$6.6 million, based on an audit by the City's tax assessor. The Company anticipates receiving additional bills of this sort for the tax years 1992-1993 and 1993-1994, the amounts of which cannot be predicted at this time. The Company is contesting these tax bills vigorously and has commenced an action in the Superior Court to enjoin the City from any effort to collect these tax bills. Due to a lack of data, it is not possible, at this time, to assess accurately the Company's liability, if any.

CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 31, 1993, 1992 and 1991
(Thousands except per share amounts)

	1993	1992	1991
Operating Revenues (Note G)	\$653,023	\$667,325	\$673,371
Operating Expenses			
Operation	138,050	163,253	184,868
Fuel and energy	47,424	43,560	44,668
Capacity purchased	13,620	-	-
Reorganization charge	148,332	145,032	137,118
Other	41,475	38,394	41,794
Maintenance	56,287	50,706	48,181
Depreciation	1,172	10,415	10,415
Amortization of cancelled nuclear project (Note J)	608	-	-
Amortization of deferred fossil fuel costs	33,309	48,712	47,231
Income taxes (Note A and E)	57,932	59,231	55,896
Other taxes (Note G)	538,209	559,303	570,171
Total	114,814	108,022	103,200
Operating Income			
Other Income and (Deductions)			
Allowance for equity funds used during construction	999	1,003	1,259
Deferred return - Seabrook Unit 1	7,497	15,959	17,970
Other-net (Note G)	71	18,545	2,697
Non-operating income taxes	6,322	12,558	19,299
Total	14,889	48,065	41,225
Income Before Interest Charges	129,703	156,087	144,425
Interest Charges			
Interest on long-term debt	80,030	88,666	90,296
Other interest (Note G)	12,260	12,882	9,847
Allowance for borrowed funds used during construction	(3,068)	(2,229)	(3,931)
Net Interest Charges	89,222	99,319	96,212
Income Before Cumulative Effect of Accounting Change	40,481	56,768	48,213
Cumulative effect for years prior to 1991 of accounting change for property taxes (net of income taxes of \$5,559) (Note N)	-	-	7,337
Net Income	40,481	56,768	55,550
Dividends on Preferred Stock	4,318	4,338	4,530
Income Applicable to Common Stock	\$ 36,163	\$ 52,430	\$ 51,020
Average Number of Common Shares Outstanding	14,064	13,941	13,900
Earnings per share of Common Stock before cumulative effect of accounting change	\$ 2.57	\$ 3.76	\$ 3.14
Cumulative effect for years prior to 1991 of accounting change for property taxes	-	-	0.53
Earnings per share of Common Stock	\$ 2.57	\$ 3.76	\$ 3.67
Cash Dividends Declared per share of Common Stock	\$ 2.66	\$ 2.56	\$ 2.44

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

December 31, 1993, 1992 and 1991

Assets (Thousands of Dollars)

	1993	1992	1991
Utility Plant at Original Cost	\$1,690,142	\$1,631,787	\$1,591,415
In service	446,716	407,729	371,544
Less, accumulated provision for depreciation	1,243,426	1,224,058	1,219,871
Construction work in progress	77,395	59,809	54,771
Nuclear fuel	40,285	52,144	65,450
Net Utility Plant	1,361,106	1,336,011	1,340,092
Other Property and Investments	17,811	13,176	13,559
Current Assets	48,171	11,102	25,273
Cash and temporary cash investments	-	94,529	-
Short-term investment	-	-	-
Accounts receivable	62,703	56,796	58,258
Customers, less allowance for doubtful accounts of \$4,700, \$3,900 and \$3,200	28,160	37,411	31,312
Other	22,765	24,389	23,200
Accrued utility revenues	21,178	20,540	22,021
Fuel, materials and supplies, at average cost	4,963	3,130	4,633
Prepayments	41	57	142
Other	-	-	-
Total	187,981	247,954	164,839
Regulatory Assets (future amounts due from customers through the ratemaking process)	408,272	406,258	418,188
Income taxes due principally to book-tax differences (Note A)	62,929	55,432	39,473
Deferred return - Seabrook Unit 1	26,964	28,136	37,700
Unamortized cancelled nuclear projects	32,573	28,186	30,716
Unamortized redemption costs	13,113	20,781	14,814
Sales adjustment revenues	1,600	-	-
Uranium enrichment decommissioning costs	198	1,109	-
Deferred fossil fuel costs	6,631	6,474	5,391
Unamortized debt issuance expenses	15,114	10,117	8,083
Other	-	-	-
Total	567,394	556,493	554,365
	\$2,134,292	\$2,153,634	\$2,072,855

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Years Ended December 31, 1993, 1992 and 1991
(Thousands of Dollars)

	1993	1992	1991
Balance, January 1	\$142,981	\$125,448	\$105,046
Net Income	40,481	56,768	55,550
Discount applicable to repurchase of preferred stock	-	796	3,304
Total	183,462	183,012	163,900
Deduct Cash Dividends Declared	4,318	4,338	4,530
Preferred stock	37,419	35,693	33,922
Common stock	41,737	40,031	38,452
Total	79,156	75,724	72,374
Balance, December 31	\$141,725	\$142,981	\$125,448

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

December 31, 1993, 1992 and 1991

Capitalization and Liabilities (Thousands of Dollars)

	1993	1992	1991
Capitalization (Note B)			
Common stock equity			
Common stock	\$ 284,028	\$ 282,433	\$ 279,340
Paid-in capital	734	495	146
Capital stock expense	(3,163)	(3,163)	(3,163)
Retained earnings	141,725	142,981	125,448
	423,324	422,746	401,771
Preferred stock	60,945	60,945	62,640
Long-term debt	875,268	893,457	909,998
Total	1,359,537	1,377,148	1,374,409
Noncurrent Liabilities			
Obligations under capital leases			
Nuclear fuel	-	-	69,439
Other property	19,871	23,855	26,136
Uranium enrichment decommissioning reserve	1,486	-	-
Nuclear decommissioning obligation	5,606	-	-
Other	2,156	1,998	1,398
Total	29,119	25,853	96,973
Current Liabilities			
Current portion of long-term debt	143,333	92,833	37,500
Notes payable	-	84,099	13,000
Accounts payable	49,424	59,522	51,850
Dividends payable	10,445	10,017	9,602
Taxes accrued	6,851	5,834	7,663
Pensions accrued (Note H)	33,547	18,714	13,244
Interest accrued	21,972	24,403	31,321
Obligations under capital leases	1,838	2,028	2,174
Other accrued liabilities	26,813	12,953	11,670
Total	294,223	310,403	178,024
Customers' Advances for Construction	2,667	2,672	3,064
Regulatory Liabilities (future amounts owed to customers through the ratemaking process)			
Accumulated deferred investment tax credits	19,433	20,195	20,957
Deferred gain on sale of utility plant	2,070	3,391	4,574
Other	1,837	-	45
Total	23,340	23,586	25,576
Deferred Income Taxes (future tax liabilities owed to taxing authorities)	425,406	413,972	394,809
Commitments and Contingencies	-	-	-
	\$2,134,292	\$2,153,634	\$2,072,855

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 1993, 1992 and 1991
(Thousands of Dollars)

	1993	1992	1991
Cash Flows From Operating Activities			
Net Income	\$40,481	\$56,768	\$55,550
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	65,788	70,298	66,408
Deferred income taxes	9,422	31,093	19,977
Deferred investment tax credits - net	(762)	(762)	(3,322)
Gain on sale of facility	-	(5,915)	-
Amortization of nuclear fuel	21,922	23,440	21,671
Cumulative effect for years prior to 1991 of accounting change for property taxes - net	-	-	(7,337)
Allowance for funds used during construction	(4,067)	(3,232)	(5,190)
Deferred return - Seabrook Unit 1	(7,497)	(15,959)	(17,970)
Sales adjustment revenue	7,668	(6,217)	(6,571)
Changes in:			
Accounts receivable - net	3,344	(4,637)	(9,022)
Fuel, materials and supplies	(638)	1,481	17,747
Accounts payable	(10,098)	7,672	(14,363)
Interest accrued	(2,431)	(6,918)	2,019
Taxes accrued	1,017	(1,829)	(10,558)
Reorganization charge accrued	13,620	-	-
Other assets and liabilities	8,087	3,354	2,783
Total Adjustments	105,375	91,869	56,272
Net Cash Provided by Operating Activities	145,856	148,637	111,822
Cash Flows from Financing Activities			
Common stock	1,834	3,442	1,518
Long-term debt	164,460	247,000	53,000
Notes payable	(84,099)	71,099	(2,000)
Securities retired and redeemed, including premiums:	-	(1,695)	(7,060)
Preferred stock	(143,543)	(214,811)	(47,870)
Long-term debt	(1,742)	(1,453)	3,165
Expenses of issues	(4,174)	(71,866)	(3,106)
Lease obligations			
Dividends			
Preferred stock	(4,318)	(4,365)	(4,612)
Common stock	(36,991)	(35,252)	(33,345)
Net Cash used in Financing Activities	(108,573)	(7,901)	(40,310)
Cash Flows from Investing Activities			
Plant expenditures, including nuclear fuel	(94,743)	(66,390)	(63,157)
Proceeds from sale of facility	-	6,012	-
Investment in debt securities	94,529	(94,529)	-
Net Cash used in Investing Activities	(214)	(154,907)	(63,157)
Cash and Temporary Cash Investments:			
Net change for the period	37,069	(14,171)	8,355
Balance at beginning of period	11,102	25,273	16,918
Balance at end of period	\$48,171	\$11,102	\$25,273
Cash paid during the period for:			
Interest (net of amount capitalized)	\$78,021	\$82,829	\$71,641
Income taxes	\$17,435	\$12,634	\$ 7,912

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(A) Statement Of Accounting Policies

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

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

Reclassification of Previously Reported Amounts Certain amounts previously reported have been reclassified to conform with current year presentations.

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

Allowance for Funds Used During Construction In accordance with the applicable regulatory systems of accounts, the Company capitalizes AFUDC, which represents the approximate cost of debt and equity capital devoted to plant under construction. In accordance with FERC prescribed accounting, the portion of the allowance applicable to borrowed funds is presented in the Consolidated Statement of Income as a reduction of interest charges, while the portion of the allowance applicable to equity funds is presented as other income. Although the allowance does not represent current cash income, it has historically been recoverable under the ratemaking process over the service lives of the related properties. The Company compounds semi-annually the allowance applicable to major construction projects. AFUDC rates in effect for 1993, 1992 and 1991 were 8.75%, 10.25% and 10.88%, respectively.

Depreciation Provisions for depreciation on utility plant for book purposes, excluding costs associated with the 1984 reconversion of BEC's plant to a dual-fired capability, are computed on a straight-line basis, using estimated service lives determined by independent engineers. One-half year's depreciation is taken in the year of addition and disposition of utility plant, except in the case of major operating units on which depreciation commences in the month they are placed in service and ceases in the month they are removed from service. During the years 1985-1989, depreciation associated with BEC's reconversion costs was computed on an annuity basis over the original ten-year period that this plant was being leased to the Company by BEC. Commencing January 1, 1990, the reconversion costs are being depreciated on a straight-line basis over a period ending July 2000. The aggregate annual provisions for depreciation for the years 1993, 1992 and 1991 were equivalent to approximately 3.22%, 3.15% and 3.10%, respectively, of the original cost of depreciable property.

Income Taxes Effective January 1, 1993, the Company adopted SFAS 109, "Accounting for Income Taxes". In accordance with SFAS 109, the Company has provided deferred taxes for all temporary book-tax differences using the liability method. The liability method requires that deferred tax balances be adjusted to reflect enacted future tax rates that are anticipated to be in effect when the temporary differences reverse. In accordance with generally accepted accounting principles for regulated industries, the Company has established a net regulatory asset that reflects anticipated future recovery in rates of these deferred tax provisions.

For ratemaking purposes, the Company practices full normalization for all investment tax credits (ITC) related to recoverable plant investments except for the ITC related to Seabrook Unit 1, which was taken into income in accordance with provisions of the 1989 Settlement Agreement.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash and Cash Equivalents For cash flow purposes, the Company considers all highly liquid debt instruments with a maturity of three months or less at the date of purchase to be cash equivalents.

The Company is required to maintain an operating deposit with the project disbursing agent related to its 17.5% ownership interest in Seabrook Unit 1. This operating deposit, which is the equivalent to one and one half months of the funding requirement for operating expenses, is restricted for use and amounted to \$3.4 million, \$2.9 million, and \$1.8 million at December 31, 1993, 1992 and 1991, respectively.

Investments The Company's investment in the Connecticut Yankee Atomic Power Company joint venture, a nuclear generating company in which the Company has a 9 1/2% stock interest, is accounted for on an equity basis.

Fossil Fuel Costs The amount of fossil fuel costs that cannot be reflected currently in customers' bills pursuant to the FCA in the Company's rates is deferred at the end of each accounting period. Since adoption of the deferred accounting procedure in 1974, rate decisions by the DPUC and its predecessors have consistently made specific provision for amortization and rate-making treatment of the Company's existing deferred fossil fuel cost balances.

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

Pension and Other Post-Employment Benefits The Company accounts for normal pension plan costs in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions", and for supplemental retirement plan costs and supplemental early retirement plan costs in accordance with the provisions of SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

Prior to January 1, 1993, the Company accounted for other post-employment benefits, consisting principally of health and life insurance, on a pay-as-you-go basis. Effective January 1, 1993, the Company commenced accounting for these costs under the provisions of SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits Other than Pensions", which requires, among other things, that the liability for such benefits be accrued over the employment period that encompasses eligibility to receive such benefits. The annual incremental cost of this accounting change has been allowed in retail rates in accordance with a 1992 rate decision.

Uranium Enrichment Obligation Under the Energy Policy Act of 1992 (Energy Act), the Company will be assessed for its proportionate share of the costs of the decontamination and decommissioning of uranium enrichment facilities operated by the Department of Energy. The Energy Act imposes an overall cap of \$2.25 billion on the obligation assessed to the nuclear utility industry and limits the annual assessment to \$150 million each year over a 15-year period. At December 31, 1993, the Company's unfunded share of the obligation, based on its ownership interest in Seabrook Unit 1 and Millstone Unit 3, was approximately \$1.5 million. Effective January 1, 1993, the Company was allowed to recover these assessments in rates as a component of fuel expense. Accordingly, the Company has recognized these costs as a regulatory asset on its Consolidated Balance Sheet.

Nuclear Decommissioning Trusts External trust funds are maintained to fund the estimated future decommissioning costs of the nuclear generating units in which the Company has an ownership interest. These costs are accrued as a charge to depreciation expense over the estimated service lives of the units and are recovered in rates on a current basis. The Company paid \$1,616,000, \$1,334,000 and \$1,011,000 during 1993, 1992 and 1991 into the decommissioning trust funds for Seabrook Unit 1 and Millstone Unit 3. At December 31, 1993, the Company's share of the trust fund balances, which include accumulated earnings on the funds, were \$3.7 million and \$1.9 million for Seabrook Unit 1 and Millstone Unit 3, respectively. These fund balances are included in "Other Property and Investments" and the accrued decommissioning obligation is included in "Noncurrent Liabilities" on the Company's Consolidated Balance Sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(B) Capitalization

	December 31,					
	1993		1992		1991	
	Shares Outstanding	\$(000's)	Shares Outstanding	\$(000's)	Shares Outstanding	\$(000's)
Common Stock Equity						
Common stock, no par value, at December 31 ^(a)	14,083,291	\$284,028	14,033,148	\$282,433	13,932,348	\$279,340
Shares authorized						
1991 30,000,000						
1992 30,000,000						
1993 30,000,000						
Paid-in capital		734		491		146
Capital stock expense		(3,163)		(3,163)		(3,163)
Retained earnings ^(b)		141,725		142,981		125,448
Total common stock equity		<u>423,324</u>		<u>422,746</u>		<u>401,771</u>
Preferred and Preference Stock^(a)						
Preferred stock issues:						
4.35% Series A	40,425		40,425		40,425	
4.72% Series B	50,730		50,730		67,680	
4.64% Series C	32,100		32,100		32,100	
5 5/8% Series D	61,200		61,200		61,200	
7.60% Series E	125,000		125,000		125,000	
7.60% Series F	150,000		150,000		150,000	
	<u>459,455</u>	<u>45,945</u>	<u>459,455</u>	<u>45,945</u>	<u>476,405</u>	<u>47,640</u>
Cumulative preferred stock, \$25 par value, shares authorized at December 31,						
1991 2,400,000						
1992 2,400,000						
1993 2,400,000						
Preferred stock issues:						
8.80% 1976 Series	600,000	15,000	600,000	15,000	600,000	15,000
Cumulative preference stock, \$25 par value, shares authorized at December 31,						
1991 5,000,000						
1992 5,000,000						
1993 5,000,000						
Preference stock issues	-	-	-	-	-	-
Total preferred stock not subject to mandatory redemption		<u>60,945</u>		<u>60,945</u>		<u>62,640</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(000's)	December 31,		
	1993	1992	1991
Long-term Debt ^(a)			
Long-term debentures:			
10 1/2%, 1995 Series, due October 1, 1995	\$ -	\$ -	\$ 69,600
5 3/4%, 1996 Series, due August 15, 1996	-	-	15,000
6%, 1997 Series, due June 15, 1997	-	-	22,500
7%, 1999 Series, due January 15, 1999	-	-	15,000
7 3/4%, 2002 Series, due October 1, 2002	-	-	25,000
8 1/4%, 2003 Series, due December 15, 2003	-	-	30,000
12%, 2017 Series, due August 1, 2017	-	-	2,078
	-	-	179,178
 First Mortgage Bonds-Bridgeport Electric Company:			
9.44%, Series B, maturing serially as to \$10,800 principal amount on February 15 in each of the years 1995 to 1999.	54,000	54,000	54,000
 10.32%, Series C, maturing serially as to \$55,333 principal amount on January 15 in each of the years 1994 and 1995.	110,666	166,000	180,000
 Other Long-term Debt			
Pollution Control Revenue Bonds:			
14 1/2%, 1984 Series, due October 1, 2009	110	40,000	40,000
14 1/2%, 1984 Series B, due December 1, 2009	3,830	28,400	28,400
9 1/2%, 1986 Series, due June 1, 2016	7,500	7,500	7,500
9 3/8%, 1987 Series, due July 1, 2012	25,000	25,000	25,000
10 3/4%, 1987 Series, due November 1, 2012	43,500	43,500	43,500
8%, 1989 Series A, due December 1, 2014	25,000	25,000	25,000
5 7/8%, 1993 Series, due October 1, 2033	64,460	-	-
Solid Waste Disposal Revenue Bonds:			
Adjustable rate 1990 Series A, due September 1, 2015	30,000	30,000	30,000
 Medium-Term Notes:			
7.62%, 1991 Series A, due September 12, 1994	30,000	30,000	30,000
7.20%, 1991 Series B, due November 1, 1994	13,000	13,000	13,000
6.82%, 1991 Series C, due December 2, 1994	10,000	10,000	10,000
6.00%, 1992 Series D, due January 15, 1995	50,000	50,000	-
7.00%, 1992 Series E, due January 15, 1997	50,000	50,000	-
7.25%, 1992 Series F, due October 2, 1995	47,000	47,000	-
7 3/8%, 1992 Series G, due January 15, 1998	100,000	100,000	-
6.20%, 1993 Series H, due January 15, 1999	100,000	-	-
 Long-term bank loans:			
12.9%, maturing in 1994	5,000	17,500	32,500
 Obligation under the Seabrook Unit 1 sale/leaseback agreement	250,000	250,000	250,000
	1,019,066	986,900	948,078
 Unamortized debt discount less premium at December 31, 1993, 1992 & 1991	(465)	(610)	(580)
 Total long-term debt	1,018,601	986,290	947,498
 Less current portion included in Current Liabilities ^(d)	143,333	92,833	37,500
 Total long-term debt included in Capitalization	875,268	893,457	909,998
 Total Capitalization	\$1,359,537	\$1,377,148	\$1,374,409

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(a) Common Stock The Company issued 46,000 shares of common stock in 1993, 100,800 shares of common stock in 1992 and 44,600 shares of common stock in 1991 pursuant to a stock option plan. During 1993, the Company also issued 4,143 shares of common stock pursuant to a long-term incentive program.

Common stock, no par value, authorized at December 31, 1993, included 400,000 shares reserved for the Company's Employee Stock Ownership Plan (ESOP). There were no additions to ESOP in 1991, 1992 or 1993.

The Company purchased on the open market, on behalf of shareholders participating in the common stock Dividend Reinvestment Plan, 148,362 shares of stock in 1991, 136,679 shares of stock in 1992 and 138,145 shares of stock in 1993.

In 1990, the Company's Board of Directors and the shareholders approved a stock option plan for officers and key employees of the Company. The plan provides for the awarding of options to purchase up to 750,000 shares of the Company's common stock over periods of from one to ten years following the dates when the options are granted. On June 5, 1991, the DPUC approved the issuance of 500,000 shares of stock pursuant to this plan. The exercise price of each option cannot be less than the market value of the stock on the date of the grant. Options to purchase 214,000 shares of stock at an exercise price of \$30.75 per share, 2,800 shares of stock at an exercise price of \$28.3125 per share, 1,800 shares of stock at an exercise price of \$31.1875 per share, 4,000 shares of stock at an exercise price of \$35.625 per share, 36,200 shares of stock at an exercise price of \$39.5625 per share and 5,000 shares of stock at an exercise price of \$42.375 per share have been granted by the Board of Directors and remain outstanding at December 31, 1993. Options to purchase 44,600 shares of stock at an exercise price of \$30.75 were exercised during 1991. Options to purchase 98,000 shares of stock at an exercise price of \$30.75 and 2,800 shares of stock at an exercise price of \$28.3125 were exercised during 1992. Options to purchase 42,400 shares of stock at an exercise price of \$30.75 per share, 1,400 shares of stock at an exercise price of \$28.3125 per share, 1,200 shares of stock at an exercise price of \$31.1875 per share and 1,000 shares of stock at an exercise price of \$35.625 per share were exercised during 1993.

In addition, certain executive officers were eligible to earn shares of the Company's common stock, based upon the dividend and market performance of the stock compared to a peer group of electric utilities over a four-year period ending December 31, 1992, under the Company's long-term incentive program. The issuance of shares of stock pursuant to this program received DPUC approval on June 5, 1991. The total number of shares of common stock that could have been earned under the long-term incentive program was limited to 7,091. For the four-year period ending December 31, 1992, 6,027 shares of the Company's common stock were earned.

Of this amount, a total of 4,143 shares were issued to the participants in 1993, and the remainder was distributed in an equivalent amount of cash based on the closing price of the Company's Common Stock on March 1, 1993, pursuant to the terms of the long-term incentive program. This program ended as of December 31, 1992.

(b) Retained Earnings Restriction The indenture under which the Company's Medium-Term Notes and Notes are issued places limitations on the payment of cash dividends on common stock and on the purchase or redemption of common stock. Retained earnings in the amount of \$82.6 million were free from such limitations at December 31, 1993.

(c) Preferred and Preference Stock The par value of each of these issues was credited to the appropriate stock account and expenses related to these issues were charged to capital stock expense.

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

- 9,575 shares of 4.35% Preferred Stock, Series A
- 7,320 shares of 4.72% Preferred Stock, Series B
- 39,900 shares of 4.64% Preferred Stock, Series C
- 13,800 shares of 5 5/8% Preferred Stock, Series D

In 1992, the Company purchased and cancelled 16,950 shares of its \$100 par value 4.72% Preferred Stock, Series B, at a discount, resulting in a non-taxable addition to common equity of approximately \$796,650.

There was no redemption of preferred stock in 1993.

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

Preference stock is a form of stock that is junior to preferred stock but senior to common stock. It is not subject to the earnings coverage requirements or minimum capital and surplus requirements governing the issuance of preferred stock. There were no shares of preference stock outstanding at December 31, 1993.

1991

9,600
5,000
12,500
5,000
15,000
10,000
2,078
79,178

34,000

10,000

0,000

8,400

7,500

5,000

3,500

5,000

0,000

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3,000

0,000

-

-

-

-

-

2,500

0,000

8,078

(580)

7,498

7,500

9,999

4,409

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(d) **Long-Term Debt** In January 1993, the net proceeds from the liquidation of an investment in tax-exempt municipal debt instruments were used to pay \$60 million principal amount of maturing 10.32% First Mortgage Bonds of the Company's wholly-owned subsidiary, Bridgeport Electric Company; to repay a \$7.5 million 13.1% term loan; to repay short-term borrowings incurred for the August 1, 1992 redemption of the Company's 12% Debentures, due August 1, 2017, and for repayment of a \$7.5 million 12.9% term loan on September 30, 1992; and to repay short-term borrowings incurred for a \$19.1 million rent payment on December 31, 1992 under the Company's facility sale and leaseback arrangement for a portion of its ownership interest in Seabrook Unit 1.

On September 30, 1993, the Company repaid a \$5 million 12.9% term loan with funds obtained through short-term borrowings.

On September 17, 1993, the Company invited the owners of \$68,400,000 aggregate principal amount of 14 1/2% Pollution Control Revenue Bonds, due October 1 and December 1, 2009, ("Bonds") to sell to the Company, for cash, any and all of the Bonds. The Bonds were issued in 1984 by The Industrial Development Authority of the State of New Hampshire ("NHIDA"), which loaned the issue proceeds to the Company to pay for the cost of installing pollution control facilities at the Seabrook nuclear generating plant in New Hampshire; and the Business Finance Authority of the State of New Hampshire ("NHBFA"), successor to the NHIDA, agreed to issue Pollution Control Refunding Revenue Bonds

("Refunding Bonds") in a principal amount equal to the aggregate principal amount of Bonds purchased by the Company and surrendered to the Bond trustee for cancellation, and to loan the issue proceeds of the Refunding Bonds to the Company to pay for part of the purchase price of the Bonds being purchased and cancelled. On October 15, 1993, the Company accepted offers from holders of \$64,460,000 aggregate principal amount of the Bonds to sell them for an aggregate purchase price of \$75,710,000. On October 26, 1993, the NHBFA issued and sold \$64,460,000 principal amount of 5 7/8% Refunding Bonds, due October 1, 2033, and loaned the issue proceeds to the Company, which used them to pay a portion of the purchase price of the Bonds. The remainder of the purchase price was funded with the proceeds of short-term borrowings.

On December 7, 1993, the Company issued and sold \$100 million principal amount of five-year and one month Notes at a coupon rate of 6.20%. The net proceeds were used to repay \$60 million principal amount of maturing 10.32% First Mortgage Bonds of the Company's wholly-owned subsidiary, Bridgeport Electric Company in January 1994; to repay a \$5 million 13.1% term loan in January 1994 and for general corporate purposes, including repayment of short-term borrowings.

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

(000's)	1994	1995	1996	1997	1998
Long-term debt (beginning of period) ⁽¹⁾	\$989,067	\$875,734	\$712,600	\$699,830	\$634,659
Less:					
Maturities	53,000	97,000	-	50,000	100,000
Mandatory redemptions/repayments	60,333	66,134	12,770	15,171	15,562
Long-term debt (end of period) ⁽¹⁾⁽²⁾	\$875,734	\$712,600	\$699,830	\$634,659	\$519,097
Annual interest associated with existing outstanding debt ⁽¹⁾⁽²⁾	\$ 72,800	\$ 59,637	\$ 55,221	\$ 50,838	\$ 42,930
Annual amortization of issuance expense and repurchase premiums associated with existing debt	\$ 7,915	\$ 5,451	\$ 3,167	\$ 2,893	\$ 2,543

(1) Does not include \$30 million of tax-exempt adjustable rate Solid Waste Disposal Revenue Bonds, 1990 Series A, due September 1, 2015, classified on the Company's books as a current liability (interest rate for September 1993 to March 1994 is 2.90%).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(C) Rate-Related Regulatory Proceedings

On December 16, 1992, the DPUC approved levelized rate increases of 2.66% (\$15.8 million) for 1993 and 2.66% (an additional \$17.3 million) for 1994, including allowed conservation and load management revenue increases. The rate increases totaled \$33.1 million, or 5.4%, over two years.

In order to achieve levelized 2.66% rate increases for each of these two years, the DPUC determined that the recovery of \$13.1 million of sales adjustment clause revenues would be deferred from 1993 to 1994.

Utilities are entitled by Connecticut law to revenues sufficient to allow them to cover their operating and capital costs, to attract needed capital and maintain their financial integrity, while also protecting the public interest. Accordingly, the DPUC's 1992 rate decision authorized a return on equity of 12.4% for ratemaking purposes. However, the Company may earn up to 1% above this level before a mandatory review is required by the DPUC.

Since January 1971, UI has had a fossil fuel adjustment clause (FCA) in virtually all of its retail rates. The DPUC is required by law to convene an administrative proceeding prior to approving FCA charges or credits for each month. The law

permits automatic implementation of the charges or credits if the DPUC fails to act within five days of the administrative proceeding, although all such charges and credits are also subject to further review and appropriate adjustment by the DPUC at public hearings required to be held at least every three months. The DPUC has made no material changes in UI's FCA charges and credits as the result of any of these proceedings or hearings.

(D) Accounting For Phase-In Plan

The Company has been phasing into rate base its allowable investment in Seabrook Unit 1, amounting to \$640 million, since January 1, 1990. In conjunction with this phase-in plan, the Company has been allowed to record a deferred return on the portion of allowable investment excluded from rate base during the phase-in period. The accumulated deferred return has been added to rate base each year since January 1, 1991 in the same proportion as the phase-in installment for that year has borne to the portion of the \$640 million remaining to be phased-in. On January 1, 1994, the Company phased into rate base the remaining \$74.5 million of allowable investment, plus the remaining \$28.2 million of accumulated deferred return. The Company will be allowed to recover the accumulated deferred return, amounting to \$62.9 million, over a five-year period commencing January 1, 1995.

(E) Income Taxes

(000's)

Income tax expense consists of:

Income tax provisions:

Current

Federal

State

Total current

Deferred

Federal

State

Total deferred

Investment tax credits

Total income tax expense

Income tax components charged as follows:

Operating expenses

Other income and deductions - net

Cumulative effect of change in accounting for property taxes

Total income tax expense

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

Accelerated depreciation

Tax depreciation on unrecoverable plant investment

Conservation & load management

Property tax adjustment

Deferred fossil fuel costs

Seabrook sale/leaseback transaction

Premiums on BEC bond redemption

Cancelled nuclear projects

Alternative minimum tax

Sales adjustment revenues

Gains on sale of utility plant

Pension & postretirement benefits

Other - net

	1993	1992	1991
Income tax expense consists of:			
Income tax provisions:			
Current			
Federal	\$13,484	\$ 6,815	\$10,869
State	4,843	2,645	407
Total current	18,327	9,460	11,276
Deferred			
Federal	9,620	16,860	13,297
State	(198)	14,233	12,240
Total deferred	9,422	31,093	25,537
Investment tax credits	(762)	(4,399)	(3,322)
Total income tax expense	\$26,987	\$36,154	\$33,491
Income tax components charged as follows:			
Operating expenses	\$33,309	\$48,712	\$47,231
Other income and deductions - net	(6,322)	(12,558)	(19,299)
Cumulative effect of change in accounting for property taxes	-	-	5,559
Total income tax expense	\$26,987	\$36,154	\$33,491
The following table details the components of the deferred income taxes:			
Accelerated depreciation	\$11,318	\$15,452	\$17,176
Tax depreciation on unrecoverable plant investment	7,915	9,378	10,923
Conservation & load management	3,084	3,995	8,374
Property tax adjustment	(1,991)	(1,991)	5,974
Deferred fossil fuel costs	(381)	490	(1,330)
Seabrook sale/leaseback transaction	(2,016)	1,629	(1,963)
Premiums on BEC bond redemption	(2,378)	(3,209)	(3,209)
Cancelled nuclear projects	(467)	(3,795)	(3,795)
Alternative minimum tax	(139)	(1,344)	(9,922)
Sales adjustment revenues	(3,248)	2,415	2,846
Gains on sale of utility plant	-	1,237	-
Pension & postretirement benefits	(7,179)	(2,489)	(885)
Other - net	4,904	9,325	1,348

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(000's)	1993		1992		1991	
	Pre-Tax	Tax	Pre-Tax	Tax	Pre-Tax	Tax
Computed tax at federal statutory rate		\$23,614		\$31,593		\$30,274
Increases (reductions) resulting from:						
Deferred return-Seabrook Unit 1	\$ (7,497)	(2,624)	\$ (15,959)	(5,426)	\$ (17,970)	(6,110)
ITC taken into income	(762)	(762)	(4,399)	(4,399)	(3,322)	(3,322)
Allowance for equity funds used during construction	(999)	(349)	(1,003)	(341)	(1,259)	(428)
Tax exempt interest on municipal bonds	(283)	(99)	(3,664)	(1,246)	-	-
Book depreciation in excess of non-normalized tax depreciation	21,711	7,599	20,182	6,862	19,894	6,764
State income taxes, net of federal income tax benefits	4,645	3,019	16,878	11,140	12,647	8,347
Other items - net	(9,746)	(3,411)	(5,968)	(2,029)	(5,979)	(2,034)
Total income tax expense		<u>\$26,987</u>		<u>\$36,154</u>		<u>\$33,491</u>
Book Income Before Federal Income Taxes		<u>\$67,467</u>		<u>\$92,921</u>		<u>\$89,041</u>
Effective income tax rates		<u>40.0%</u>		<u>38.9%</u>		<u>37.6%</u>

At December 31, 1993, the Company had deferred tax liabilities for taxable temporary differences of \$574 million and deferred tax assets for deductible temporary differences of \$149 million, resulting in a net deferred tax liability of \$425 million. Significant components of deferred tax liabilities and assets were as follows: tax liabilities on book/tax plant basis differences, \$229 million; tax liabilities on the cumulative amount of income taxes on temporary differences previously flowed through to ratepayers, \$163 million; tax liabilities on normalization of book/tax depreciation timing differences, \$89 million and tax assets on the disallowance of plant costs, \$77 million.

The Tax Reform Act of 1986 provides for a more comprehensive corporate alternative minimum tax (AMT) for years beginning after 1986. To the extent that the AMT exceeds the federal income tax computed at statutory rates, the excess must be paid in addition to the regular tax liability. For tax purposes, the excess paid in any year can be carried forward indefinitely and offset against any future year's regular tax liability in excess of that year's tentative AMT. The AMT carryforward at December 31, 1993, 1992 and 1991 was \$11.4 million, \$11.3 million and \$9.9 million, respectively.

(F) Short-Term Credit Arrangements

The Company has a revolving credit agreement with a group of banks, which currently extends to January 19, 1995. The borrowing limit of this facility is \$75 million. The facility permits the Company to borrow funds at a fluctuating interest rate determined by the prime lending market in New York, and also permits the Company to borrow money for fixed periods of time specified by the Company at fixed interest rates determined by the Eurodollar interbank market in London, by the certificate of deposit market in New York, or by bidding, at the Company's option. If a material adverse change in the business, operations, affairs, assets or condi-

the banks may decline to lend additional money to the Company under this revolving credit agreement, although borrowings outstanding at the time of such an occurrence would not then become due and payable. As of December 1993, the Company had no short-term borrowings outstanding under this facility.

The Company's long-term debt instruments do not limit the amount of short-term debt that the Company may issue. The Company's revolving credit agreement described in the previous paragraph requires it to maintain an available earnings/interest charges ratio of not less than 1.5:1.0 for each 12-month period ending on the last day of each calendar quarter.

The Company had a \$50 million term loan facility with a group of banks during 1993. Under this agreement, the Company chose an interest rate from among three alternatives: (i) a fluctuating interest rate determined by the prime lending market in New York; (ii) a fixed interest rate determined by the Eurodollar interbank market in London; and (iii) a fixed interest rate determined by the certificate of deposit market in New York. On February 1, 1993, the Company borrowed \$50 million from this group of banks, using the proceeds to repay short-term borrowings and other current obligations. On December 3, 1993, the Company repaid the \$50 million borrowing and terminated the agreement.

The Company had a term loan agreement with PruLease, Inc. (PruLease) that expired on December 1, 1993. This agreement was executed on December 31, 1992, when the Company borrowed \$49.1 million from PruLease and purchased all the nuclear fuel that was owned by PruLease and leased to the Company on that date. This loan, which was collateralized by a first lien on the Company's ownership interest in the nuclear fuel for Seabrook Unit 1, was repaid

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has a Fossil Fuel Supply Agreement with a financial institution providing for financing up to \$37.5 million in fossil fuel purchases. Under this agreement, the financing entity acquires and stores natural gas, coal and fuel oil for sale to the Company, and the Company purchases these fossil fuels from the financing entity at a price for each type of fuel that reimburses the financing entity for the direct costs it has incurred in purchasing and storing the fuel, plus a charge for maintaining an inventory of the fuel determined

by reference to the fluctuating interest rate on thirty-day, dealer-placed commercial paper in New York. The Company is obligated to insure the fuel inventories and to indemnify the financing entity against all liabilities, taxes and other expenses incurred as a result of its ownership, storage and sale of fossil fuel to the Company. This agreement currently extends to February 1995. At December 31, 1993, approximately \$10.1 million of fossil fuel purchases were being financed under this agreement.

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

(000's)	1993	1992	1991
Maximum aggregate principal amount of short-term borrowings outstanding at any month-end	\$94,635	\$84,099	\$59,000
Average aggregate short-term borrowings outstanding during the year*	\$73,700	\$43,055	\$33,364
Weighted average interest rate*	4.1%	4.4%	6.9%
Principal amounts outstanding at year-end	\$0	\$84,099	\$13,000
Annualized interest rate on principal amounts outstanding at year-end	N/A	5.1%	5.7%

*Average short-term borrowings represent the sum of daily borrowings outstanding, weighted for the number of days outstanding and divided by the number of days in the period. The weighted average interest rate is determined by dividing interest expense by the amount of average borrowings. Commitment fees of approximately \$259,600, \$208,400 and \$289,000 paid during 1993, 1992 and 1991, respectively, are excluded from the calculation of the weighted average interest rate.

(G) Supplementary Information

(000's)	1993	1992	1991
Operating Revenues			
Retail - Base rates	\$603,559	\$566,955	\$570,500
Sales provision adjustment	-	21,031	14,814
Wholesale - capacity	6,575	20,315	22,379
- energy	39,356	55,169	61,857
Other	3,533	3,855	3,821
Total Operating Revenues	\$653,023	\$667,325	\$673,371
Other Income and (Deductions) - net			
Interest and dividend income	\$ 3,568	\$ 6,681	\$ 1,493
Seabrook funding adjustments	-	7,506	-
Equity earnings from Connecticut Yankee unit	1,350	1,340	1,536
Amortization of loss on investment in tax-exempt bonds	-	(1,752)	-
Amortization of oil tank lease	(1,322)	(1,183)	(1,059)
Gain on sale of property	2,032	7,104	1,058
Miscellaneous other income and (deductions) - net	(5,557)	(1,151)	(331)
Total Other Income and (Deductions) - net	\$ 71	\$ 18,545	\$ 2,697
Other Taxes			
Charged to:			
Operating:			
State gross earnings	\$ 27,955	\$ 27,362	\$ 27,223
Local real estate and personal property	24,449	26,339	22,919
Payroll taxes	5,525	5,527	5,252
Other	3	3	502
Total	57,932	59,231	55,896
Non-operating and other accounts	335	837	766
	\$ 58,267	\$ 60,068	\$ 56,662
Other Interest Charges			
Notes Payable	\$ 3,049	\$ 2,120	\$ 2,338
Amortization of debt expense and repurchase premiums	7,818	8,898	7,370
Other	1,393	1,864	139
Total Other Interest Charges	\$ 12,260	\$ 12,882	\$ 9,847

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(H) Pension And Other Post-Employment Benefits

The Company's qualified pension plan, which is based on the highest three years of pay, covers substantially all of its employees, and its entire cost is borne by the Company. The Company also has a non-qualified supplemental plan for certain executives and a non-qualified retiree only plan for certain early retirement benefits. The net pension costs for these plans for 1993, 1992 and 1991 were \$14,966,000, \$5,749,000 and \$2,054,000, respectively.

The Company's funding policy for the qualified plan is to make annual contributions that satisfy the minimum funding requirements of ERISA but which do not exceed the maximum deductible limits of the Internal Revenue Code. These amounts are determined each year as a result of an actuarial valuation of the Plan. In accordance with this policy, the Company will be contributing \$3.3 million in 1994 for 1993 funding requirements. Previously, due to the application of the full funding limitation under ERISA, the Company had not been required to make a contribution since 1985. The supplemental plan is unfunded.

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

Asset Category	Percentage of Total Fund
Equity Securities	63
Fixed-income Securities	32
Real Estate	5

(000's)	1993	1992
The components of net pension costs were as follows:		
Service cost of benefits earned during the period	\$3,977	\$3,846
Interest cost on projected benefit obligation	13,165	12,300
Actual return on plan assets	(23,344)	(7,676)
Net amortization and deferral	10,130	(5,559)
Net pension cost	\$3,928*	\$2,911**

*In addition, a cost of \$11,038,000 was recognized under SFAS No. 88 as a result of special termination benefits provided under the Pension Plan.

**In addition, a loss of \$108,000 was recognized in 1992 under SFAS No. 88 as a result of a curtailment with regard to the supplemental plans, and a cost of \$2,730,000 was recognized under SFAS No. 88 as a result of certain terminations.

Assumptions used to determine pension costs were:

Discount rate	8.25%	8.25%
Average wage increase	5.50%	5.50%
Return on plan assets	8.50%	8.50%

(000's)	December 31, 1993		December 31, 1992	
	Qualified Plan	Non-Qualified Plans	Qualified Plan	Non-Qualified Plans
The funded status and amounts recognized in balance sheets are as follows:				
Actuarial present value of benefit obligations:				
Vested benefit obligation	\$130,582	\$3,097	\$106,417	\$3,572
Accumulated benefit obligation	\$137,081	\$3,097	\$108,820	\$3,572
Reconciliation of accrued pension liability:				
Projected benefit obligation	\$198,236	\$4,262	\$159,899	\$4,166
Less fair value of plan assets	167,732	-	152,401	-
Projected benefit greater (less) than plan assets	30,504	4,262	7,498	4,166
Unrecognized prior service cost	(6,516)	(157)	(6,955)	(180)
Unrecognized net gain (loss) from past experience	(6,966)	(327)	840	(478)
Unrecognized net asset (obligation) at date of initial application	12,878	(131)	13,986	(163)
Accrued pension liability	\$ 29,900	\$3,647	\$ 15,369	\$3,345
Assumptions used in estimating benefit obligations:				
Discount rate	7.50%	7.50%	8.25%	8.25%
Average wage increase	5.50%	5.50%	5.50%	5.50%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In addition to providing pension benefits, the Company also provides other postretirement benefits (OPEB), consisting principally of health care and life insurance benefits, for retired employees and their dependents. Employees with 25 years of service are eligible for full benefits, while employees with less than 25 years of service but greater than 15 years of service are entitled to partial benefits. Years of service prior to age 35 are not included in determining the number of years of service.

Prior to January 1, 1993, the Company recognized the cost of providing OPEB on a pay-as-you-go basis by expensing the annual insurance premiums. These costs amounted to \$1.3 million and \$1.1 million for 1992 and 1991, respectively. Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions", which requires, among other things, that OPEB costs be recognized over the employment period that encompasses eligibility to receive such benefits. In its December 16, 1992 decision on the Company's application for retail rate relief, the DPUC recognized the Company's obligation to adopt SFAS No. 106, effective January 1, 1993, and approved the Company's request for revenues to recover OPEB expenses on a SFAS No. 106 basis. A portion of these expenses represents the transition obligation, which will accrue over a 20-year period, representing the future liability for medical and life insurance benefits based on past service for retirees and active employees.

For funding purposes, the Company has established two Voluntary Employees' Benefit Association Trusts (VEBA) to fund OPEB for employees who retire on or after January 1, 1994; one VEBA for union employees and one for non-union employees. Approximately 52% of the Company's employees are represented by Local 470-1, Utility Workers Union of America, AFL-CIO, for collective bargaining purposes. The funding policy assumes contributions to these trust funds to be the total OPEB expense under SFAS No. 106, excluding the amount that resulted from the reorganization minus pay-as-you-go benefit payments for pre-January 1, 1994 retirees, allocated in a manner that minimizes current income tax liability, without exceeding maximum tax deductible limits. In accordance with this policy, the Company contributed approximately \$3 million to the union VEBA on December 30, 1993. The Company currently plans to fund the portion of the OPEB expense that is related to the reorganization during the years 1994-1996.

The 1993 cost for OPEB includes the following components: (000's)

Service cost	\$1,182
Interest cost	1,959
Actual return on plan assets	-
Amortizations and deferrals - net	1,215
Net Cost of Postretirement Benefit	<u>\$4,356</u>

Assumptions used to determine OPEB costs were:

Discount rate	8.25%
Health Care Cost Trend Rates	
Pre-age 65 claims	8.3%*
Post-age 65 claims	9.0%*

*Assumed rates gradually decline to 6.2% by the year 2020.

A one percentage point increase in the assumed health care cost trend rate would have increased the service cost and interest cost components of the 1993 net cost of periodic postretirement benefit by approximately \$445,000 and would increase the accumulated postretirement benefit obligation for health care benefits by approximately \$2,421,000.

The following table reconciles the funded status of the plan with the amount recognized in the Consolidated Balance Sheet as of December 31, 1993:

(000's)	
Accumulated Postretirement Benefit Obligation:	
Retirees	\$12,292
Fully eligible active plan participants	1,950
Other active plan participants	<u>16,088</u>
Total Accumulated Postretirement Benefit Obligation	30,330
Plan assets at fair value	<u>2,984</u>
Accumulated Postretirement Benefit Obligation in Excess of Plan Assets	27,346
Unrecognized net loss	(2,990)
Unamortized transition obligation	<u>(23,089)</u>
Accrued Postretirement Benefit Obligation	<u>\$ 1,267</u>

The weighted average discount rate used to measure the accumulated postretirement benefit obligation was 7.5%.

During 1993, in conjunction with an in-depth organizational review, the Company offered a voluntary early retirement program to non-union employees who were eligible to receive pension benefits. This offer was accepted by 103 employees. The 1993 OPEB cost for this program was \$1.267 million. These costs are recognized as a component of the reorganization charge shown on the Company's Consolidated Statement of Income.

In November 1992, the FASB issued SFAS No. 112, "Employers' Accounting for Post-Employment Benefits". This statement, which will be adopted during the first quarter of 1994, establishes accounting standards for employers who provide benefits, such as unemployment compensation, severance benefits and disability benefits, to former or inactive employees after employment but before retirement and requires recognition of the obligation for these benefits. The adoption of this new standard will result in a pre-tax charge against earnings amounting to approximately \$2 million during the first quarter of 1994. Subsequent period costs are not expected to be material.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(I) Jointly Owned Plant

At December 31, 1993, the Company had the following interests in jointly owned plants:

(Millions)	Ownership/ Leasehold Share	Plant In Service	Accumulated Depreciation
Seabrook Unit 1	17.5%	\$650	\$63
Millstone Unit 3	3.685	134	48
New Haven Harbor Station	93.7	132	60

The Company's share of the operating costs of jointly owned plants is included in the appropriate expense captions in the Consolidated Statement of Income.

(J) Unamortized Cancelled Nuclear Project

From December 1984 through December 1992, the Company had been recovering its investment in Seabrook Unit 2 over a regulatory approved ten-year period without a return on its unamortized investment. In the Company's 1992 rate decision, the DPUC adopted a proposal by the Company to write off its remaining investment in Seabrook Unit 2, beginning January 1, 1993, over a 24-year period, corresponding with the flowback of certain Connecticut Corporation Business Tax (CCBT) credits. Such decision will allow the Company to retain the Seabrook Unit 2/CCBT amounts for ratemaking purposes, with the accumulated CCBT credits not deducted from rate base during the 24-year period of amortization in recognition of a longer period of time for amortization of the Seabrook Unit 2 balance.

(K) Fuel Financing Obligations And Other Lease Obligations

The Company has a Fossil Fuel Supply Agreement with a financial institution providing for financing up to \$37.5 million in fossil fuel purchases. Under this agreement, the financing entity acquires and stores natural gas, coal and fuel oil for sale to the Company, and the Company purchases these fossil fuels from the financing entity at a price for each type of fuel that reimburses the financing entity for the direct costs it has incurred in purchasing and storing the fuel, plus a charge for maintaining an inventory of the fuel determined by reference to the fluctuating interest rate on thirty-day, dealer-placed commercial paper in New York. The Company is obligated to insure the fuel inventories and to indemnify the financing entity against all liabilities, taxes and other expenses incurred as a result of its ownership, storage and sale of fossil fuel to the Company. This agreement currently extends to February 1995. At December 31, 1993, approximately \$10.1 million of fossil fuel purchases were being financed under this agreement.

The Company has leases (some of which are capital leases), including arrangements for data processing and office equipment, vehicles, office space and oil tanks. The gross amount of assets recorded under capital leases and the related obligations of those leases as of December 31, 1993 are recorded on the balance sheet.

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

(000's)	
Next five years:	
1994	\$22,757
1995	950
1996	0
1997	0
1998	0
After 1998	0
Total minimum capital lease payments	23,707
Less: Amount representing interest	1,998
Present value of minimum capital lease payments	\$21,709

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

Rental payments charged to operating expenses in 1993, 1992 and 1991 amounted to \$14.1 million, \$14.8 million and \$14.9 million, respectively.

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

(L) Commitments And Contingencies

Capital Expenditure Program The Company has entered into commitments in connection with its continuing capital expenditure program, which is presently estimated at approximately \$366.5 million, excluding AFUDC, for 1994 through 1998.

Seabrook After experiencing increasing financial stress beginning in May 1987, Public Service Company of New Hampshire (PSNH), which held the largest ownership share (35.6%) in Seabrook, commenced a proceeding under Chapter 11 of the Bankruptcy Code in January of 1988. Under this statute, PSNH continued its operations while seeking a financial reorganization. A reorganization plan proposed by Northeast Utilities (NU) was confirmed by the bankruptcy court in April of 1990 and, on May 16, 1991, PSNH completed the financing required for payment of its pre-bankruptcy secured and unsecured debt under the first stage of the reorganization plan and emerged from bankruptcy. On May 19, 1992, the NRC issued the final regulatory approval necessary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the second stage of the NU reorganization plan, under which PSNH would be acquired by NU; and on June 5, 1992, this acquisition was completed. As part of the transaction, PSNH's ownership share of Seabrook Unit 1 was transferred to a wholly-owned subsidiary of NU. Two previous regulatory approvals of the NU reorganization plan for PSNH, by the Federal Energy Regulatory Commission (FERC) and the Securities and Exchange Commission (SEC), continue to be challenged in court proceedings, and the Company is unable to predict the outcome of these proceedings.

On February 28, 1991, EUA Power Corporation (EUA Power), the holder of a 12.1% ownership share in Seabrook, commenced a proceeding under Chapter 11 of the Bankruptcy Code. EUA Power, a wholly-owned subsidiary of Eastern Utilities Associates (EUA), was organized solely for the purpose of acquiring an ownership share in Seabrook and selling in the wholesale market its share of the electric power produced by Seabrook. EUA Power commenced this bankruptcy proceeding because the cash generated by its sales of power at current market prices was insufficient to pay its obligations on its outstanding debt. Subsequently, EUA Power's name was changed to Great Bay Power Corporation (Great Bay). The official committee of Great Bay's bondholders (Bondholders Committee) has proposed, and the bankruptcy court has confirmed, a reorganization plan for Great Bay, under which substantially all of the equity ownership of Great Bay would pass to its bondholders. On February 2, 1994, the Bondholders Committee accepted a financing proposal that would inject \$35 million of new ownership equity into Great Bay. The bankruptcy court must approve this structure before the Great Bay reorganization plan becomes effective. Further approvals are also required from the NRC, FERC and the New Hampshire Public Utilities Commission. The bankruptcy court has approved an agreement among Great Bay, the Bondholders Committee, UI and The Connecticut Light and Power Company (CL&P), under which up to \$20 million in advance payments against their respective future monthly Seabrook payment obligations will be made available between UI and CL&P as needed until the reorganization plan becomes effective. UI's share of funding obligations under this agreement totals \$8 million. As of December 31, 1993, \$5.5 million had been advanced by UI under this agreement. At January 31, 1994, \$602,000 of the Company's advances remained outstanding. This agreement can be terminated by UI and CL&P upon thirty days notice or upon failure of the reorganization process to achieve certain milestones by specified dates. UI is unable to predict what impact, if any, failure of the reorganization plan to become effective will have on the operating license for Seabrook Unit 1, or what other actions UI and the other joint owners of the unit may be required to take in response to developments in this bankruptcy proceeding as it may affect Seabrook.

Nuclear generating units are subject to the licensing requirements of the Nuclear Regulatory Commission (NRC) under the Atomic Energy Act of 1954, as amended, and a variety of other state and federal requirements. Although Seabrook Unit 1 has been issued a 40-year operating license, NRC proceedings and investigations prompted by inquiries from Congressmen and by NRC licensing board consideration of technical contentions may arise and continue for an indefinite period of time in the future.

Nuclear Insurance Contingencies The Price-Anderson Act, currently extended through August 1, 2002, limits public liability resulting from a single incident at a nuclear power plant. The first \$200 million of liability coverage is provided by purchasing the maximum amount of commercially available insurance. Additional liability coverage will be provided by an assessment of up to \$75.5 million per incident, levied on each of the nuclear units licensed to operate in the United States, subject to a maximum assessment of \$10 million per incident per nuclear unit in any year. In addition, if the sum of all public liability claims and legal costs resulting from any nuclear incident exceeds the maximum amount of financial protection, each reactor operator can be assessed an additional 5% of \$75.5 million, or \$3.775 million. The maximum assessment is adjusted at least every five years to reflect the impact of inflation. Based on its interests in nuclear generating units, the Company estimates its maximum liability would be \$20.3 million per incident. However, assessment would be limited to \$3.1 million per incident, per year. With respect to each of the operating nuclear generating units in which the Company has an interest, the Company will be obligated to pay its ownership and/or leasehold share of any statutory assessment resulting from a nuclear incident at any nuclear generating unit.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Commitments and Contingencies

Hydro-Quebec The Company is a participant in the Hydro-Quebec transmission intertie facility linking New England and Quebec, Canada. Phase II of this facility, in which UI has a 5.45% participating share, has increased the capacity value of the intertie from 690 megawatts to a maximum of 2000 megawatts. A ten-year Firm Energy Contract, which provides for the sale of 7 million megawatt-hours per year by Hydro-Quebec to the New England participants in the Phase II facility, became effective on July 1, 1991. The Company is obligated to furnish a guarantee for its participating share of the debt financing for the Phase II facility. Currently, the Company's guarantee liability for this debt amounts to approximately \$9.8 million.

Reorganization Charge During 1993, the Company undertook an in-depth organizational review with the primary objective of improving customer service. As a result of this review, the Company eliminated approximately 75 positions.

In conjunction with this review, the Company offered a voluntary early retirement program to non-union employees who were eligible to receive pension benefits. The early retirement offer was accepted by 103 employees and the Company incurred a one-time charge to 1993 earnings of approximately \$13.6 million (\$7.8 million, after-tax). No decision has been made as to whether to offer a severance program to employees who may be affected by the organizational review when it is completed, but who were not eligible for, or did not accept, the early retirement offer.

Site Remediation Costs The Company has estimated that the cost of environmental remediation of its decommissioned Steel Point Station property in Bridgeport will be approximately \$10.3 million and has recorded a liability for this cost. Following remediation, the Company intends to sell the property for development for a value it estimates will not exceed \$6 million. In the Company's last rate decision, the DPUC provided additional revenues to recover the \$4.3 million difference during the period 1993-1996, subject to true-up in the Company's next retail rate proceeding, based on actual remediation costs and the actual gain on the sale of the property.

Property Taxes In November 1993, the Company received "updated" personal property tax bills from the City of New Haven (the City) for the tax year 1991-1992, aggregating \$6.6 million, based on an audit by the City's tax assessor. The Company anticipates receiving additional bills of this sort for the tax years 1992-1993 and 1993-1994, the amounts of which cannot be predicted at this time. The Company is contesting these tax bills vigorously and has commenced an action in the Superior Court to enjoin the City from any effort to collect these tax bills. Due to a lack of data, it is not possible, at this time, to assess accurately the Company's liability, if any.

(M) Nuclear Fuel Disposal And Nuclear Plant Decommissioning

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

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

Disposal costs for low-level radioactive wastes (LLW) that result from normal operation of nuclear generating units have increased significantly in recent years and are expected to continue to increase. The cost increases are functions of increased packaging and transportation costs and higher fees and surcharges charged by the disposal facilities. Pursuant to the Low-Level Radioactive Waste Policy Act of 1980, each state was responsible for providing disposal facilities for LLW generated within the state and was authorized to join with other states into regional compacts to jointly fulfill their responsibilities. Pursuant to the Low-Level Radioactive Waste Policy Amendments Act of 1985, each state in which a currently operating disposal facility is located (South Carolina, Nevada and Washington) is allowed to impose

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

volume limits and a surcharge on shipments of LLW from states that are not members of the compact in the region in which the facility is located. On June 19, 1992, the United States Supreme Court issued a decision upholding certain parts of the Low-Level Radioactive Waste Policy Amendments Act of 1985, but invalidating a key provision of that law requiring each state to take title to LLW generated within that state if the state fails to meet federally-mandated deadlines for siting LLW disposal facilities. The decision has resulted in uncertainty about states' continuing roles in siting LLW disposal facilities and may result in increased LLW disposal costs and the need for longer interim LLW storage before a permanent solution is developed.

The Connecticut Hazardous Waste Management Service (the Service), a state quasi-public corporation, was charged with coordinating the establishment of a facility for disposal of LLW originating in Connecticut. In June 1991, the Service announced that it had selected three potential sites in north-central Connecticut for further study. The Service's announcement provoked intense controversy in the affected municipalities and resulted in legislative action to stop the selection process. On February 1, 1993, the Service presented the legislature with a new site selection plan under which communities are urged to volunteer a site for a facility in return for financial and other incentives. The volunteer process is being continued in 1994. The Service's activities in this regard are funded by assessments on Connecticut's LLW generators. Due to a change in the volunteer process, there was no assessment for the 1993-1994 fiscal year and the state projects no assessment for the 1994-1995 and 1995-1996 fiscal years.

Additional LLW storage capacity has been or can be constructed or acquired at the Millstone and Connecticut Yankee sites to provide for temporary storage of LLW should that become necessary. Connecticut LLW can be managed by volume reduction, storage or shipment at least through 1999. The Company cannot predict whether and when a disposal site will be designated in Connecticut.

The State of New Hampshire has not met deadlines for compliance with the Low-Level Radioactive Waste Policy Act, and Seabrook Unit 1 has been denied access to existing disposal facilities. Therefore, LLW generated by Seabrook Unit 1 is being stored on-site. The Seabrook storage facility currently has capacity to store approximately five years' accumulation of waste generated by Seabrook, and the plant operator plans to expand its storage capacity as necessary.

NRC licensing requirements and restrictions are also applicable to the decommissioning of nuclear generating units at the end of their service lives, and the NRC has adopted comprehensive regulations concerning decommissioning planning, timing, funding and environmental reviews. UI and the other owners of the nuclear generating units in which UI has interests estimate decommissioning costs for the units and attempt to recover sufficient amounts through their allowed

electric rates to cover expected decommissioning costs. Changes in NRC requirements or technology can increase estimated decommissioning costs, and UI's customers in future years may experience higher electric rates to offset the effects of any insufficient rate recovery in prior years.

New Hampshire has enacted a law requiring the creation of a government-managed fund to finance the decommissioning of nuclear generating units in that state. The New Hampshire Nuclear Decommissioning Financing Committee (NDFC) established \$345 million (in 1993 dollars) as the decommissioning cost estimate for Seabrook Unit 1. This estimate premises the prompt removal and dismantling of the Unit at the end of its estimated 40-year energy producing life. Monthly decommissioning payments are being made to the state-managed decommissioning trust fund. UI's share of the decommissioning payments made during 1993 was \$1.3 million. UI's share of the fund at December 31, 1993 was approximately \$3.7 million.

Connecticut has enacted a law requiring the operators of nuclear generating units to file periodically with the DPUC their plans for financing the decommissioning of the units in that state. Current decommissioning cost estimates for Millstone Unit 3 and Connecticut Yankee are \$421 million (in 1994 dollars) and \$324 million (in 1994 dollars), respectively. These estimates premise the prompt removal and dismantling of each unit at the end of its estimated 40-year energy producing life. Monthly decommissioning payments, based on these cost estimates, are being made to decommissioning trust funds managed by Northeast Utilities. UI's share of the Millstone Unit 3 decommissioning payments made during 1993 was \$328,000. UI's share of the fund at December 31, 1993 was approximately \$1.9 million. For the Company's 9.5% equity ownership in Connecticut Yankee, decommissioning costs of \$1.3 million were funded by UI during 1993, and UI's share of the fund at December 31, 1993 was \$9.5 million.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(N) Change In Method Of Accounting For Property Taxes

Effective January 1, 1991, the Company changed its method of accounting for property taxes from accrual over the twelve-month period following assessment date to accrual over the fiscal period of the applicable taxing authority.

The effect of the change in accounting was to increase 1991 earnings for common stock by \$7.9 million, of which \$7.3 million represented the cumulative effect of the change at January 1, 1991, and \$.6 million represented an increase in earnings for 1991.

(O) Fair Value Of Financial Instruments ⁽¹⁾

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

	1993		1992	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(000's)				
Cash and temporary cash investments	\$ 48,171	\$ 48,171	\$105,631	\$105,631
Long-term debt ⁽²⁾⁽³⁾	\$758,601	\$810,329	\$736,290	\$786,496

(1) Equity investments were not valued because they were not considered to be material.

(2) Excludes the \$250,000,000 Obligation under the Seabrook Unit 1 sale/leaseback agreement.

(3) The fair market value of the Company's long-term debt is estimated by brokers based on market conditions at December 31, 1993 and 1992, respectively.

(P) Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 1993 and 1992 are set forth below:

Quarter	(000's) Operating Revenues	(000's) Operating Income	(000's) Net Income (Loss) ⁽²⁾	Earnings (Loss) Per Share of Common Stock ⁽¹⁾⁽²⁾
1993				
First	\$161,936	\$31,164	\$12,586	\$.82
Second	151,012	29,335	10,374	.66
Third	189,432	41,358	22,756	1.54
Fourth	150,543	12,957	(5,235)	(.45)
1992				
First	\$176,800	\$30,177	\$13,722	\$.91
Second	160,451	30,335	21,575	1.47
Third	175,877	29,889	16,014	1.07
Fourth	154,197	17,621	5,457	.31

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

(2) Earnings per share for the fourth quarter of 1993 include an after-tax charge of \$7.8 million or \$.56 per share associated with the reorganization of the Company.

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

UT's Common Stock is traded on the New York Stock Exchange, where the high and low sale prices during 1993 and 1992 were as follows:

	1993 Sale Price		1992 Sale Price	
	High	Low	High	Low
First Quarter	43 3/4	41	38 3/4	34 1/4
Second Quarter	44	41 3/4	37 3/4	35 3/4
Third Quarter	45 3/4	42 3/4	39 3/4	36 3/4
Fourth Quarter	45 1/4	38 1/2	42	38 1/2

UI has paid quarterly dividends on its Common Stock since 1900. The quarterly dividends declared in 1992 and 1993 were at a rate of 64 cents per share and 66 1/2 cents per share, respectively.

The indenture under which the Company's Medium-Term

of cash dividends on common stock and on the purchase or redemption of common stock. Retained earnings in the amount of \$82.6 million were free from such limitations at December 31, 1993.

As of January 31, 1994, there were 21,919 Common Stock

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareowners and Directors of The United Illuminating Company:

We have audited the accompanying consolidated balance sheets of The United Illuminating Company as of December 31, 1993, 1992 and 1991, and related consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The United Illuminating Company as of December 31, 1993, 1992 and 1991, and the consolidated results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand
Hartford, Connecticut
January 24, 1994

INVESTOR INFORMATION

Shareowner Services

The United Illuminating
Company
P.O. Box 1948
New Haven, CT 06509-1948
Tel: (203) 499-2268
Fax: (203) 499-3624

Investor Relations

Frank Maher
The United Illuminating
Company
P.O. Box 1564
New Haven, CT 06506-0901
Tel: (203) 499-2591
Fax: (203) 499-2594

General Counsel

Wiggin & Dana

Stock Listing

New York Stock Exchange
Common Stock

Co-Transfer and Dividend

Disbursing Agent

The United Illuminating
Company
P.O. Box 1948
New Haven, CT 06509-1948
Tel: (203) 499-2270
Fax: (203) 499-3624

Registrar and Co-Transfer Agent

Continental Stock Transfer &
Trust Company
2 Broadway
New York, NY 10004
Attention: Stock Transfer
Department
Tel: (212) 509-4000

Annual Meeting Date

The Company's Annual
Meeting will be held at the
New Haven Lawn Club,
193 Whitney Avenue, New
Haven, CT on Wednesday,
May 18, 1994, beginning
at 10:00 a.m.

Dividend Reinvestment Plan

Common Stock shareowners
of record interested in
obtaining information
regarding the benefits of
participating in UI's dividend
reinvestment plan may write
Shareowner Services for more
information.

UI United
Illuminating

The United Illuminating Company
157 Church Street
P.O. Box 1564
New Haven, Connecticut 06506-0901

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Connecticut

The Connecticut Light and Power Company

CL&P

a subsidiary of Northeast Utilities

1993 Annual Report

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Directors

Robert G. Abair
Vice President and Chief Administrative Officer
Western Massachusetts Electric Company

Robert E. Busch
Executive Vice President and
Chief Financial Officer

John P. Cagnetta
Senior Vice President

William B. Ellis
Chairman

Bernard M. Fox
Vice Chairman

William T. Frain, Jr.
President and Chief Operating Officer
Public Service Company of New Hampshire

Cheryl W. Grisé
Senior Vice President

John B. Keane
Vice President and Treasurer

Hugh C. MacKenzie
President

John F. Opeka
Executive Vice President
Northeast Utilities Service Company

Officers

William B. Ellis
Chairman

Bernard M. Fox
Vice Chairman

Hugh C. MacKenzie
President

Robert E. Busch
Executive Vice President and
Chief Financial Officer

John P. Cagnetta
Senior Vice President

Cheryl W. Grisé
Senior Vice President

Francis L. Kinney
Senior Vice President

Ronald G. Chevalier
Vice President

John B. Keane
Vice President and Treasurer

Keith R. Marvin
Vice President

John W. Noyes
Vice President and Controller

Frank P. Sabatino
Vice President

C. Frederick Sears
Vice President

Robert P. Wax
Vice President,
Secretary and
General Counsel

Roger C. Zaklukiewicz
Vice President

Richard R. Carella
Regional Vice President

Robert J. Kost
Regional Vice President

Alfred R. Rogers
Regional Vice President

Kerry J. Kuhlman
Assistant Vice President

Joseph F. Deegan
Assistant Controller

Patricia R. McLaughlin
Assistant Controller

John J. Roman
Assistant Controller

Theresa H. Allsop
Assistant Secretary

Mark A. Joyse
Assistant Secretary

Robert C. Aronson
Assistant Treasurer

1993 Annual Report

The Connecticut Light and Power Company

Index

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The Connecticut Light and Power Company

BALANCE SHEETS

At December 31,	1993	1992
	(Thousands of Dollars)	
Assets		
Utility Plant, at original cost:		
Electric.....	\$ 5,936,344	\$ 5,822,783
Less: Accumulated provision for depreciation.....	2,010,962	1,827,024
	3,925,382	3,995,759
Construction work in progress.....	121,177	110,081
Nuclear fuel, net.....	156,878	167,816
Total net utility plant.....	4,203,437	4,273,656
Other Property and Investments:		
Nuclear decommissioning trusts, at cost.....	147,657	121,888
Investments in regional nuclear generating companies and subsidiary companies, at equity.....	53,951	53,717
Other, at cost.....	14,184	14,198
	215,792	189,803
Current Assets:		
Cash and special deposits (Note 1).....	2,283	12,104
Receivables, less accumulated provision for uncollectible accounts of \$10,816,000 in 1993 and \$8,358,000 in 1992.....	210,805	231,614
Receivables from affiliated companies.....	29,687	4,804
Accrued utility revenues.....	97,662	92,366
Fuel, materials, and supplies, at average cost.....	60,247	72,199
Recoverable energy costs, net - current portion (Note 1).....	9,985	77,002
Prepayments and other.....	33,697	31,875
	444,366	521,964
Deferred Charges:		
Regulatory asset - income taxes (Note 1).....	1,026,046	-
Deferred costs - nuclear plants (Note 1).....	185,909	199,914
Unrecovered contract obligation - YAEC (Note 3).....	84,526	98,559
Deferred conservation and load-management costs....	111,442	87,487
Recoverable energy costs, net (Note 1).....	26,311	82,423
Deferred DOE assessment (Note 1).....	39,279	41,730
Unamortized debt expense.....	8,971	10,497
Amortizable property investment.....	6,228	8,720
Other.....	45,073	68,053
	1,533,785	597,383
Total Assets.....	\$ 6,397,380	\$ 5,582,806

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

The Connecticut Light and Power Company

BALANCE SHEETS

At December 31,	1993	1992
	(Thousands of Dollars)	
Capitalization and Liabilities		
Capitalization:		
Common stock, \$10 par value – authorized 24,500,000 shares; outstanding 12,222,930 shares in 1993 and 1992.....	\$ 122,229	\$ 122,229
Capital surplus, paid in.....	630,271	634,851
Retained earnings.....	750,719	748,817
Total common stockholder's equity.....	1,503,219	1,505,897
Cumulative preferred stock – \$50 par value – authorized 9,000,000 shares; outstanding 5,424,000 shares in 1993 and 5,123,925 in 1992 \$25 par value – authorized 8,000,000 shares; outstanding 5,000,000 shares in 1993 and 7,000,000 shares in 1992 Not subject to mandatory redemption (Note 5).....	166,200	231,196
Subject to mandatory redemption (Note 6).....	230,000	197,500
Long-term debt (Note 7).....	1,743,260	1,930,832
Total capitalization.....	3,642,679	3,865,425
Obligations Under Capital Leases.....	121,892	136,800
Current Liabilities:		
Notes payable to banks.....	95,000	96,500
Notes payable to affiliated company.....	1,250	–
Commercial paper.....	–	109,240
Long-term debt and preferred stock – current portion.....	314,020	159,604
Obligations under capital leases – current portion.....	55,526	60,604
Accounts payable.....	117,858	108,797
Accounts payable to affiliated companies.....	52,179	55,808
Accrued taxes.....	36,114	118,132
Accrued interest.....	29,669	32,829
Other.....	32,287	17,185
	733,903	758,699
Deferred Credits:		
Accumulated deferred income taxes (Note 1).....	1,575,965	475,355
Accumulated deferred investment tax credits.....	154,701	165,710
Deferred contract obligation – YAEC (Note 3).....	84,526	98,559
Deferred DOE obligation (Note 1).....	31,523	41,730
Other.....	52,191	40,528
	1,898,906	821,882
Commitments and Contingencies (Note 11)		
Total Capitalization and Liabilities.....	\$ 6,397,380	\$ 5,582,806

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

The Connecticut Light and Power Company

STATEMENTS OF INCOME

For the Years Ended December 31,	1993	1992	1991
(Thousands of Dollars)			
Operating Revenues.....	\$ 2,366,050	\$ 2,316,451	\$ 2,275,737
Operating Expenses:			
Operation –			
Fuel, purchased and net interchange power.....	657,121	598,287	559,131
Other.....	641,402	605,675	614,440
Maintenance.....	180,403	197,460	184,727
Depreciation.....	219,776	209,884	198,597
Amortization of regulatory assets, net.....	112,353	73,456	55,693
Federal and state income taxes (Note 8).....	144,547	172,236	173,102
Taxes other than income taxes.....	170,353	171,642	166,212
Total operating expenses.....	2,125,955	2,028,640	1,951,902
Operating Income.....	240,095	287,811	323,835
Other Income:			
Deferred nuclear plants return – other funds.....	23,537	35,396	36,714
Equity in earnings of regional nuclear generating companies.....	6,193	8,014	8,021
Other, net.....	(1,044)	6,964	9,226
Income taxes – credit.....	4,859	11,171	13,004
Other income, net.....	33,545	61,545	66,965
Income before interest charges.....	273,640	349,356	390,800
Interest Charges:			
Interest on long-term debt.....	134,263	151,314	166,256
Other interest.....	9,654	4,205	1,542
Deferred nuclear plants return – borrowed funds (Note 1).....	(13,979)	(12,877)	(17,816)
Interest charges, net.....	129,938	142,642	149,982
Income before cumulative effect of accounting change.....	143,702	206,714	240,818
Cumulative effect of accounting change (Note 1)....	47,747	–	–
Net Income.....	\$ 191,449	\$ 206,714	\$ 240,818

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

The Connecticut Light and Power Company

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	1993	1992	1991
	(Thousands of Dollars)		
Cash Flows From Operations:			
Net income	\$ 191,449	\$ 206,714	\$ 240,818
Adjusted for the following:			
Depreciation	226,951	223,058	204,534
Deferred income taxes and investment tax credits, net	(20,188)	72,138	107,599
Deferred nuclear plants return, net of amortization	58,740	10,071	(3,529)
Deferred energy costs, net of amortization	123,129	(22,408)	(119,629)
Deferred conservation and load-management, net of amortization	(23,955)	(31,989)	(47,402)
Other sources of cash	81,386	13,256	37,143
Other uses of cash	(26,431)	(66,494)	(38,730)
Changes in working capital:			
Receivables and accrued utility revenues	(9,370)	245	(36,882)
Fuel, materials, and supplies	11,951	1,296	24,735
Accounts payable	5,433	(18,067)	52,029
Accrued taxes	(82,018)	15,344	(42,228)
Other working capital (excludes cash)	9,754	7,154	12,462
Net cash flows from operations	546,831	410,318	390,920
Cash Flows Used For Financing Activities:			
Long-term debt	740,500	491,000	—
Preferred stock	80,000	75,000	—
Financing expenses	(2,393)	(9,825)	—
Net increase (decrease) in short-term debt	(109,490)	15,240	108,385
Reacquisitions and retirements of long-term debt and preferred stock	(886,969)	(523,123)	(90,877)
Cash dividends on preferred stock	(29,182)	(31,977)	(34,541)
Cash dividends on common stock	(160,365)	(164,277)	(172,587)
Net cash flows used for financing activities	(367,899)	(147,962)	(189,620)
Investment Activities:			
Investment in plant:			
Electric utility plant	(149,308)	(225,901)	(178,670)
Nuclear fuel	(13,658)	3,139	(3,432)
Net cash flows used for investments in plant	(162,966)	(222,762)	(182,102)
Other investment activities, net	(25,787)	(32,181)	(18,334)
Net cash flows used for investments	(188,753)	(254,943)	(200,436)
Net Increase (Decrease) In Cash for the Period	(9,821)	7,413	864
Cash and special deposits — beginning of period	12,104	4,691	3,827
Cash and special deposits — end of period	\$ 2,283	\$ 12,104	\$ 4,691
Supplemental Cash Flow Information:			
Cash paid (received) during the year for:			
Interest, net of amounts capitalized during construction	\$ 130,592	\$ 143,957	\$ 162,760
Income taxes	\$ 149,056	\$ 95,199	\$ 92,884
Increase in obligations:			
Niantic Bay Fuel Trust	\$ 40,140	\$ 30,948	\$ 14,713
Capital leases	\$ —	\$ —	\$ 10,500

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

The Connecticut Light and Power Company

STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock	Capital Surplus, Paid In	Retained Earnings (a)	Total
	(Thousands of Dollars)			
Balance at January 1, 1991.....	\$ 122,229	\$ 636,175	\$ 705,303	\$ 1,463,707
Net income for 1991.....			240,818	240,818
Cash dividends on preferred stock.....			(34,541)	(34,541)
Cash dividends on common stock.....			(172,587)	(172,587)
Capital stock expenses, net.....		1,027		1,027
Balance at December 31, 1991.....	122,229	637,202	738,993	1,498,424
Net income for 1992.....			206,714	206,714
Cash dividends on preferred stock.....			(31,977)	(31,977)
Cash dividends on common stock.....			(164,277)	(164,277)
Loss on the retirement of preferred stock.....			(636)	(636)
Capital stock expenses, net.....		(2,351)		(2,351)
Balance at December 31, 1992.....	122,229	634,851	748,817	1,505,897
Net income for 1993.....			191,449	191,449
Cash dividends on preferred stock.....			(29,182)	(29,182)
Cash dividends on common stock.....			(160,365)	(160,365)
Capital stock expenses, net.....		(4,580)		(4,580)
Balance at December 31, 1993.....	<u>\$ 122,229</u>	<u>\$ 630,271</u>	<u>\$ 750,719</u>	<u>\$ 1,503,219</u>

(a) The company has dividend restrictions imposed by its long-term debt agreements.
At December 31, 1993, these restrictions totaled approximately \$540.0 million.

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

The Connecticut Light and Power Company

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Connecticut Light and Power Company (CL&P or the company), Western Massachusetts Electric Company (WMECO), Holyoke Water Power Company (HWP), Public Service Company of New Hampshire (PSNH), and North Atlantic Energy Corporation (NAEC) are the operating subsidiaries comprising the Northeast Utilities system (the system) and are wholly owned by Northeast Utilities (NU).

Other wholly owned subsidiaries of NU provide substantial support services to the system. Northeast Utilities Service Company (NUSCO) supplies centralized accounting, administrative, data processing, engineering, financial, legal, operational, planning, purchasing, and other services to the system companies. Northeast Nuclear Energy Company (NNECO) acts as agent for system companies in operating the Millstone nuclear generating facilities. Commencing June 29, 1992, North Atlantic Energy Service Corporation (NAESCO) began acting as agent for CL&P and NAEC in operating the Seabrook 1 nuclear facility.

All transactions among affiliated companies are on a recovery of cost basis which may include amounts representing a return on equity, and are subject to approval by various federal and state regulatory agencies.

Accounting Changes

Property Taxes: CL&P adopted a one-time change in the method of accounting for municipal property tax expense for their Connecticut properties. Most municipalities in Connecticut assess property values as of October 1. Prior to January 1, 1993, CL&P accrued Connecticut property tax expense over the period October 1 through September 30 based on the lien-date method. In the first quarter of 1993, these subsidiaries changed their method of accounting for Connecticut municipal property taxes to recognize the expense from July 1 through June 30, to match the payment and services provided by the municipalities. This one-time change increased net income by approximately \$47.7 million for CL&P in 1993.

Income Taxes: The company adopted the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, effective January 1, 1993. For more information on this change, see Note 1, "Summary of Significant Accounting Policies - Income Taxes."

Postretirement Benefits Other Than Pensions: The company adopted the provisions of Statement of Financial Accounting Standards No. 106, *Employer's Accounting for Postretirement Benefits Other Than Pensions* (SFAS 106), effective January 1, 1993. For more information on this change, see Note 10, "Postretirement Benefits Other Than Pensions."

Accounting Reclassifications

Certain amounts in the accompanying financial statements of CL&P for the year ended December 31, 1992 and 1991 have been reclassified to conform with the December 31, 1993 presentation.

Public Utility Regulation

NU is registered with the Securities and Exchange Commission (SEC) as a holding company under the Public Utility Holding Company Act of 1935 (1935 Act), and it and its subsidiaries, including the company, are subject to the provisions of the 1935 Act. Arrangements among the system companies, outside agencies, and other utilities covering interconnections, interchange of electric power, and sales

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of utility property are subject to regulation by the Federal Energy Regulatory Commission (FERC) and/or the SEC. The company is subject to further regulation for rates and other matters by the FERC and the Connecticut Department of Public Utility Control (DPUC), and follows the accounting policies prescribed by the respective commissions.

Revenues

Other than special contracts, utility revenues are based on authorized rates applied to each customer's use of electricity. Rates can be changed only through a formal proceeding before the appropriate regulatory commission. At the end of each accounting period, CL&P accrues an estimate for the amount of energy delivered but unbilled.

Spent Nuclear Fuel Disposal Costs

Under the Nuclear Waste Policy Act of 1982, CL&P must pay the United States Department of Energy (DOE) for the disposal of spent nuclear fuel and high-level radioactive waste. Fees for nuclear fuel burned on or after April 7, 1983 are billed currently to customers and paid to the DOE on a quarterly basis. For nuclear fuel used to generate electricity prior to April 7, 1983 (prior-period fuel), payment may be made anytime prior to the first delivery of spent fuel to the DOE. At December 31, 1993, fees due to the DOE for the disposal of prior-period fuel were approximately \$136.1 million, including interest costs of \$69.6 million. As of December 31, 1993, approximately \$134.5 million had been collected through rates.

Under the Energy Policy Act of 1992 (Energy Act), CL&P is assessed for its proportionate shares of the costs of decontaminating and decommissioning uranium enrichment plants operated by the DOE (D&D assessment). The Energy Act imposes an overall cap of \$2.25 billion on the obligation of the commercial power industry and limits the annual special assessment to \$150 million each year over a 15-year period beginning in 1993. The Energy Act also requires that regulators treat D&D assessments as a reasonable and necessary cost of fuel, to be fully recovered in rates, like any other fuel cost. The cap and annual recovery amounts will be adjusted annually for inflation. The D&D assessment is allocated among utilities based upon services purchased in prior years. At December 31, 1993, CL&P's remaining share of these costs is estimated to be approximately \$39.3 million. CL&P has begun to recover these costs. Accordingly, CL&P has recognized these costs as a regulatory asset, with a corresponding obligation, on its Balance Sheets.

Investments and Jointly Owned Electric Utility Plant

Regional Nuclear Generating Companies: CL&P owns common stock of four regional nuclear generating companies (Yankee companies). The Yankee companies, with the company's ownership interests, are:

Connecticut Yankee Atomic Power Company (CY)	34.5%
Yankee Atomic Electric Company (YAEC)	24.5
Maine Yankee Atomic Power Company (MY)	12.0
Vermont Yankee Nuclear Power Corporation (VY)	9.5

CL&P's investments in the Yankee companies are accounted for on the equity basis. The electricity produced by these facilities that are operating is committed to the participants substantially on the basis

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of their ownership interests and is billed pursuant to contractual agreements. For more information on these agreements, see Note 11, "Commitments and Contingencies - Purchased Power Arrangements."

The 173 megawatt (MW) YAEC nuclear power plant was shut down permanently on February 26, 1992. For more information on the Yankee companies, see Note 3, "Nuclear Decommissioning."

Millstone 1: CL&P has an 81 percent joint-ownership interest in Millstone 1, a 660 MW nuclear generating unit. As of December 31, 1993, plant-in-service and the accumulated provision for depreciation included approximately \$332 million and \$130.8 million, respectively, for CL&P's share of Millstone 1. CL&P's share of Millstone 1 operating expenses is included in the corresponding operating expenses on the accompanying Statements of Income.

Millstone 2: CL&P has an 81 percent joint-ownership interest in Millstone 2, a 875 MW nuclear generating unit. As of December 31, 1993, plant-in-service and the accumulated provision for depreciation included approximately \$676 million and \$151.5 million, respectively, for CL&P's share of Millstone 2. CL&P's share of Millstone 2 operating expenses is included in the corresponding operating expenses on the accompanying Statements of Income.

Millstone 3: CL&P has a 52.93 percent joint-ownership interest in Millstone 3, a 1,149 MW nuclear generating unit. As of December 31, 1993, plant-in-service and the accumulated provision for depreciation included approximately \$1.9 billion and \$366.6 million, respectively, for CL&P's share of Millstone 3. CL&P's share of Millstone 3 expenses is included in the corresponding operating expenses on the accompanying Statements of Income.

Seabrook: As of December 31, 1993, CL&P has a 4.06 percent joint-ownership interest in Seabrook 1, a 1,150 MW nuclear generating unit. As of December 31, 1993, plant-in-service and the accumulated provision for depreciation included approximately \$173.4 million and \$17.7 million, respectively, for CL&P's share of Seabrook 1. CL&P's share of Seabrook 1 expenses is included in the corresponding operating expenses on the accompanying Statements of Income.

Depreciation

The provision for depreciation is calculated using the straight-line method based on estimated remaining lives of depreciable utility plant-in-service, adjusted for salvage value and removal costs, as approved by the appropriate regulatory agency. Except for major facilities, depreciation factors are applied to the average plant-in-service during the period. Major facilities are depreciated from the time they are placed in service. When plant is retired from service, the original cost of plant, including costs of removal, less salvage, is charged to the accumulated provision for depreciation. For nuclear production plants, the costs of removal, less salvage, that have been funded through external decommissioning trusts will be paid with funds from the trusts and charged to the accumulated reserve for decommissioning included in the accumulated provision for depreciation over the expected service life of the plants. See Note 3, "Nuclear Decommissioning," for additional information.

The depreciation rates for the several classes of electric plant-in-service are equivalent to a composite rate of 3.8 percent in 1993, 3.7 percent in 1992, and 3.5 percent in 1991.

Income Taxes

The tax effect of temporary differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of income

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subject to tax) is accounted for in accordance with the ratemaking treatment of the applicable regulatory commissions. See Note 8, "Income Tax Expense," for the components of income tax expenses.

In 1992, the Financial Accounting Standards Board (FASB) issued SFAS 109. SFAS 109 supersedes previously issued income tax accounting standards. The company adopted SFAS 109, on a prospective basis, during the first quarter of 1993. At December 31, 1993, the deferred tax obligation relating to the adoption of SFAS 109 approximated \$1.0 billion. As it is probable that the increase in deferred tax liabilities will be recovered from customers through rates, CL&P also established a regulatory asset. SFAS 109 does not permit net-of-tax accounting. Accordingly, the company no longer utilizes net-of-tax accounting for the deferred nuclear plants return-borrowed funds and allowance for funds used during construction (AFUDC) - borrowed funds.

The temporary differences which give rise to the accumulated deferred tax obligation at December 31, 1993, are as follows:

	(Thousands of Dollars)
Accelerated depreciation and other plant-related differences	\$1,049,849
The tax effect of net regulatory assets	434,894
Other	<u>91,222</u>
	<u>\$1,575,965</u>

Energy Adjustment Clauses

Retail electric rates include a fuel adjustment clause (FAC) under which fossil-fuel prices above or below base-rate levels are charged or credited to customers. Administrative proceedings are required each month to approve the FAC charges or credits proposed for the following month. Monthly FAC rates are also subject to retroactive review and appropriate adjustment by the DPUC each quarter after public hearings.

Beginning in 1979, the DPUC approved the use of a generation utilization adjustment clause (GUAC), which defers the effect on fuel costs caused by variations from a specified composite nuclear generation capacity factor embedded in base rates. Generally, at the end of a 12-month period ending July 31 of each year, these deferrals are refunded to, or collected from, customers over the subsequent 11-month period beginning in September. Should the annual composite nuclear capacity factor fall below the 55 percent GUAC floor, CL&P would have to apply to the DPUC for permission to recover the additional fuel expense associated with nuclear performance below 55 percent.

On January 5, 1994, the DPUC issued a decision which ordered CL&P to offset GUAC deferred charges against prior fuel over-recoveries. The disallowance resulted in a zero GUAC rate for the period September 1993 through August 1994. CL&P is considering an appeal of this decision.

The DPUC further ordered that any GUAC deferrals subsequent to July 1993 will be offset by any fuel overrecoveries whenever the composite nuclear capacity factor is below the level embedded in base rates. For the period August 1993 to December 1993, there have been no further adjustments necessary as a result of the DPUC's decision.

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The January 5, 1994 DPUC decision creates some uncertainty about the future operation of the GUAC. CL&P has requested the DPUC to clarify the portion of the decision related to future calculation of the GUAC rate. Management does not expect the decision to have a material adverse impact on CL&P's future results of operations.

For additional information see Note 11, "Commitments and Contingencies—Nuclear Performance."

Conservation and Load Management Costs

Conservation and Load Management (C&LM) costs are recovered through a Conservation Adjustment Mechanism (CAM). The DPUC issued an order in April 1993, which allowed CL&P to recover C&LM expenditures over an eight-year period and reaffirmed program performance incentives. In December 1993, CL&P filed a proposed CAM settlement with the DPUC. The settlement proposes 1994 C&LM expenditures of \$39 million, a reduction in the cost recovery period from 8 to 3.85 years, and other changes in program designs, performance incentives, and cost recovery. Unrecovered C&LM costs at December 31, 1993 were \$111.4 million.

Phase-In Plans

As discussed below, CL&P is phasing into rates the recoverable parts of its investments in Millstone 3 and Seabrook 1. All plans are in compliance with Statement of Financial Accounting Standards No. 92, *Regulated Enterprises—Accounting for Phase-in Plans*.

As allowed by the DPUC, CL&P is phasing into rate base its allowed investment in Millstone 3. The DPUC has provided for full deferred earnings and carrying charges on the portion of CL&P's allowed investment in Millstone 3 not included in rate base. Through December 31, 1993, CL&P had placed into rate base \$1.58 billion, or 90 percent, of its allowed investment in Millstone 3. The remaining \$175.7 million, or 10 percent, is to be phased into rate base annually in two 5-percent steps beginning January 1, 1994. The amortization and recovery of deferrals through rates began January 1, 1988 and will end no later than December 31, 1995. As of December 31, 1993, \$349.6 million of the deferred return, including carrying charges, has been recovered, and \$161.9 million of the deferred return to date, plus carrying charges, remains to be recovered.

As allowed by the DPUC, CL&P phased into rate base its allowed investment in Seabrook 1. The DPUC provided for full deferred earnings and carrying charges on the portion of CL&P's allowed investment in Seabrook 1 not included in rate base. Through December 31, 1993, CL&P has placed into rate base its full allowed investment in Seabrook 1. The amortization and recovery of deferrals through rates began September 1, 1991 and will end no later than August 31, 1996. As of December 31, 1993, \$15.8 million of the deferred return, including carrying charges, has been recovered, and \$24.0 million of the deferred return recorded to date, plus carrying charges, remains to be recovered.

Cash and Special Deposits

Cash and special deposits at December 31, 1992 included \$10 million in special deposits that was used to redeem \$10 million of CL&P's Pollution Control Notes.

2. LEASES

CL&P and WMECO have entered into the Niantic Bay Fuel Trust (NBFT) capital lease agreement to finance up to \$530 million of nuclear fuel for Millstone 1 and 2 and their share of the nuclear fuel for Millstone 3. CL&P and WMECO make quarterly lease payments for the cost of nuclear fuel consumed

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in the reactors (based on a units-of-production method at rates which reflect estimated kilowatt-hours of energy provided) plus financing costs associated with the fuel in the reactors. Upon permanent discharge from the reactors, ownership of the nuclear fuel transfers to CL&P and WMECO.

CL&P has also entered into lease agreements, some of which are capital leases, for the use of substation equipment, data processing and office equipment, vehicles, nuclear control room simulators, and office space. The provisions of these lease agreements generally provide for renewal options. The following rental payments have been charged to operating expense:

<u>Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
1993	\$76,549,000	\$24,355,000
1992	61,795,000	26,919,000
1991	50,998,000	26,320,000

Interest included in capital lease rental payments was \$11,298,000 in 1993, \$14,782,000 in 1992, and \$15,974,000 in 1991.

Substantially all of the capital lease rental payments were made pursuant to the nuclear fuel lease agreement. Future minimum lease payments under the nuclear fuel capital lease cannot be reasonably estimated on an annual basis due to variations in the usage of nuclear fuel.

Future minimum rental payments, excluding annual nuclear fuel lease payments and executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable leases, as of December 31, 1993, are approximately:

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<u>Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
	(Thousands of Dollars)	
1994	\$ 2,800	\$ 20,800
1995	2,800	19,500
1996	2,800	17,900
1997	2,800	17,200
1998	2,800	12,300
After 1998	<u>45,000</u>	<u>75,700</u>
Future minimum lease payments	59,000	<u>\$163,400</u>
Less amount representing interest ...	<u>38,300</u>	
Present value of future minimum lease payments for other than nuclear fuel	20,700	
Present value of future nuclear fuel lease payments	<u>156,700</u>	
Total	<u>\$177,400</u>	

3. NUCLEAR DECOMMISSIONING

The company's 1992 decommissioning study concluded that complete and immediate dismantlement at retirement continues to be the most viable and economic method of decommissioning the three Millstone units. A 1991 Seabrook decommissioning study also confirmed that complete and immediate dismantlement at retirement is the most viable and economic method of decommissioning Seabrook 1. Decommissioning studies are reviewed and updated periodically to reflect changes in decommissioning requirements, technology, and inflation.

The estimated cost of decommissioning CL&P's ownership share of Millstone 1 and 2, in year-end 1993 dollars, is \$312.5 million and \$251.0 million, respectively. At December 31, 1993, the estimated cost of decommissioning CL&P's ownership share of Millstone 3 and Seabrook 1, in year-end 1993 dollars, is \$223.0 million and \$14.9 million, respectively. Nuclear decommissioning costs are accrued over the expected service life of the units and are included in depreciation expense on the Statements of Income. Nuclear decommissioning costs amounted to \$21.9 million in 1993 and 1992, and \$16.2 million in 1991. Nuclear decommissioning, as a cost of removal, is included in the accumulated provision for depreciation on the Balance Sheets.

CL&P has established independent decommissioning trusts for its portion of the costs of decommissioning Millstone 1, 2, and 3. CL&P's portion of the cost of decommissioning Seabrook 1 is paid to an independent decommissioning financing fund managed by the state of New Hampshire.

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As of December 31, 1993, CL&P has collected, through rates, \$148.3 million, toward the future decommissioning costs of its share of the Millstone units, of which \$116.8 million has been transferred to external decommissioning trusts. As of December 31, 1993, CL&P has paid approximately \$860,000 into Seabrook 1's decommissioning financing fund. Earnings on the decommissioning trusts and financing fund increase the decommissioning trust balance and the accumulated reserve for decommissioning. At December 31, 1993, the balance in the accumulated reserve for decommissioning amounted to \$179.1 million.

Changes in requirements or technology, or adoption of a decommissioning method other than immediate dismantlement, could change decommissioning cost estimates. CL&P attempts to recover sufficient amounts through its allowed rates to cover its expected decommissioning costs. Only the portion of currently estimated total decommissioning costs that has been accepted by the regulatory agencies is reflected in CL&P's rates. Although allowances for decommissioning have increased significantly in recent years, ratepayers in future years will need to increase their payments to offset the effects of any insufficient rate recoveries in previous years.

CL&P, along with other New England utilities, has equity investments in the four Yankee companies. Each Yankee company owns a single nuclear generating unit. The estimated costs, in year-end 1993 dollars, of decommissioning CL&P's ownership share of CY and MY, are \$117.3 million and \$38.8 million, respectively. The cost to decommission VY is currently being re-estimated. The cost of decommissioning CL&P's ownership share of VY is projected to range from \$28.5 million to \$33.3 million. As discussed in the following paragraph, YAEC's owners voted to permanently shut down the YAEC unit on February 26, 1992. Under the terms of the contracts with the Yankee companies, the shareholders-sponsors are responsible for their proportionate share of the operating costs of each unit, including decommissioning. The nuclear decommissioning costs of the Yankee companies are included as part of CL&P's cost of power.

YAEC has begun decommissioning its nuclear facility. On June 1, 1992, YAEC filed a rate filing to obtain FERC authorization to collect the closing and decommissioning costs and to recover the remaining investment in the YAEC nuclear power plant, over the remaining period of the plant's Nuclear Regulatory Commission (NRC) operating license. The bulk of these costs has been agreed to by the YAEC joint owners and approved, as a settlement, by FERC. At December 31, 1993, the estimated remaining costs amounted to \$345.0 million, of which CL&P's share was approximately \$84.5 million. Management expects that CL&P will continue to be allowed to recover such FERC-approved costs from its customers. Accordingly, CL&P has recognized these costs as a regulatory asset, with a corresponding obligation, on its Balance Sheets. CL&P has a 24.5 percent equity investment, approximating \$5.9 million, in YAEC. CL&P had relied on YAEC for less than 1 percent of its capacity.

4. SHORT-TERM DEBT

The system companies have various credit lines, totalling \$485 million. NU, CL&P, WMECO, HWP, NNECO, and The Rocky River Realty Company (RRR) have established a revolving credit facility with a group of 17 banks. Under this facility, the participating companies may borrow up to an aggregate of \$360 million. Individual borrowing limits are \$175 million for NU, \$360 million for CL&P, \$75 million for WMECO, \$8 million for HWP, \$60 million for NNECO, and \$25 million for RRR. The system companies may borrow funds on a short-term revolving basis using either fixed-rate loans or standby loans. Fixed rates are set using competitive bidding. Standby-loan rates are based upon several alternative variable rates. The system companies are obligated to pay a facility fee of 0.20 percent of each bank's total

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commitment under the three-year portion of the facility, representing 75 percent of the total facility, plus .135 percent of each bank's total commitment under the 364-day portion of the facility, representing 25 percent of the total facility. At December 31, 1993, there were \$22.5 million of borrowings under the facility, \$5 million attributable to CL&P.

Certain subsidiaries of NU, including CL&P, are members of the Northeast Utilities System Money Pool (Pool). The Pool provides a more efficient use of the cash resources of the system, and reduces outside short-term borrowings. NUSCO administers the Pool as agent for the member companies. Short-term borrowing needs of the member companies are first met with available funds of other member companies, including funds borrowed by NU parent. NU parent may lend to the Pool but may not borrow. Investing and borrowing subsidiaries receive or pay interest based on the average daily Federal Funds rate. Funds may be withdrawn from or repaid to the Pool at any time without prior notice. However, borrowings based on loans from NU parent bear interest at NU parent's cost and must be repaid based upon the terms of NU parent's original borrowing.

Maturities of CL&P's short-term debt obligations are for periods of three months or less.

The amount of short-term borrowings that may be incurred by the company is subject to periodic approval by the SEC under the 1935 Act. In addition, the charter of CL&P contains provisions restricting the amount of short-term borrowings. Under the SEC and/or charter restrictions, the company was authorized, as of January 1, 1993, to incur short-term borrowings up to a maximum of \$375 million.

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5. PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION

Details of preferred stock not subject to mandatory redemption are:

Description	December 31,	Shares	December 31,		
	1993	Outstanding			
	Redemption	December 31,	1993	1992	1991
	Price	1993			
(Thousands of Dollars)					
\$1.90 Series of 1947	\$52.50	163,912	\$ 8,196	\$ 8,196	\$ 8,196
\$2.00 Series of 1947	54.00	336,088	16,804	16,804	16,804
\$2.04 Series of 1949	52.00	100,000	5,000	5,000	5,000
\$2.06 Series E of 1954	51.00	200,000	10,000	10,000	10,000
\$2.09 Series F of 1955	51.00	100,000	5,000	5,000	5,000
\$2.20 Series of 1949	52.50	200,000	10,000	10,000	10,000
\$3.24 Series G of 1968	51.84	300,000	15,000	15,000	15,000
\$3.80 Series J of 1971	-	-	-	20,000	20,000
\$4.48 Series H of 1970	-	-	-	15,000	15,000
\$4.48 Series I of 1970	-	-	-	20,000	20,000
\$4.56 Series K of 1974	-	-	-	-	50,000
3.90% Series of 1949	50.50	160,000	8,000	8,000	8,000
4.50% Series of 1956	50.75	104,000	5,200	5,200	5,200
4.50% Series of 1963	50.50	160,000	8,000	8,000	8,000
4.96% Series of 1958	50.50	100,000	5,000	5,000	5,000
5.28% Series of 1967	51.43	200,000	10,000	10,000	10,000
6.56% Series of 1968	51.44	200,000	10,000	10,000	10,000
7.60% Series of 1971	-	-	-	9,996	9,996
9.36% Series of 1970	-	-	-	-	10,000
9.60% Series of 1974	-	-	-	-	14,999
1989 Adjustable Rate DARTS	25.00	2,000,000	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Total preferred stock not subject to mandatory redemption			<u>\$166,200</u>	<u>\$231,196</u>	<u>\$306,195</u>

All or any part of each outstanding series of such preferred stock may be redeemed by the company at any time at established redemption prices plus accrued dividends to the date of redemption.

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6. PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION

Details of preferred stock subject to mandatory redemption are:

Description	December 31,	Shares	December 31,		
	1993	Outstanding			
	Redemption	December 31,	1993	1992	1991
Price*	1993				
(Thousands of Dollars)					
\$5.52 Series L of 1975	\$ -	-	\$ -	\$ -	\$ 1,926
10.48% Series of 1980	-	-	-	-	14,000
11.52% Series of 1975	-	-	-	-	966
9.10% Series of 1987	-	-	-	50,000	50,000
9.00% Series of 1989	26.65	3,000,000	75,000	75,000	75,000
7.23% Series of 1992	52.41	1,500,000	75,000	75,000	-
5.30% Series of 1993	51.00	1,600,000	<u>80,000</u>	<u>-</u>	<u>-</u>
			230,000	200,000	141,892
Less preferred stock to be redeemed within one year			<u>-</u>	<u>2,500</u>	<u>2,500</u>
Total preferred stock subject to mandatory redemption			<u>\$230,000</u>	<u>\$197,500</u>	<u>\$139,392</u>

*Redemption prices reduce in future years.

The following table details redemption and sinking fund activity for preferred stock subject to mandatory redemption:

Series	Minimum Annual Sinking-Fund Requirement (Thousands of Dollars)	Shares Recquired		
		1993	1992	1991
\$5.52 Series L of 1975	\$ -	-	38,524	40,000
10.48% Series of 1980	-	-	280,000	40,000
11.52% Series of 1975	-	-	19,318	20,008
9.10% Series of 1987	-	2,000,000	-	-
9.00% Series of 1989 (1)	3,750	-	-	-
7.23% Series of 1992 (2)	3,750	-	-	-
5.30% Series of 1993 (3)	16,000	-	-	-

- (1) Sinking fund requirements commence October 1, 1995.
- (2) Sinking fund requirements commence September 1, 1998.
- (3) Sinking fund requirements commence October 1, 1999.

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The minimum sinking-fund provisions of the series subject to mandatory redemption, for the years 1994 through 1998, aggregate approximately \$0 in 1994, \$3,750,000 in 1995, 1996, and 1997, and \$7,500,000 in 1998. In case of default on sinking-fund payments or the payment of dividends, no payments may be made on any junior stock by way of dividends or otherwise (other than in shares of junior stock) so long as the default continues. If the company is in arrears in the payment of dividends on any outstanding shares of preferred stock, the company would be prohibited from redemption or purchase of less than all of the preferred stock outstanding. All or part of each of the series named above may be redeemed by the company at any time at established redemption prices plus accrued dividends to the date of redemption, subject to certain refunding limitations.

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7. LONG-TERM DEBT

Details of long-term debt outstanding are:

			December 31,	
			1993	1992
			(Thousands of Dollars)	
First Mortgage Bonds:				
4 1/4%	Series 1963	due 1993	\$ -	\$ 15,000
8 1/2%	Series PP	due 1993	-	125,000
4 1/2%	Series 1964	due 1994	12,000	12,000
4 1/4%	Series WW	due 1994	170,000	170,000
5 5/8%	Series 1967	due 1997	20,000	20,000
6%	Series S	due 1997	30,000	30,000
7 5/8%	Series UU	due 1997	200,000	200,000
6 7/8%	Series U	due 1998	40,000	40,000
7 1/8%	Series 1968	due 1998	25,000	25,000
6 1/2%	Series T	due 1998	20,000	20,000
6 1/2%	Series 1968	due 1998	10,000	10,000
7 1/4%	Series VV	due 1999	100,000	100,000
8 3/4%	Series V	due 2000	-	40,000
8 7/8%	Series W	due 2000	-	40,000
5 3/4%	Series XX	due 2000	200,000	-
7 3/8%	Series X	due 2001	30,000	30,000
7 5/8%	Series 1971	due 2001	30,000	30,000
7 1/2%	Series 1972	due 2002	35,000	35,000
7 5/8%	Series Y	due 2002	50,000	50,000
7 5/8%	Series Z	due 2003	50,000	50,000
7 1/2%	Series 1973	due 2003	40,000	40,000
8 3/4%	Series AA	due 2004	-	65,000
9 1/4%	Series 1974	due 2004	-	30,000
8 7/8%	Series DD	due 2007	-	45,000
9 1/4%	Series EE	due 2008	-	40,000
9 3/8%	Series 1978	due 2008	-	40,000
9 3/4%	Series QQ	due 2018	75,000	75,000
9 1/2%	Series RR	due 2019	75,000	75,000
9 3/8%	Series SS	due 2019	75,000	75,000
7 3/8%	Series TT	due 2019	20,000	20,000
7 1/2%	Series YY	due 2023	100,000	-
7 3/8%	Series ZZ	due 2025	125,000	-
Total First Mortgage Bonds			\$1,532,000	\$1,547,000

The Connecticut Light and Power Company

NOTES TO FINANCIAL STATEMENTS

	December 31,	
	1993	1992
	(Thousands of Dollars)	
Pollution Control Notes:		
5.90%, due 1998	\$ -	\$ 6,197
6.50%, due 2007	-	16,000
Variable rate, due 2013-2022	46,400	350,100
Tax exempt, due 2028	315,500	-
Fees and interest due for spent fuel disposal costs	136,125	132,015
Other	35,417	41,493
Less amounts due within one year	314,020	157,104
Unamortized premium and discount, net	(8,162)	(4,869)
Long-term debt, net	<u>\$1,743,260</u>	<u>\$1,930,832</u>

Long-term debt maturities and cash sinking-fund requirements on debt outstanding at December 31, 1993 for the years 1994 through 1998 are approximately: \$189,020,000, \$8,111,000, \$9,372,000, \$260,828,000, and \$95,011,000, respectively. Also, \$125 million of first mortgage bonds outstanding at December 31, 1993 had been called in December 1993 for redemption in 1994. In addition, there are annual one percent sinking- and improvement-fund requirements, currently amounting to \$13,950,000 for the year 1994, \$12,250,000 for 1995, 1996, and 1997, and \$9,750,000 for 1998. Such sinking- and improvement-fund requirements may be satisfied by the deposit of cash or bonds or by certification of property additions.

All or any part of each outstanding series of first mortgage bonds may be redeemed by the company at any time at established redemption prices plus accrued interest to the date of redemption, except certain series which are subject to certain refunding limitations during their respective initial five-year redemption periods.

Essentially all of the company's utility plant is subject to the lien of its first mortgage bond indenture. As of December 31, 1993, the company has secured \$315.5 million of pollution control notes with second mortgage liens on Millstone 1, junior to the liens of its first mortgage bond indentures.

CL&P has entered into an interest-rate cap contract to reduce the potential impact of upward changes in interest rates on certain variable-rate tax-exempt pollution control revenue bonds. Approximately \$340 million of total outstanding long-term variable-rate debt is secured by this interest rate cap. The total cost of the interest-rate cap for 1993 was approximately \$2.9 million, the cost of which is amortized over the terms of the contract, which is three years. The fair market value of the interest-rate cap contract as of December 31, 1993 is approximately \$388,000.

Fees and interest due for spent fuel disposal costs are scheduled to be paid to the United States Department of Energy just prior to the first delivery of prior-period spent fuel, which is anticipated to be in 1998. Until such payment is made, the outstanding balance will continue to accrue interest at the three-month Treasury Bill Yield Rate. For additional information, see Note 1 of the accompanying Notes to Financial Statements.

The Connecticut Light and Power Company

NOTES TO FINANCIAL STATEMENTS

8. INCOME TAX EXPENSE

The components of the federal and state income tax provisions charged to operations are:

For the Years Ended December 31,	1993 (Note 1)	1992	1991
	(Thousands of Dollars)		
Current income taxes:			
Federal	\$ 115,403	\$ 61,773	\$ 33,717
State	44,473	27,153	18,782
Total current	<u>159,876</u>	<u>88,926</u>	<u>52,499</u>
Deferred income taxes, net:			
Federal	3,808	60,788	88,554
State	(12,987)	11,833	26,430
Total deferred	<u>(9,179)</u>	<u>72,621</u>	<u>114,984</u>
Investment tax credits, net	<u>(11,009)</u>	<u>(6,230)</u>	<u>(6,230)</u>
Total income tax expense	<u>\$ 139,688</u>	<u>\$155,317</u>	<u>\$161,253</u>
The components of total income tax expense are classified as follows:			
Income taxes charged to operating expenses	\$144,547	\$172,236	\$173,102
Income taxes associated with the amortization of deferred nuclear plants return - borrowed funds	-	(15,157)	(12,263)
Income taxes associated with AFUDC and deferred nuclear plants return - borrowed funds	-	9,409	13,418
Other income taxes - credit	<u>(4,859)</u>	<u>(11,171)</u>	<u>(13,004)</u>
Total income tax expense	<u>\$139,688</u>	<u>\$155,317</u>	<u>\$161,253</u>

The Connecticut Light and Power Company

NOTES TO FINANCIAL STATEMENTS

Deferred income taxes are comprised of the tax effects of temporary differences as follows:

For the Years Ended December 31,	1993 (Note 1)	1992	1991
	(Thousands of Dollars)		
Depreciation, leased nuclear fuel, settlement credits, and disposal costs	\$ 42,663	\$ 43,715	\$ 49,636
Conservation and load management	9,156	13,506	22,594
Postretirement benefits accrual	(2,579)	-	-
Energy adjustment clauses	(52,189)	12,627	47,483
AFUDC and deferred nuclear plants return, net	(13,741)	(5,748)	1,155
Early retirement program	(3,355)	3,988	(9,718)
Pension accrual	3,553	885	(351)
Settlement, canceled independent power plants	-	7,251	-
Loss on bond redemption	8,145	10	-
Other	(832)	(3,613)	4,185
Deferred income taxes, net	<u>\$ (9,179)</u>	<u>\$ 72,621</u>	<u>\$114,984</u>

A reconciliation between income tax expense and the expected tax expense at the applicable statutory rate is as follows:

For the Years Ended December 31,	1993 (Note 1)	1992	1991
	(Thousands of Dollars)		
Expected federal income tax at 35 percent of pretax income for 1993 and 34 percent for 1992 and 1991	\$115,898	\$123,091	\$136,704
Tax effect of differences:			
Depreciation differences	19,264	15,826	10,647
Deferred nuclear plants return - other funds	(8,294)	(12,035)	(12,483)
Amortization of nuclear plants return - other funds	18,648	14,511	12,918
Property tax differences	(12,320)	(732)	502
Investment tax credit amortization	(11,000)	(6,230)	(6,230)
State income taxes, net of federal benefit	20,466	25,730	29,987
Adjustment for prior years taxes	(2,330)	(3,500)	(7,000)
Other, net	(635)	(1,344)	(3,792)
Total income tax expense	<u>\$139,688</u>	<u>\$155,317</u>	<u>\$161,253</u>

The Connecticut Light and Power Company

NOTES TO FINANCIAL STATEMENTS

9. PENSION BENEFITS

The company participates in a uniform noncontributory defined benefit retirement plan covering all regular system employees (the Plan). Benefits are based on years of service and employees' highest eligible compensation during five consecutive years of employment. The company's direct-allocated portion of the system's pension cost, part of which was charged to utility plant, approximated \$7.6 million in 1993, (\$1.7) million in 1992, and \$10.8 million in 1991. The company's pension costs for 1993 and 1991 include approximately \$13.1 million and \$10.0 million, respectively, related to work force reduction programs.

Currently, the company funds annually an amount at least equal to that which will satisfy the requirements of the Employment Retirement Income Security Act and the Internal Revenue Code. Pension costs are determined using market-related values of pension assets. Pension assets are invested primarily in domestic and international equity securities and bonds.

The components of the Plan's net pension cost for the system (excluding PSNH and NAESCO in 1992 and 1991) are:

For the Years Ended December 31,	1993	1992	1991
	(Thousands of Dollars)		
Service cost	\$ 59,068	\$ 27,480	\$ 48,738
Interest cost	81,456	69,746	71,041
Return on plan assets	(176,798)	(77,232)	(198,437)
Net amortization	65,447	(16,266)	108,175
Net pension cost	<u>\$ 29,173</u>	<u>\$ 3,728</u>	<u>\$29,517</u>

For calculating pension cost, the following assumptions were used:

For the Years Ended December 31,	1993	1992	1991
Discount rate	8.00%	8.50%	9.00%
Expected long-term rate of return	8.50	9.00	9.70
Compensation/progression rate	5.00	6.75	7.50

The Connecticut Light and Power Company

NOTES TO FINANCIAL STATEMENTS

The following table represents the Plan's funded status reconciled to the NU Consolidated Balance Sheets:

At December 31,	1993	1992
	(Thousands of Dollars)	
Accumulated benefit obligation, including \$817,421,000 of vested benefits at December 31, 1993 and \$719,608,000 of vested benefits at December 31, 1992	\$ 898,788	\$ 764,432
Projected benefit obligation	\$1,141,271	\$1,055,295
Less: Market value of plan assets	1,340,249	1,226,468
Market value in excess of projected benefit obligation	198,978	171,173
Unrecognized transition amount	(16,735)	(18,277)
Unrecognized prior service costs	10,287	8,658
Unrecognized net gain	(275,043)	(214,894)
Accrued pension liability	\$ (82,513)	\$ (53,340)

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

At December 31,	1993	1992
Discount rate	7.75%	8.00%
Compensation/progression rate	4.75	5.00

The discount rate for 1993 was determined by analyzing the interest rates, as of December 31, 1993, of long-term high-quality corporate debt securities having a duration comparable to the 13.8-year duration of the plan.

During 1993, NU's work force was reduced by approximately 7 percent through a work force reduction program that involved an early retirement program and involuntary terminations. CL&P's direct cost of the program, which approximated \$14.8 million, included pension, severance, and other benefits.

10. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The company provides certain health care benefits, primarily medical and dental, and life insurance benefits through a benefit plan to retired employees. These benefits are available for employees leaving the company who are otherwise eligible to retire and have met specified service requirements. Through December 31, 1992, the company recognized the cost of these benefits as

The Connecticut Light and Power Company

NOTES TO FINANCIAL STATEMENTS

they were paid. In December 1990, the FASB issued SFAS 106. This new standard requires that the expected cost of postretirement benefits, primarily health and life insurance benefits, must be charged to expense during the years that eligible employees render service. Effective January 1, 1993, the company adopted SFAS 106 on a prospective basis. Total health care and life insurance cost, part of which were deferred or charged to utility plant, approximated \$23,170,000 in 1993, \$8,791,000 in 1992, and \$7,525,000 in 1991.

On January 1, 1993, the accumulated postretirement benefit obligation (APBO) represented the company's prior-service obligation upon the adoption of SFAS 106. As allowed by SFAS 106, the company is amortizing its APBO of approximately \$164 million over a 20-year period. For current employees and certain retirees, the total SFAS 106 benefit is limited to two times the 1993 health care costs. The SFAS 106 obligation has been calculated based on this assumption.

During 1993, the company did not fund SFAS 106 postretirement costs through external trusts. The company expects to fund annually amounts once they have been rate recovered and which also are tax-deductible under the Internal Revenue Code.

The following table represents the plan's funded status reconciled to the Balance Sheet at December 31, 1993:

	(Thousands of Dollars)
Accumulated postretirement benefit obligation of:	
Retirees	\$(119,520)
Fully eligible active employees	(288)
Active employees not eligible to retire	<u>(29,270)</u>
Total accumulated postretirement benefit obligation	(149,078)
Unrecognized transition amount	139,539
Unrecognized net gain	<u>(2,591)</u>
Accrued postretirement benefit liability	<u>\$ (12,130)</u>

The components of health care and life insurance costs for the year ended December 31, 1993 are:

	(Thousands of Dollars)
Service cost	\$ 3,397
Interest cost	12,091
Net amortization	<u>7,682</u>
Net health care and life insurance costs	<u>\$23,170</u>

NOTES TO FINANCIAL STATEMENTS

For measurement purposes, an 11.1-percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1993; the rate was assumed to decrease to 5.4 percent for 2002. The effect of increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1993 by \$10.5 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$1.0 million.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7.75 percent. The discount rate for 1993 was determined by analyzing the interest rates, as of December 31, 1993, of the long-term, high-quality corporate debt securities having a duration comparable to that of the plan.

CL&P has received approval from the DPUC to defer and recover the incremental SFAS 106 postretirement costs within eight years.

11. COMMITMENTS AND CONTINGENCIES

Construction Program

The construction program is subject to periodic review and revision. Actual construction expenditures may vary from such estimates due to factors such as revised load estimates, inflation, revised nuclear safety regulations, delays, difficulties in the licensing process, the availability and cost of capital, and the granting of timely and adequate rate relief by regulatory commissions, as well as actions by other regulatory bodies.

CL&P currently forecasts construction expenditures (including AFUDC) of approximately \$741.8 million for the years 1994-1998, including \$157.8 million for 1994. In addition, the company estimates that nuclear fuel requirements, including nuclear fuel financed through the NBFT, will be approximately \$317.7 million for the years 1994-1998, including \$74.6 million for 1994. See Note 2, "Leases," for additional information about the financing of nuclear fuel.

Nuclear Performance

Outages that occurred over the period October 1990 through February 1992 at the Millstone nuclear units have been the subject of five ongoing prudence reviews in Connecticut. CL&P has received final decisions on four of the reviews. The Office of Consumer Counsel has appealed decisions favorable to the company in two dockets. The exposure under these two dockets is approximately \$66 million. The DPUC has suspended a third docket, pending the outcome of one of the appeals. The exposure under this docket is \$26 million. The only remaining nuclear outage prudence docket before the DPUC is the docket established to review the 1992 outage at Millstone 2 to replace the steam generators. A decision is expected in late 1994. Management believes that its actions with respect to these outages have been prudent, and it does not expect the outcome of the prudence reviews to result in material disallowances.

Environmental Matters

CL&P is subject to regulation by federal, state, and local authorities with respect to air and water quality, handling and the disposal of toxic substances and hazardous and solid wastes, and the handling and use of chemical products. CL&P has an active environmental auditing program to prevent, detect, and remedy noncompliance with environmental laws or regulations and believes that it is in substantial compliance with current environmental laws and regulations. Changing

NOTES TO FINANCIAL STATEMENTS

environmental requirements could hinder the construction of new fossil-fuel environmental generating units, transmission, and distribution lines, substations, and other facilities. The cumulative long-term economic cost impact of increasingly stringent environmental requirements cannot be estimated. Changing environmental requirements could also require extensive and costly modifications to CL&P's existing hydro, nuclear, and fossil-fuel generating units, and transmission and distribution systems, and could raise operating costs significantly. As a result, CL&P may incur significant additional environmental costs, greater than amounts included in cost of removal and other reserves, in connection with the generation and transmission of electricity and the storage, transportation, and disposal of by-products and wastes. CL&P may also encounter significantly increased costs to remedy the environmental effects of prior waste handling and disposal activities.

CL&P has recorded a liability for what it believes is, based upon information currently available, the estimated environmental remediation costs for waste disposal sites for which it expects to bear legal liability. To date, these costs have not been material with respect to the earnings or financial position of the company. In most cases, the extent of additional future environmental cleanup costs is not estimable due to factors such as the unknown magnitude of possible contamination, the appropriate remediation method, the possible effects of future legislation and regulation, the possible effects of technological changes related to future cleanup, and the difficulty of determining future liability, if any, for the cleanup of sites at which CL&P has been informed that it may be determined to be legally liable by the federal or state environmental agencies. In addition, CL&P cannot estimate the potential liability for future claims that may be brought against it by private parties. However, considering known facts and existing laws and regulatory practices, management does not believe that such matters will have a material adverse effect on CL&P's financial position or future results of operations. At December 31, 1993, the liability recorded by CL&P for its estimated environmental remediation costs, excluding any possible insurance recoveries or recoveries from third parties, amounted to \$2.9 million. However, in the event that it becomes necessary to effect environmental remedies that are currently not considered probable for the sites for which CL&P has recorded a liability, it is reasonably possible that, based on information currently available and management intent, that the upper limit of CL&P's environmental liability range could increase to approximately \$5.8 million.

Nuclear Insurance Contingencies

The Price-Anderson Act currently limits public liability from a single incident at a nuclear power plant to \$9.4 billion. The first \$200 million of liability would be provided by purchasing the maximum amount of commercially available insurance. Additional coverage of up to a total of \$8.8 billion would be provided by an assessment of \$75.5 million per incident, levied on each of the 116 nuclear units that are currently subject to the Secondary Financial Protection Program in the United States, subject to a maximum assessment of \$10 million per incident per nuclear unit in any year. In addition, if the sum of all public liability claims and legal costs arising from any nuclear incident exceeds the maximum amount of financial protection, each reactor operator can be assessed an additional 5 percent, up to \$3.8 million, or \$437.9 million in total, for all 116 nuclear units. The maximum assessment is to be adjusted at least every five years to reflect inflationary changes. Based on CL&P's ownership interests in Millstone 1, 2, and 3, and Seabrook 1, CL&P's maximum liability would be \$173.6 million per incident. In addition, through CL&P's power purchase contracts with the four Yankee regional nuclear generating companies, CL&P would be responsible for up to an additional \$63.8 million per incident. Payments for CL&P's ownership interest in nuclear generating facilities would be limited to a maximum of \$29.9 million per incident per year.

NOTES TO FINANCIAL STATEMENTS

Insurance has been purchased from Nuclear Electric Insurance Limited (NEIL) to cover: (1) certain extra costs incurred in obtaining replacement power during prolonged accidental outages with respect to CL&P's ownership interests in Millstone 1, 2, and 3, Seabrook 1, and CY; and (2) the cost of repair, replacement, or decontamination or premature decommissioning of utility property resulting from occurrence, with respect to CL&P's ownership interests in Millstone 1, 2, and 3, Seabrook 1, CY, MY, and VY. All companies insured with NEIL are subject to retroactive assessments if losses exceed the accumulated funds available to NEIL. The maximum potential assessments against CL&P, with respect to losses arising during current policy years are approximately \$9.7 million under the replacement power policies and \$18.9 million under the property damage, decontamination, and decommissioning policies. Although CL&P has purchased the limits of coverage currently available from the conventional nuclear insurance pools, the cost of a nuclear incident could exceed available insurance proceeds.

Insurance has been purchased from American Nuclear Insurers/Mutual Atomic Energy Liability Underwriters, aggregating \$200 million on an industry basis for coverage of worker claims. All companies insured under this coverage are subject to retrospective assessments of \$3.2 million per reactor. The maximum potential assessments against CL&P with respect to losses arising during the current policy period are approximately \$9.6 million.

Financing Arrangements for the Regional Nuclear Generating Companies

CL&P believes that the regional nuclear generating companies may require additional external financing in the next several years for construction expenditures, nuclear fuel, possible refinancings, and other purposes. Although the ways in which each regional nuclear generating company will attempt to finance these expenditures has not been determined, CL&P may be asked to provide direct or indirect financial support for one or more of these companies.

Purchased Power Arrangements

CL&P purchases a portion of their electricity requirements pursuant to long-term contracts with the Yankee companies. Under the terms of its agreements, the company pays its ownership share (or entitlement share) of generating costs, which include depreciation, operation and maintenance expenses, the estimated cost of decommissioning, and a return on invested capital. These costs are recorded as purchased power expense, and are recovered through the company's rates. The total cost of purchases under these contracts for the units that are operating amounted to \$112.3 million in 1993, \$103.2 million in 1992, and \$99.7 million in 1991. See Note 1, "Summary Of Significant Accounting Policies - Investments and Jointly Owned Electric Utility Plant" and Note 3, "Nuclear Decommissioning" for more information on the Yankee companies.

CL&P has entered into various arrangements for the purchase of capacity and energy from nonutility generators. Some of these arrangements generally have terms from 10 to 30 years, and require the company to purchase the energy at specified prices or formula rates. For the 12 months ended December 31, 1993, 14 percent of NU system load requirements was met by cogenerators and small power producers. The total cost of the company's purchases under these arrangements amounted to \$279.8 million in 1993, \$267.3 million in 1992, and \$237.6 million in 1991. These costs are eventually recovered through the company's rates.

The Connecticut Light and Power Company

NOTES TO FINANCIAL STATEMENTS

The estimated annual cost of CL&P's significant purchase power arrangements is provided below:

	(In Millions)				
	1994	1995	1996	1997	1998
Yankee companies	\$106.6	\$109.2	\$121.5	\$111.8	\$126.5
Nonutility generators	293.7	303.3	313.1	319.6	324.9

Hydro-Quebec

Along with other New England utilities, CL&P, PSNH, WMECO, and HWP entered into agreements to support transmission and terminal facilities to import electricity from the Hydro-Quebec system in Canada. CL&P, PSNH, WMECO, and HWP, in the aggregate, are obligated to pay, over a 30-year period, their proportionate share of the annual operation, maintenance, and capital costs of these facilities, which are currently forecast to be \$172.1 million for the years 1994-1998, including \$37.2 million for 1994.

Great Bay Power Corporation

CL&P and The United Illuminating Company, an unaffiliated company, have agreed to make certain advances up to \$20 million to cover shortfalls in the funding of the 12.13 percent ownership interest in Seabrook 1 of Great Bay Power Corporation, an unaffiliated company. CL&P's share of this commitment is limited to 60 percent of the advances, or \$12 million. As of December 31, 1993, \$1,047,000 of advances from CL&P were outstanding under this agreement.

Property Taxes

CY has a significant court appeal pending for its property tax assessment in the town of Haddam, Connecticut, concerning production plant. The central issue is the fair market value of utility property. The company believes that a properly derived assessment that recognizes the effect of rate regulation will result in a fair market value that approximates net book cost. This is the assessment level that taxing authorities are predominantly using throughout Connecticut, Massachusetts, and some of New Hampshire. However, towns such as Haddam advocate a method that approximates reproduction cost. The company estimates that, for the Haddam assessment, the change to a reproduction cost-methodology could result in a property tax valuation approximately three times greater than a value approximating net book cost. Although CY is currently paying property taxes based on the higher assessment, to date, the higher assessment has not had a material adverse effect on it or the company.

The company believes that assessment levels that approximate net book cost accurately reflect the fair market value of regulated utility property. However, because of uncertainties associated with the court appeal and the potential impact of an adverse court decision on property tax assessment policy in Connecticut, the company cannot estimate the potential effect of an adverse court decision on future results of operations or financial condition. However, the company believes that, based upon past regulatory practices, it would be allowed to recover any increased property tax assessment prospectively beginning at the time new rates are established.

NOTES TO FINANCIAL STATEMENTS

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments:

Cash, special deposits, and nuclear decommissioning trusts: The carrying amounts approximate fair value.

Preferred stock and long-term debt: The fair value of CL&P's fixed rate securities is based upon the quoted market price for those issues or similar issues. Adjustable rate securities are assumed to have a fair value equal to their carrying value.

The carrying amounts of CL&P's financial instruments and the estimated fair values are as follows:

At December 31, 1993	Carrying Amount	Fair Value
	(Thousands of Dollars)	
Preferred stock not subject to mandatory redemption	\$ 166,200	\$ 128,826
Preferred stock subject to mandatory redemption	230,000	240,400
Long-Term Debt:		
First Mortgage Bonds	1,532,000	1,580,396
Other long-term debt	533,442	539,518

At December 31, 1992	Carrying Amount	Fair Value
	(Thousands of Dollars)	
Preferred stock not subject to mandatory redemption	\$ 231,196	\$ 184,910
Preferred stock subject to mandatory redemption	200,000	208,750
Long-Term Debt:		
First Mortgage Bonds	1,547,000	1,594,643
Other long-term debt	545,805	545,805

The fair values shown above have been reported to meet disclosure requirements and do not purport to represent the amounts that those obligations would be settled at.

NOTES TO FINANCIAL STATEMENTS

In May 1993, the FASB issued Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). SFAS 115 requires companies to disclose the classification of investments in debt or equity securities based on management's intent and ability to hold the security. SFAS 115 also requires disclosure of the aggregate fair value, gross unrealized holding gains, gross unrealized holding losses and amortized cost basis by major security type. Effective January 1, 1994, CL&P will adopt SFAS 115 on a prospective basis. CL&P anticipates that the adoption of SFAS 115 will not have a material impact on future results of operations or financial position.

The Connecticut Light and Power Company

Report of Independent Public Accountants

To the Board of Directors
of The Connecticut Light and Power Company:

We have audited the accompanying balance sheets of The Connecticut Light and Power Company (a Connecticut corporation and a wholly owned subsidiary of Northeast Utilities) as of December 31, 1993 and 1992, and the related statements of income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Connecticut Light and Power Company as of December 31, 1993 and 1992, and the results of its operations and cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the Financial Statements, "Summary of Significant Accounting Policies - Accounting Changes," effective January 1, 1993, The Connecticut Light and Power Company changed its methods of accounting for property taxes, income taxes, and postretirement benefits other than pensions.

ARTHUR ANDERSEN & CO.

Hartford, Connecticut
February 18, 1994

The Connecticut Light and Power Company

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

This section contains management's assessment of The Connecticut Light and Power Company's (CL&P or the company) financial condition and the principal factors having an impact on the results of operations. The company is a wholly-owned subsidiary of Northeast Utilities (NU). This discussion should be read in conjunction with the company's financial statements and footnotes.

FINANCIAL CONDITION

Overview

The company's net income decreased to \$191.4 million in 1993 from \$206.7 million in 1992. The 1993 net income reflects the cumulative effect of a change in the accounting for Connecticut municipal property taxes. The company adopted a one-time change in the method of accounting for municipal property tax expense in the first quarter of 1993. This change resulted in a one-time contribution to net income of \$47.7 million.

See the "Notes to Financial Statements" for further information on the property tax accounting change.

Net income before the cumulative effect of the change in accounting for property taxes was \$143.7 million in 1993. The decrease from 1992 is primarily attributable to one-time impacts of (a) disallowances ordered by the Department of Public Utility Control (DPUC) in the 1993 rate case decision and (b) the \$10 million charge to earnings in the third quarter of 1993 for the costs of the company's employee reduction program. Other items that affected net income in 1993 include increased revenues from the 1993 retail rate increase and the company's continued cost-management efforts. These increases were offset by higher costs for the recovery of regulatory deferrals and the higher contribution in 1992 of energy transactions with other utilities.

The year 1993 was one of both challenge and success for the company. CL&P's work force was reduced by about 11 percent in 1993 through an employee reduction program that involved early retirements and involuntary terminations. The 1993 composite nuclear capacity factor of 80.8 percent was the highest level the NU system has ever achieved and far above the national average. The DPUC approved a three-year rate plan that weakened 1993 earnings but will assure CL&P customers rate stability over the next few years which will help to improve CL&P's future earnings and competitive position.

In 1994, CL&P will continue to face challenges associated with a lagging economy and competition. Retail sales for 1993 were flat, as compared to 1992, as a result of a stagnant Connecticut economy. The company expects retail sales growth of about two percent in 1994, based on some modest improvement in the economy.

Competition within the electric utility industry is increasing. In response, CL&P has developed, and is continuing to develop, a number of initiatives to retain and continue to serve its existing customers and to expand its retail and wholesale customer base. These initiatives are aimed at keeping customers from either leaving CL&P's retail service territory or replacing CL&P's electric service with alternative energy sources.

The cost of doing business, including the price of electricity, is higher in the Northeast than in most other parts of the country. Relatively high state and local taxes, labor costs, and other costs of doing business in New England also contribute to competitive disadvantages for many industrial and commercial customers of CL&P. These disadvantages have aggravated the pressures on business customers in the current weakened

regional economy. Since 1991, the company has worked actively with the Connecticut Department of Economic Development to package development incentives for a variety of retail and wholesale customers. These economic development packages typically include both electric rate discounts and incentive payments for energy-efficient construction, as well as technical support and energy conservation services. Targeted reductions in effect at the end of 1993 to a limited group of large customers were successful in preserving CL&P revenues of approximately \$28 million. The amount of discounts provided to customers are expected to increase as the company intensifies its efforts to retain existing customers and gain new customers.

As a result of very limited load growth throughout the Northeast and the operation of several new generating plants in the past five years, wholesale competition has grown, and a seller's market for electricity has turned into a buyer's market. The prices the company has been able to receive for new wholesale sales have generally been far lower than the prices prevalent in 1988 and 1989. In future years, competition in the Northeast is expected to increase, putting further downward pressure on prices. However, the potential price decreases may be offset somewhat by an improvement in the region's economy as well as by the retirement of a number of the region's existing generating facilities.

The ability of retail customers to select an electricity supplier and then force the local electric utility to transmit the power to the customer's site is known as "retail wheeling". While wholesale wheeling is mandated by the Energy Policy Act of 1992 under certain circumstances, retail wheeling is generally not required in the company's jurisdiction. In Connecticut, the DPUC has begun an investigation into the viability of retail wheeling.

NU management has taken steps to make the NU system companies, including CL&P, more competitive and profitable in the changing utility environment. A systemwide emphasis on improved customer service is a central focus of the reorganization of NU that became effective on January 1, 1994. The reorganization entails realignment of the system into two new core business groups. The first core business group is devoted to energy resource acquisition and wholesale marketing and focuses on nuclear, fossil, and hydroelectric generation, wholesale power marketing, and new business development. The second core business group oversees all customer service, transmission and distribution operations, and retail marketing in Connecticut, New Hampshire, and Massachusetts. These two core business groups are served by various support functions.

In connection with NU's reorganization, a corporate reengineering process has begun which should help the company to identify opportunities to become more competitive while improving customer service and maintaining excellent operational performance. NU has aggressive cost-reduction targets over the next three years, which should enable the company to remain competitive by reducing prices to vulnerable customers in particular.

To date, the company has not been materially affected by competition, and it does not foresee substantial adverse effect in the near future, unless the current regulatory structure is substantially altered. The company believes the steps it is taking will have significant, positive effects in the next few years. In addition, CL&P benefits from a diverse retail base. The company has no significant dependence on any one customer or industry. The NU system's extensive transmission facilities and diversified generating capacity are all strong positive factors in the regional wholesale power market. NU serves about 30 percent of New England's electric needs and is one of the 20 largest electric utility systems in the country.

Achieving measurable improvement in earnings in 1994, will depend, in part, on the success of the company's wholesale power marketing customer retention and reengineering efforts.

Rate Matters

Deferred charges at December 31, 1993 were \$1.5 billion, which includes \$1.0 billion for the adoption in 1993 of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Deferred charges, excluding the regulatory asset for SFAS No. 109 decreased almost \$90 million in 1993. Recoveries for the deferred costs of Millstone 3, Seabrook, and the Yankee Atomic Electric Company (YAEC) contract obligation and reductions in deferred energy costs were partially offset by increased deferrals for conservation and load management costs. The company is currently recovering some amounts of its remaining deferred charges from customers. Management expects that substantially all of the deferred charges will be recovered through future rates.

Under SFAS No. 109, the company reflected a regulatory asset and a deferred tax liability for the cumulative amount of income taxes associated with timing differences for which deferred taxes had not been provided but are expected to be recovered from customers in the future. The adoption of SFAS No. 109 has not had a material effect on results of operations.

The company also adopted SFAS No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions in 1993. Adopting SFAS No. 106 has not had a material impact on financial condition or results of operations, because the company has received approval from the DPUC to defer these costs and expects to recover these costs in the future.

See the "Notes To Financial Statements" for further details on deferred charges and recently adopted accounting standards.

On June 16, 1993, the DPUC issued a final decision in CL&P's December 1992 retail rate case (the rate decision) approving a multiyear rate plan which provides for annual rate increases of \$46 million, or 2.01 percent, in July 1993; \$47.1 million, or 2.04 percent, in July 1994; and \$48.2 million, or 2.06 percent, in July 1995. The total cumulative increase granted of \$141.3 million, or 6.1 percent, was approximately 42 percent of CL&P's updated request.

In light of the State of Connecticut's concern over economic development and industrial and commercial rates, one important aspect of the rate case was that industrial and manufacturing rates will only rise by about 1.1 percent annually over the three year period. Other significant aspects of the rate decision included the reduction of CL&P's return on equity (ROE) from 12.9 percent to 11.5 percent for the first year of the multiyear plan, 11.6 percent for the second year, and 11.7 percent for the third year; a 32-month phase-in beginning in 1995 of CL&P's nonpension, postretirement benefit costs required to be recognized under SFAS No. 106 with amortization of deferred amounts over five years; the three-year phase-in of the Millstone 2 steam generators; the deferral of cogeneration expenses with carrying costs of \$42.1 million in fiscal year 1994 and \$20.9 million in fiscal year 1995 with recovery over five years beginning July 1, 1996; and the full recovery of the remaining costs of the Millstone 3 and Seabrook phase-ins (balance of \$185.9 million at December 31, 1993).

The rate decision used \$49 million of prior fuel overrecoveries to offset a similar amount of the unrecovered replacement power costs under CL&P's Generation Utilization Adjustment Clause (GUAC). The GUAC has been in operation since 1979 and was designed as a mechanism to recover or to refund certain fuel costs if the nuclear plants do not operate at a predetermined capacity factor. In January 1994, the DPUC issued a decision ordering CL&P not to include a GUAC amount in customers' bills through August 1994. The DPUC found that CL&P overrecovered its fuel costs during the 1992-1993 GUAC period and offset the amount of the overrecovery against the unrecovered GUAC balance. The effect of the order was a disallowance of \$7.9 million. The DPUC further ordered that any GUAC deferred charges subsequent to July 1993 will be offset by any fuel overrecoveries. There is an unrecovered GUAC balance at December 31, 1993 of \$13.7 million but there is not expected to be an unrecovered balance at the end of the GUAC period in August 1994. The DPUC's decision creates some uncertainty about the future operation of the GUAC. CL&P

has requested further clarification of the decision, and has appealed it, but does not expect that the decision will have a material adverse effect on future results of operations.

The rate decision also required CL&P to allocate to customers a portion of the property tax accounting change made in the first quarter of 1993, which resulted in a charge against other income of \$10.2 million in the second quarter of 1993.

In August 1993, two appeals were filed from the DPUC's June 1993 rate decision. CL&P appealed four issues from the decision. The second appeal was filed by the Connecticut Office of Consumer Council (OCC) and the City of Hartford. This appeal challenges the legality of the multi-year plan accepted by the DPUC. CL&P has filed a motion to dismiss this appeal on jurisdictional grounds. In addition, the Court rejected the City of Hartford's and OCC's motion to stay implementation of the second and third year of the rate plan pending the outcome of their appeal.

Outages that occurred over the period October 1990 through February 1992 at the Millstone nuclear units have been the subject of five ongoing prudence reviews in Connecticut. CL&P has received final decisions on four of the reviews. The OCC has appealed decisions favorable to the company in two dockets. The exposure under these two dockets is approximately \$66 million. The DPUC has suspended a third docket, pending the outcome of one of the appeals. The exposure under this docket is \$26 million. The only remaining nuclear outage prudence docket before the DPUC is the docket established to review the 1992 nuclear outage at Millstone 2 to replace the steam generators. A decision is expected in late 1994. Management believes that its actions with respect to these outages have been prudent, and it does not expect the outcome of the prudence reviews to result in material disallowances.

In April 1993, the DPUC issued an order approving a new Conservation Adjustment Mechanism (CAM), which allowed CL&P to recover Conservation and Load Management (C&LM) expenditures over an eight-year period (reduced from ten years) and reaffirmed program performance incentives. In December 1993, CL&P filed a proposed CAM settlement with the DPUC. The settlement proposes 1994 C&LM expenditures of \$39 million, reduction in the recovery period from 8 to 3.85 years and other changes in program designs, performance incentives and cost recovery. Unrecovered C&LM costs at December 31, 1993, were \$111.4 million.

Environmental Matters

The NU system devotes substantial resources to identify and then to meet the multitude of environmental requirements it faces. The system has active auditing programs addressing a variety of different regulatory requirements, including an environmental auditing program to detect and remedy noncompliance with environmental laws or regulations.

The company is potentially liable for environmental cleanup costs at a number of sites both inside and outside of its service territory. To date, the future estimated environmental remediation costs for these sites for which the company expects some legal liability have not been material with respect to the earnings or financial position of CL&P. At December 31, 1993, the liability recorded by CL&P for its estimated environmental remediation costs, excluding any possible insurance recoveries or recoveries from third parties, amounted to approximately \$2.9 million. However, while not probable, it is reasonably possible that these costs could rise to as much as \$5.8 million. The extent of additional future environmental cleanup costs is not estimable due to factors such as the unknown magnitude of possible contamination and changes in existing laws and regulatory practices.

The company expects that the implementation of Phase I of the 1990 Clean Air Act Amendments will require only modest emissions reductions. CL&P's exposure is minimal because of its investment in nuclear energy in the 1970s and 1980s and the burning of low-sulfur fuels. The costs for meeting the Phase II requirements cannot be estimated at this time because the emission limits have not been determined.

The company's estimated cost of decommissioning its shares of Millstone Units 1, 2, and 3 and Seabrook is approximately \$801 million in year end 1993 dollars. In addition, the company's estimated cost to decommission its shares of the regional nuclear units is estimated to be approximately \$185 to \$189 million. Decommissioning costs are recovered and recognized over the lives of the respective units. YAEC has begun decommissioning its nuclear facility. The company's estimated obligation to YAEC has been recorded on its Balance Sheets. Management expects that the company will continue to be allowed to recover these costs.

For further information regarding nuclear decommissioning, environmental matters, and other contingencies, see the "Notes to Financial Statements."

Nuclear Performance

The composite capacity factor of the five nuclear generating units that the NU system operates (including the Connecticut Yankee nuclear unit) was 80.8 percent for 1993, compared with 63.7 percent in 1992 and a national average of 70.6 percent for 1993. The lower 1992 capacity factor was primarily the result of the 1992 Millstone 2 steam generator replacement outage and some unexpected technical and operating difficulties.

In 1993, NU was informed by the Nuclear Regulatory Commission (NRC) of three apparent violations related to the circumstances surrounding the repair of a leaking valve in the reactor coolant system at the Millstone 2 nuclear power station. Millstone 2 was shutdown on August 5, 1993, when extensive repair efforts proved unsuccessful and the valve began to leak at a level beyond operating requirements. NU was assessed and paid a civil penalty of \$237,500 for the three violations that were identified during the NRC investigation.

NU has initiated a number of immediate and long-term actions designed to further enhance the safe operation of all the NU nuclear plants. In an effort to improve nuclear performance, NU management announced a reorganization of its Connecticut-based nuclear organization in November 1993. The reorganization, which is based on an overview of NU's future nuclear operational needs, resulted in a number of personnel changes, including the appointment of a new senior vice president of Millstone Station, realignment of engineering operations along unit lines and management consolidation. In addition, centralization of the nuclear engineering function at the generating stations is expected to occur during the summer of 1994. No material expense will be incurred by the company in connection with the reorganization.

Liquidity and Capital Resources

Cash provided from operations increased \$136.5 million in 1993, compared with the same period in 1992, primarily due to increased revenues in 1993 from the rate increase and for the recovery of replacement power costs under the GUAC. Cash used for financing activities was \$219.9 million higher in 1993, compared with the same period in 1992, primarily due to a net decrease in short-term debt, long-term debt, and preferred stock. Cash used for investments was \$66.2 million lower in 1993, compared with the same period in 1992, primarily due to lower construction expenditures in 1993.

The company has been able to shift its financing focus to refinancing outstanding high-cost securities. Internally generated cash has generally been, and is projected to continue to be, more than sufficient to cover construction costs. The forecast through 1998 shows additional new financings only in years with a large amount of securities maturing. CL&P may issue up to \$200 million in 1994 to finance maturing debt. The company is obligated to meet \$581 million of long-term debt and preferred stock maturities and cash sinking-fund requirements for the 1994 through 1998 period, including \$189 million for 1994. Also, \$125 million of First Mortgage Bonds outstanding at December 31, 1993 has been called in December 1993 for redemption in 1994.

Aggressive refinancing of its outstanding high-cost securities has enabled the company to lower its cost of debt. There was no new money financing in 1993. To take advantage of favorable market conditions during

1993, the company refinanced \$425 million of First Mortgage Bonds, \$110 million of preferred stock and \$135.5 million of pollution control bonds, in addition to restructuring the company's various credit lines. It is estimated that the 1993 refinancings and restructuring will save the company approximately \$15 million per year. The company intends, if market conditions permit, to continue to refinance a portion of its outstanding long-term debt and preferred stock at lower effective cost.

On February 17, 1994, CL&P issued two new First Mortgage Bonds, the \$140 million 1994 Series A and the \$140 million 1994 Series B Bonds, at annual rates of 5.50 percent and 6.125 percent, respectively. The Series A Bond will mature on February 1, 1999, and the Series B Bond will mature on February 1, 2004. Proceeds from these issues, together with proceeds from short-term debt, will be used to redeem \$310 million of outstanding bonds with interest rates ranging from 5.625 percent to 7.625 percent. Savings from the refinancings are estimated to be approximately \$4.5 million per year in reduced interest rates.

The company's construction program expenditures, including allowance for funds used during construction (AFUDC), for the period 1994 through 1998 are estimated to be approximately \$742 million, including \$158 million for 1994. The construction program's main focus is maintaining and upgrading the existing transmission and distribution system as well as the nuclear and fossil-generating facilities. The company does not foresee the need for new major generating facilities, at least until the year 2007.

CL&P and WMECO utilize a nuclear fuel trust to finance nuclear fuel requirements for Millstone 1, 2, and 3. Nuclear fuel requirements, including nuclear fuel financed through the trust, are estimated to be approximately \$318 million for the period 1994 through 1998, including \$75 million for 1994.

Results of Operations

Change in Operating Revenues

	Increase/(Decrease)	
	1993 vs. 1992	1992 vs. 1991
	(Millions of Dollars)	
Regulatory decisions	\$34.2	\$72.7
Fuel and purchased power		
cost recoveries	1.9	20.0
Sales volume	3.0	5.4
Other revenues	10.5	(57.4)
Total revenue change	<u>\$49.6</u>	<u>\$40.7</u>

Operating Revenues

The components of the change in operating revenues for the past two years are provided in the table above.

Operating revenues increased \$49.6 million from 1992 to 1993. Revenues related to regulatory decisions increased in 1993, primarily because of the effects of the June 1993 DPUC retail rate increase and higher revenues under the CAM. Retail sales were essentially flat in 1993. Other revenues increased primarily because of higher 1993 capacity interchange sales.

Operating revenues increased \$40.7 million from 1991 to 1992. Revenues related to regulatory decisions increased in 1992 primarily because of the effect of the August 1991 DPUC retail rate increase. Fuel and purchased-power cost recoveries increased primarily due to the timing in the recovery of fuel expenses under the provisions of CL&P's fuel adjustment clauses. Retail sales in 1992 were slightly higher than 1991. Other revenues decreased primarily because of 1992 capacity sales to other utilities that took place at lower prices per kilowatt-hour and the 1991 one-time reimbursement of costs associated with the reactivation of fossil-generating units.

Fuel, Purchased, And Net Interchange Power

Fuel, purchased, and net interchange power increased \$58.8 million in 1993, as compared to 1992, primarily due to the timing in the recovery of fuel expenses under the provisions of the company's fuel adjustment clauses and disallowances of replacement power costs deferred under the GUAC, partially offset by lower outside purchases due to better nuclear performance in 1993.

Fuel, purchased, and net interchange power increased \$39.2 million in 1992, as compared to 1991, primarily due to the timing in the recovery of fuel expenses under the provisions of the company's fuel adjustment clauses, and previously deferred replacement power costs that are not recoverable as a result of regulatory reviews.

Other Operation And Maintenance Expenses

Other operation and maintenance expenses increased \$18.7 million in 1993, as compared to 1992, primarily due to the one-time costs in 1993 associated with the employee reduction program and 1993 SFAS No. 106 postretirement benefit costs prior to the DPUC order allowing the deferral of these costs, partially offset by lower 1993 costs associated with the operation and maintenance activities of the nuclear units.

Other operation and maintenance expenses increased \$4.0 million in 1992, as compared to 1991, primarily due to higher 1992 costs of operation and maintenance activities at nuclear units, partially offset by the 1991 costs associated with a voluntary early retirement program, and lower 1992 conservation expenses.

Depreciation Expenses

Depreciation expenses increased \$9.9 million in 1993, as compared to 1992, and \$11.3 million in 1992, as compared to 1991, primarily as a result of higher depreciation rates, higher depreciable plant balances, and higher decommissioning levels in 1992 as compared to 1991.

Amortization Of Regulatory Assets, Net

Amortization of regulatory assets, net increased \$38.9 million in 1993, as compared to 1992, and \$17.8 million in 1992, as compared to 1991, primarily because of higher amortization of Millstone 3 and Seabrook deferred costs. The increase in 1993 is also attributable to the gross-up of taxes due to SFAS No. 109, and the amortization in 1993 of costs paid by CL&P to the developers of two wood-to-energy plants as allowed in the recent rate decision. CL&P was allowed to collect and amortize \$17.9 million of previously deferred costs over the one-year period beginning July 1993.

Federal And State Income Taxes

Federal and State income taxes, net decreased \$21.4 million in 1993, as compared to 1992, primarily because of lower book taxable income and higher investment tax credit amortization, partially offset by an increase in flow-through depreciation.

Taxes Other Than Income Taxes

Taxes other than income taxes increased \$5.4 million in 1992, as compared to 1991, primarily due to higher property taxes and higher Connecticut gross earnings taxes due to higher revenues.

Deferred Nuclear Plants Return

Deferred nuclear plants return decreased \$10.8 million in 1993, as compared to 1992, and \$6.3 million in 1992, as compared to 1991, primarily because of a decrease in Millstone 3 deferred return because additional Millstone 3 investment was phased into rates.

Other Income, Net

Other income, net decreased \$8.0 million in 1993, as compared to 1992, primarily because of the allocation to customers of a portion of the property tax accounting change as ordered by the DPUC in the rate decision and lower AFUDC.

Interest Charges

Interest on long-term debt increased \$17.1 million in 1993, as compared to 1992 and \$14.9 million in 1992, compared to 1991, primarily because of lower average interest rates as a result of the substantial refinancing activity.

Other interest charges increased \$5.4 million in 1993, as compared to 1992, primarily because of higher interest on short-term borrowings, lower AFUDC for borrowed funds and interest recognized for a potential Connecticut sales tax assessment.

The Connecticut Light and Power Company

SELECTED FINANCIAL DATA

Years Ended December 31,	1993	1992	1991	1990	1989
	(Thousands of Dollars)				
Continuing Operations:					
Operating Revenues	\$2,366,050	\$2,316,451	\$2,275,737	\$2,170,087	\$2,069,559
Operating Income	240,095	287,811	323,835	320,641	327,220
Net Income	191,449	206,714	240,818	224,783	207,875
Discontinued Gas Operations:					
Operating Revenues	-	-	-	-	124,229
Operating Income	-	-	-	-	12,563
Net Income	-	-	-	-	6,630
Cash Dividends on Common Stock	160,365	164,277	172,587	179,921	155,972
Total Assets	6,397,380	5,582,806	5,338,441	5,176,784	5,148,120
Long-Term Debt*	2,057,280	2,087,936	2,023,268	2,101,334	2,147,892
Preferred Stock Not Subject to Mandatory Redemption	166,200	231,196	306,195	306,195	306,195
Preferred Stock Subject to Mandatory Redemption*	230,000	200,000	141,802	146,892	151,892
Obligations Under Capital Leases*	177,418	197,404	208,924	233,919	252,652

*Includes portions due within one year.

STATEMENTS OF QUARTERLY FINANCIAL DATA (Unaudited)

1993	Quarter Ended			
	March 31	June 30	September 30	December 31
	(Thousands of Dollars)			
Operating Revenues	<u>\$627,134</u>	<u>\$559,894</u>	<u>\$604,343</u>	<u>\$574,679</u>
Operating Income	<u>\$ 67,201</u>	<u>\$ 47,775</u>	<u>\$ 58,321</u>	<u>\$ 66,798</u>
Net Income	<u>\$ 91,596</u>	<u>\$ 13,775</u>	<u>\$ 39,068</u>	<u>\$ 47,010</u>
1992				
Operating Revenues	<u>\$633,933</u>	<u>\$547,010</u>	<u>\$554,635</u>	<u>\$580,873</u>
Operating Income	<u>\$ 90,840</u>	<u>\$ 58,892</u>	<u>\$ 75,438</u>	<u>\$ 62,641</u>
Net Income	<u>\$ 68,042</u>	<u>\$ 40,615</u>	<u>\$ 55,145</u>	<u>\$ 42,912</u>

The Connecticut Light and Power Company

STATISTICS

	Gross Electric Utility Plant December 31, (Thousands of Dollars)	kWh Sales (Millions)	Average Annual Use Per Residential Customer (kWh)	Electric Customers (Average)	Employees (December 31,)
1993	\$6,214,399	26,107	8,519	1,078,925	2,676
1992	6,100,680	25,809	8,501	1,075,425	3,028
1991	5,986,269	24,992	8,435	1,069,912	3,364
1990	5,881,499	25,039	8,434	1,064,695	3,517
1989	5,732,850	25,078	8,570	1,054,055	3,556

The Connecticut Light and Power Company

First and Refunding Mortgage Bonds

Trustee and Interest Paying Agent

Bankers Trust Company, Corporate Trust and Agency Group
P.O. Box 318, Church Street Station, New York, New York 10015

Preferred Stock

Transfer Agent, Dividend Disbursing Agent and Registrar
Northeast Utilities Service Company Shareholder Services
P.O. Box 5006, Hartford, CT 06102-5006

1994 Dividend Payment Dates

5.28%, 5.30%, 9.00%, \$3.24 Series -
January 1, April 1, July 1, and October 1

4.50% (1956), 4.96%, 6.56%
\$1.90, \$2.00, \$2.04, \$2.06, \$2.09, and \$2.20 Series -
February 1, May 1, August 1, and November 1

3.90%, 4.50% (1963), 7.23% Series -
January 12, March 1, June 1, September 1, and December 1

DARTS*

January 12, March 2, April 20, June 8, July 27,
September 14, November 2, December 21

Address General Correspondence in Care of:

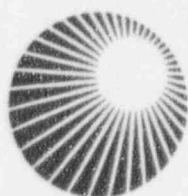
Northeast Utilities Service Company
Investor Relations Department
P.O. Box 270
Hartford, Connecticut 06141-0270
Tel. (203) 665-5000

General Office
Selden Street, Berlin, Connecticut 06037-1616

*Transfer and Paying Agent:

Bankers Trust Company, Corporate Trust and Agency Group
P.O. Box 318, Church Street Station, New York, New York 10015

The data contained in this Annual Report is submitted for the sole purpose of providing information to present stockholders about the Company.



**Connecticut
Light & Power**

The Northeast Utilities System