**BOSTON EDISON**
800 Boylston Street
Boston, Massachusetts 02199

November 15, 1994
BECo 94-123

Director of Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, DC 20555

License DPR-35
Docket 50-293

Dear Sir:

In accordance with 10CFR140.21 and the 1975 amendments to the Price Anderson Act (Public Law 94-197), Boston Edison is submitting the following:

1. Boston Edison Company Annual Report for 1993.

2. Boston Edison Company Form 10-Q for the quarter ended September 30, 1994 as filed with the Securities and Exchange Commission.

3. Cash Flow Forecast for the year 1995.

4. Narrative Statement of curtailment of capital expenditures.

Sincerely,

James J. Judge

Enclosures

cc:

Mr. Darrel A. Nash
Policy Development and
Financial Evaluation Section
Office of Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, DC 20555

U. S. Nuclear Regulatory Commission
Region I
475 Allendale Road
King of Prussia, PA 19406

Mr. R. Eaton, Project Manager
Division of Reactor Projects - I/II
Office of Nuclear Reactor Regulation
Mail Stop: 14D1
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1 White Flint North
11555 Rockville Pike
Rockville, MD 20852

Senior NRC Resident Inspector
Pilgrim Nuclear Power Station

220111

Doc #002153



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ITEM (4) NARRATIVE STATEMENTS OF CURTAILMENT OF CAPITAL EXPENDITURES:

The Boston Edison Company would be able to curtail $10 million of capital expenditures within any three month period of the next twelve months if it becomes necessary to pay retrospective premiums.

BOSTON EDISON COMPANY

1995 INTERNAL CASH FLOW PROJECTION
FOR PILGRIM UNIT #1 NUCLEAR POWER STATION
(DOLLARS IN THOUSANDS)

| | 12 Months Ended 9/30/94 | Projected Year 1995 |
|---|---|---|
| Net Income After Taxes | $123,898 | $137,000 |
| Less Dividends Paid | 94,655 | 104,000 |
| Retained Earnings | 29,243 | 33,000 |
| Adjustments: | | |
| Depreciation and Amortization | 194,151 | 192,000 |
| Depreciation Nuclear Outage Costs | 7,721 | (9,000) |
| Deferred Taxes and ITC | 14,851 | 27,000 |
| AFUDC | (6,483) | (5,000) |
| Total Adjustments | $210,240 | $205,000 |
| Internal Cash Flow | $239,483 | $238,000 |
| Average Quarterly Cash Flow | $59,871 | $59,500 |

Percentage Ownership in All Operating Nuclear Units: Pilgrim Unit #1 74.27%

Maximum total Contingency Liability: $10,000

Doc #002153

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[x] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 1994

or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

Commission file number 1-2301

**BOSTON EDISON COMPANY**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Massachusetts<br>(State or other jurisdiction of incorporation or organization) | 04-1278810<br>(I.R.S. Employer Identification No.) |
| 800 Boylston Street, Boston, Massachusetts<br>(Address of principal executive offices) | 02199<br>(Zip Code) |

Registrant's telephone number, including area code: 617-424-2000

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

Yes __x__ No ______

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

| Class | Outstanding at September 30, 1994 |
|---|---|
| Common Stock, $1 par value | 45,421,127 shares |

Part I - Financial Information
Item 1. Financial Statements

Boston Edison Company
Consolidated Balance Sheets
(Unaudited)
(in thousands)

| | September 30, 1994 | December 31, 1993 |
|---|---|---|
| *Assets* | | |
| Utility plant in service | $3,985,354 | $3,904,776 |
| Less: accumulated depreciation | 1,347,044 | 1,258,359 |
| Utility plant, net | 2,638,310 | 2,646,417 |
| Nuclear fuel, net | 45,504 | 53,390 |
| Construction work in progress | 189,286 | 144,835 |
| Total property, plant and equipment | 2,873,100 | 2,844,642 |
| Investments in electric companies | 24,497 | 24,292 |
| Nuclear decommissioning fund | 77,810 | 66,060 |
| Current assets: | | |
| Cash and cash equivalents | 5,325 | 8,768 |
| Accounts receivable | 202,166 | 171,098 |
| Accrued unbilled revenues | 34,943 | 29,823 |
| Fuel, materials and supplies | 73,791 | 79,381 |
| Prepaid expenses and other | 11,445 | 9,738 |
| Total current assets | 327,670 | 298,808 |
| Deferred debits: | | |
| Power contracts | 30,916 | 36,275 |
| Cancelled nuclear unit | 4,767 | 19,067 |
| Nuclear outage costs | 19,734 | 25,524 |
| Pension and postretirement costs | 27,737 | 24,416 |
| Redemption premiums | 54,586 | 59,116 |
| Regulatory asset - income taxes, net | 42,857 | 26,916 |
| Other | 47,927 | 52,183 |
| Total assets | $3,531,601 | $3,477,299 |
| *Capitalization and Liabilities* | | |
| Common stock equity: | | |
| Common stock | $ 665,725 | $ 657,782 |
| Retained earnings | 261,008 | 218,697 |
| Total common stock equity | 926,733 | 876,479 |
| Cumulative preferred stock: | | |
| Non-mandatory redeemable series | 123,000 | 123,000 |
| Mandatory redeemable series | 94,000 | 96,000 |
| First mortgage bonds | 21,400 | 40,000 |
| Sewage facility revenue bonds, net | 31,754 | 32,497 |
| Debentures | 1,205,000 | 1,200,000 |
| Current liabilities: | | |
| Long-term debt/preferred stock due within one year | 2,400 | 2,000 |
| Notes payable | 181,914 | 204,151 |
| Accounts payable | 122,258 | 144,760 |
| Interest accrued | 12,051 | 25,467 |
| Dividends payable | 22,800 | 22,696 |
| Other | 65,874 | 27,336 |
| Total current liabilities | 407,297 | 426,410 |
| Deferred credits: | | |
| Power contracts | 30,916 | 36,275 |
| Accumulated deferred income taxes | 516,214 | 484,796 |
| Accumulated deferred investment tax credits | 68,085 | 71,140 |
| Nuclear decommissioning reserve | 87,419 | 73,744 |
| Other | 19,783 | 16,958 |
| Commitments and contingencies | - | - |
| Total capitalization and liabilities | $3,531,601 | $3,477,299 |

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

Boston Edison Company
Consolidated Statements of Income
(Unaudited)
(in thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 1994 | 1993 | 1994 | 1993 |
| Operating revenues | $449,094 | $436,024 | $1,195,198 | $1,136,850 |
| Operating expenses: | | | | |
| Fuel | 41,919 | 51,301 | 125,589 | 131,163 |
| Purchased power | 94,208 | 91,907 | 267,819 | 282,991 |
| Other operations and maintenance | 109,825 | 105,841 | 320,640 | 300,238 |
| Depreciation and amortization | 39,417 | 35,827 | 117,842 | 104,320 |
| Amortization of deferred cost of cancelled nuclear unit | 4,948 | - | 14,844 | - |
| Demand side management programs | 9,405 | 10,774 | 27,451 | 29,116 |
| Taxes - property and other | 25,038 | 22,981 | 76,370 | 69,947 |
| Income taxes | 27,735 | 21,074 | 51,854 | 31,753 |
| Total operating expenses | 352,495 | 339,705 | 1,002,409 | 949,528 |
| Operating income | 96,599 | 96,319 | 192,789 | 187,322 |
| Other income (expense), net | 819 | 580 | 2,477 | (577) |
| Operating and other income | 97,418 | 96,899 | 195,266 | 186,745 |
| Interest charges: | | | | |
| Long-term debt | 25,560 | 25,763 | 77,346 | 76,727 |
| Other | 3,934 | 2,244 | 9,182 | 6,940 |
| Allowance for borrowed funds used during construction | (2,258) | (1,123) | (5,238) | (5,218) |
| Total interest charges | 27,236 | 26,884 | 81,290 | 78,449 |
| Net income | 70,182 | 70,015 | 113,976 | 108,296 |
| Preferred dividends provided | 3,926 | 3,962 | 11,839 | 11,742 |
| Balance available for common stock | $ 66,256 | $ 66,053 | $102,137 | $ 96,554 |
| Average common shares outstanding | 45,382 | 45,005 | 45,286 | 44,913 |
| Earnings per share of common stock | $1.46 | $1.47 | $2.26 | $2.15 |
| Dividends declared per common share | $0.440 | $0.425 | $1.320 | $1.275 |

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

Boston Edison Company
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

| | Nine Months Ended September 30, 1994 | 1993 |
|---|---|---|
| Operating activities: | | |
| Net income | $113,976 | $108,296 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 107,581 | 94,201 |
| Amortization of nuclear fuel | 16,738 | 15,952 |
| Amortization of deferred cost of cancelled nuclear unit, net | 14,301 | - |
| Other amortization | 10,456 | 5,108 |
| Allowance for borrowed funds used during construction | (5,238) | (5,218) |
| Deferred income taxes | 12,113 | 3,669 |
| Investment tax credits | (3,054) | (3,225) |
| Amortization (deferral) of nuclear outage costs, net | 5,791 | (9,484) |
| Net changes in: | | |
| Accounts receivable and accrued unbilled revenues | (36,188) | (21,286) |
| Fuel, materials and supplies | 2,044 | 8,500 |
| Accounts payable | (22,502) | (18,655) |
| Other current assets and liabilities | 23,519 | 15,340 |
| Other, net | 20,026 | 837 |
| *Net cash provided by operating activities* | 259,563 | 194,035 |
| Investing activities: | | |
| Plant and nuclear fuel expenditures | (134,318) | (165,660) |
| Capitalized demand side management expenditures | (15,325) | (20,214) |
| Investments | (11,955) | (10,213) |
| *Net cash used by investing activities* | (161,598) | (196,087) |
| Financing activities: | | |
| Issuance of long-term debt | 15,000 | 815,000 |
| Issuance of common stock | 7,978 | 8,192 |
| Issuance of preferred stock | - | 40,000 |
| Retirement of long-term debt | (28,600) | (648,625) |
| Redemption of preferred stock | (2,000) | (40,000) |
| Change in notes payable | (22,237) | (101,000) |
| Dividends paid | (71,549) | (69,264) |
| *Net cash provided (used) by financing activities* | (101,408) | 4,303 |
| Increase/(decrease) in cash and cash equivalents | (3,443) | 2,251 |
| Cash and cash equivalents at beginning of year | 8,768 | 3,947 |
| Cash and cash equivalents at end of period | $ 5,325 | $ 6,198 |
| Cash paid during the period for: | | |
| Interest | $ 99,944 | $ 92,777 |
| Less: amounts capitalized | 5,238 | 5,218 |
| | $ 94,706 | $ 87,559 |
| Income taxes | $ 28,690 | $ 23,724 |

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

## Notes to Consolidated Financial Statements

### A) Basis of Presentation

The accompanying unaudited consolidated financial statements should be read in conjunction with the Boston Edison Company (the Company) 1993 Form 10-K Annual Report and Forms 10-Q for the periods ended March 31, 1994 and June 30, 1994. In the opinion of the Company, the accompanying unaudited consolidated financial statements reflect all adjustments (which are all of a normal recurring nature) necessary to present fairly the financial position as of September 30, 1994 and the results of operations for the three and nine months ended September 30, 1994 and 1993 and the cash flows for the nine months ended September 30, 1994 and 1993. Certain prior year balances have been reclassified to reflect current classifications.

The results of operations for the three and nine months ended September 30, 1994 are not indicative of the results which may be expected for the entire year. The Company's kWh sales and revenues are seasonal in nature, with both being lower in the spring and fall seasons. In addition, pursuant to retail rate orders of the Massachusetts Department of Public Utilities (DPU), base retail rates billed to commercial and industrial customers are higher in the billing months of June through September. Accordingly, a significant portion of the Company's annual earnings occurs in the third quarter.

### B) Commitments and Contingencies

In March 1991 the Company was named in a lawsuit alleging discriminatory employment practices under the Age Discrimination in Employment Act of 1967 concerning 46 employees affected by the Company's 1988 reduction in force. Legal counsel is vigorously defending this case. Based on the information presently available, the Company does not expect that this litigation or certain other legal matters in which the Company is currently involved will have a material impact on financial condition. However, an unfavorable decision ordered against the Company could have a material impact on quarterly earnings.

State regulations revised in 1993 require that properties where releases of hazardous materials occurred in the past be further cleaned up according to a timetable developed by the Massachusetts Department of Environmental Protection. The Company continues to evaluate the potential costs associated with the cleanup of sites where it has been identified as the owner or operator. There are uncertainties associated with these potential costs due to the complexities of cleanup technology, regulatory requirements and the particular characteristics of the different sites. The Company also continues to face possible liability as a potentially responsible party in the cleanup of certain other multi-party hazardous waste sites in Massachusetts and other states. At the majority of these other sites the Company is one of many potentially responsible parties and its alleged share of the responsibility is a small percentage. The Company does not expect any of its potential cleanup liabilities to have a material impact on its financial condition or annual results of operations, although provisions for cleanup costs could have a material impact on quarterly earnings.

In September 1994 the Company received a favorable decision from the Norfolk Superior Court regarding its lawsuit against the Massachusetts Metropolitan District Commission (MDC). The Company filed suit in 1992 related to an eminent domain taking of certain Company-owned property in 1989. The Court's decision is subject to appeal by the MDC. If upheld, the decision would result in an additional award to the Company of $4.5 million plus interest.

C) Income Taxes

The annual estimated effective income tax rate for 1994 and the actual effective income tax rate for 1993 and the reasons for their differences from the statutory federal income tax rate are explained below:

| | 1994 | 1993 |
|---|---|---|
| Statutory tax rate | 35.0% | 35.0% |
| State income tax, net of federal income tax benefit | 4.3 | 4.2 |
| Investment tax credits | (2.2) | (2.6) |
| Reversal of deferred taxes - settlement agreement | (5.5) | (13.0) |
| Other | (0.1) | (0.2) |
| Effective tax rate | 31.5% | 23.4% |

D) Long-Term Securities

The Company will redeem the last series of first mortgage bonds, Series S, in November 1994. As a result, the First Mortgage Bond Indenture that had mortgaged all Company property since 1940 has been terminated.

## Item 2. Management's Discussion and Analysis

### Results of Operations - Three Months ended September 30, 1994 vs. Three Months ended September 30, 1993

Earnings per common share for the three months ended September 30, 1994 amounted to $1.46 as compared to $1.47 per common share for the three months ended September 30, 1993. The third quarter results reflect the elimination of certain purchased power expenses due to the October 1993 expiration of a long-term contract, a $29 million annual rate increase effective November 1993 and a 2.4% increase in retail kWh sales. These were offset by lower wholesale and performance revenues and higher depreciation and amortization, income tax and operations and maintenance expenses.

The results of operations for the quarter are not indicative of the results which may be expected for the entire year due to the seasonality of the Company's kWh sales and revenues. See Note A to the consolidated financial statements.

*Operating revenues*

Operating revenues increased 3.0% as follows:

| (in thousands) | |
|---|---|
| Retail electric revenues | $31,279 |
| Demand side management revenues | (2,195) |
| Wholesale and other revenues | (9,576) |
| Short-term sales revenues | (6,438) |
| Increase in operating revenues | $13,070 |

Retail electric revenues increased $31 million. The November 1993 retail rate increase resulted in $12.5 million of the increased revenues and approximately $6 million was due to the 2.4% increase in retail kWh sales. Performance revenues, which vary annually based on the operating

performance of Pilgrim Nuclear Power Station, decreased $3.4 million as a result of the current outage at the station which is discussed in the financial condition section. Fuel and purchased power revenues increased $16.2 million primarily due to the recovery of certain new purchased power expenses.

The decrease in wholesale and other revenues is primarily due to potential customer contract issues and the current outage at Pilgrim Station.

Decreased short-term sales revenues are the result of lower nuclear generating availability. Revenues from short-term sales reduce fuel and purchased power billings to retail customers and therefore have no effect on earnings.

*Operating expenses*

Total fuel and purchased power expenses decreased $7 million. Fuel expense decreased due to a 20% decrease in Company generation and lower fossil fuel prices. Purchased power expense reflects both higher interchange purchases and lower costs associated with a long-term contract that expired in October 1993. The timing effect of fuel and purchased power cost collection partially offset the decrease in total fuel and purchased power costs.

Other operations and maintenance expense increased primarily due to a $1.9 million increase in pension expense and increases in other employee benefit expenses. In accordance with the 1992 settlement agreement the Company records pension expense based upon the estimated funding of the pension plan for the year.

Depreciation and amortization expense increased primarily due to a higher depreciable plant balance. In 1994 the Company resumed amortization of the deferred costs of the cancelled Pilgrim 2 nuclear unit. In accordance with the 1992 settlement agreement the Company did not expense any of these costs in 1993.

The Company's effective annual income tax rate for 1994 is currently estimated to be 31.5% vs. an actual rate of 23.4% for 1993. The higher rate is the result of a $10 million decrease in annual adjustments to deferred income taxes in accordance with the 1992 settlement agreement.

Results of Operations - Nine Months ended September 30, 1994 vs. Nine Months ended September 30, 1993

Earnings per common share for the nine months ended September 30, 1994 amounted to $2.26 as compared to $2.15 per common share for the nine months ended September 30, 1993. The increase in earnings is primarily the result of the elimination of certain purchased power expenses due to the expiration of a long-term contract, a $29 million annual rate increase effective November 1993 and a 2.7% increase in retail kWh sales. These were partially offset by higher depreciation and amortization, operations and maintenance and income tax expenses and lower wholesale revenues.

The results of operations for the nine months ended September 30, 1994 are not indicative of the results which may be expected for the entire year due to the seasonality of the Company's kWh sales and revenues. See Note A to the consolidated financial statements.

*Operating revenues*

Operating revenues increased 5.1% as follows:

| (in thousands) | |
|---|---|
| Retail electric revenues | $60,571 |
| Demand side management revenues | 1,877 |
| Wholesale and other revenues | (4,551) |
| Short-term sales revenues | 451 |
| Increase in operating revenues | $58,348 |

Retail electric revenues increased $61 million. The November 1993 retail rate increase resulted in $22.3 million of the increased revenues and approximately $11 million was due to the 2.7% increase in retail kWh sales. Fuel and purchased power revenues increased $27.2 million primarily due to the recovery of certain new purchased power expenses.

The decrease in wholesale and other revenues is primarily due to potential customer contract issues and the current outage at Pilgrim Station.

*Operating expenses*

Total fuel and purchased power expenses decreased $21 million. The decrease in purchased power expense is primarily due to lower costs resulting from the expiration of a long-term contract in October 1993. The decrease in fuel expense is primarily due to lower fossil fuel prices.

Other operations and maintenance expense increased primarily due to a $10.1 million increase in pension expense and increases in other employee benefit expenses.

Depreciation and amortization expense increased primarily due to a higher depreciable plant balance. In 1994 the Company resumed amortization of the deferred costs of the cancelled Pilgrim 2 nuclear unit. In accordance with the 1992 settlement agreement the Company did not expense any of these costs in 1993.

The Company's effective annual income tax rate for 1994 is currently estimated to be 31.5% vs. an actual rate of 23.4% for 1993 as discussed in the results of operations for the third quarter.

## Financial Condition

The Company's 1992 settlement agreement with the DPU provides increased revenues from retail customers over the three-year period ending October 1995. Additionally, a long-term purchased power contract with annual charges of approximately $60 million expired in October 1993 with no related change in revenues. The settlement agreement also limits the annual rate of return on equity during the three-year period to 11.75%, excluding any penalties or rewards from performance incentives.

The most significant impact that performance incentives can have on the Company's financial results is based on Pilgrim Station's annual capacity factor. Effective November 1993 an annual capacity factor between 60% and 68% will provide approximately $45 million of revenues through the performance adjustment charge. For each percentage point increase in capacity factor above 68%, annual revenues will increase by approximately $650,000. For each percentage point decrease in capacity factor below 60% (to a minimum of 35%), annual revenues will decrease by

approximately $750,000. The capacity factor for the recently concluded performance year (November 1993 through October 1994) was 72.3%.

On August 29, 1994, Pilgrim Station automatically shut down as a result of a non-nuclear problem with its electrical generator. The plant is expected to be shut down until mid-December in order to complete necessary repairs. Some maintenance work originally scheduled for the 1995 refueling outage will also be completed during the current outage. The power needs usually met by the station are being covered by other Company facilities or purchased from other suppliers as necessary. The current recovery of the incremental purchased power costs through fuel and purchased power revenues will be subject to review by the DPU under its generating unit performance program.

## Liquidity

The Company supplements internally generated funds with external financings, primarily the issuance of short-term commercial paper and bank borrowings. A net decrease in the Company's borrowing requirements in 1994 is primarily the result of higher cash from operations and lower plant expenditures. The Company has authority from the Federal Energy Regulatory Commission to issue up to $350 million of short-term debt. The Company has a $200 million revolving credit agreement and arrangements with several banks to provide additional short-term credit on a committed as well as on an uncommitted and as available basis. At September 30, 1994 the Company had $182 million of short-term debt outstanding, none of which was incurred under the revolving credit agreement.

## Outlook for the Future

A significant portion of the Company's electricity sales is made to commercial customers rather than industrial customers. As a result the Company's sales have been only moderately impacted by the decline in the local economy. Retail electricity sales increased 2.7% in the first nine months of 1994 due in part to several periods of extreme weather conditions in Massachusetts. However, this growth rate is not expected to continue.

In September 1994 the DPU issued an order in response to a remand from the Massachusetts Supreme Judicial Court (SJC) regarding the Company's appeal of a previous DPU order requiring the purchase of 132 megawatts of power from Altresco Lynn, LP, an independent power producer. This DPU order requires the Company to negotiate for power with Altresco. The Company filed an appeal of this order with the SJC in October.

## Other Matters

In August 1994 Boston Energy Technology Group (BETG), the Company's unregulated subsidiary, acquired a substantial majority interest in Coneco Corporation. Coneco provides engineering and project management services to energy and water conservation project developers and contractors. The Company's investment in BETG is not substantial and it does not anticipate BETG to significantly impact the results of operations in the next several years.

Part II - Other Information

Item 5. Other Information

The following additional information is furnished in connection with the Registration Statement on Form S-3 of the Registrant (File No. 33-57840), filed with the Securities and Exchange Commission on February 3, 1993.

Price and dividend information per share of common stock:

| | Price | | Dividend |
|---|---|---|---|
| | High | Low | Paid |
| First quarter 1994 | $29 7/8 | $26 | $0.44 |
| Second quarter 1994 | 29 1/8 | 25 1/4 | 0.44 |
| Third quarter 1994 | 27 5/8 | 22 3/4 | 0.44 |

The last sales price of the Company's common stock on the New York Stock Exchange as reported in the *Wall Street Journal* for November 9, 1994 was $22 3/4 per share.

Ratio of earnings to fixed charges and ratio of earnings to fixed charges and preferred stock dividend requirements:

Twelve months ended September 30, 1994:

| | |
|---|---|
| Ratio of earnings to fixed charges | 2.37X |
| Ratio of earnings to fixed charges and preferred stock dividend requirements | 2.03X |

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits filed herewith:

Exhibit 12 - Computation of ratio of earnings to fixed charges

12.1 - Computation of ratio of earnings to fixed charges for the twelve months ended September 30, 1994

12.2 - Computation of ratio of earnings to fixed charges and preferred stock dividend requirements for the twelve months ended September 30, 1994

Exhibit 15 - Letter re unaudited interim financial information

15.1 - Report of Independent Accountants

Exhibit 27 - Financial Data Schedule

27.1 - Schedule UT

Exhibit 99 - Additional Exhibits

99.1 - Letter of Independent Accountants

Re Form S-3 Registration Statements filed by the Company on September 14, 1990 (File No. 33-36824), February 3, 1993 (File No. 33-57840); Form S-8 Registration Statements filed by the Company on October 10, 1985 (File No. 33-00810), July 28, 1986 (File No. 33-7558), December 31, 1990 (File No. 33-38434), June 5, 1992 (33-48424 and 33-48425) and March 17, 1993 (33-59662 and 33-59682)

## Signature

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

BOSTON EDISON COMPANY
(Registrant)

Date: November 10, 1994

/s/ Robert J. Weafer, Jr.
Robert J. Weafer, Jr.
Vice President, Controller
and Chief Accounting
Officer

Exhibit 12.1

Boston Edison Company
C. putation of Ratio of Earnings to Fixed Charges
Twelve Months Ended September 30, 1994
(in thousands)

| | |
|---|---|
| Net income from continuing operations | $123,898 |
| Income taxes | 56,388 |
| Fixed charges | 131,491 |
| Total | $311,777 |
| Interest expense | $117,012 |
| Interest component of rentals | 14,479 |
| Total | $131,491 |
| Ratio of earnings to fixed charges | 2.37 |

Exhibit 12.2

Boston Edison Company
Computation of Ratio of Earnings to Fixed Charges
and Preferred Stock Dividend Requirements
Twelve Months Ended September 30, 1994
(in thousands)

| | |
|---|---|
| Net income from continuing operations | $123,898 |
| Income taxes | 56,388 |
| Fixed charges | 131,491 |
| Total | $311,777 |
| Interest expense | $117,012 |
| Interest component of rentals | 14,479 |
| Subtotal | 131,491 |
| Preferred stock dividend requirements | 22,456 |
| Total | $153,947 |
| Ratio of earnings to fixed charges and preferred stock dividend requirements | 2.03 |

Exhibit 15.1

**Report of Independent Accountants**

To the Stockholders and Directors
of Boston Edison Company

We have reviewed the accompanying consolidated balance sheet of Boston Edison Company (the Company) and subsidiaries as of September 30, 1994 and the related statements of income and cash flows for the three and nine-month periods ended September 30, 1994 and 1993. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Boston, Massachusetts
October 27, 1994

COOPERS & LYBRAND L.L.P.

Exhibit 27.1

Financial Data Schedule UT
(in thousands, except per share amounts)

This schedule contains summary financial information extracted from the financial statements in Part 1 and is qualified in its entirety by reference to such financial statements.

| | |
|---|---|
| Period-End | 9/30/94 |
| Period-Type | 9 months |
| Book value per share | Per-Book |
| Total net utility plant | $2,638,310 |
| Other property and investments | 337,097 |
| Total current assets | 327,670 |
| Total deferred charges | 228,524 |
| Other assets | - |
| Total assets | 3,531,601 |
| Common stock at $1 par | 45,421 |
| Capital surplus paid in | 620,304 |
| Retained earnings | 261,008 |
| Total common stockholders' equity | 926,733 |
| Preferred stock - mandatory | 94,000 |
| Preferred stock - non-mandatory | 123,000 |
| Long-term debt, net | 1,258,154 |
| Short-term notes payable | 84,914 |
| Long-term notes payable | 0 |
| Commercial paper obligations | 97,000 |
| Long-term debt - current portion | 400 |
| Preferred stock - current portion | 2,000 |
| Capital lease obligations | 0 |
| Leases - current | 0 |
| Other items - capitalization and liabilities | 945,400 |
| Total capitalization and liabilities | 3,531,601 |
| Gross operating revenues | 1,195,198 |

| | |
|---|---|
| Income tax expense | 51,854 |
| Other operating expenses | 950,555 |
| Total operating expenses | 1,002,409 |
| Operating income | 192,789 |
| Other income, net | 2,477 |
| Income before interest expense | 195,266 |
| Total interest expense | 81,290 |
| Net income | 113,976 |
| Preferred stock dividends | 11,839 |
| Earnings available for common stock | 102,137 |
| Common stock dividends declared | 59,826 |
| Total interest on bonds | 0 |
| Cash flow - operations | 259,563 |
| EPS - primary | $2.26 |
| EPS - diluted | $2.26 |

Exhibit 99.1

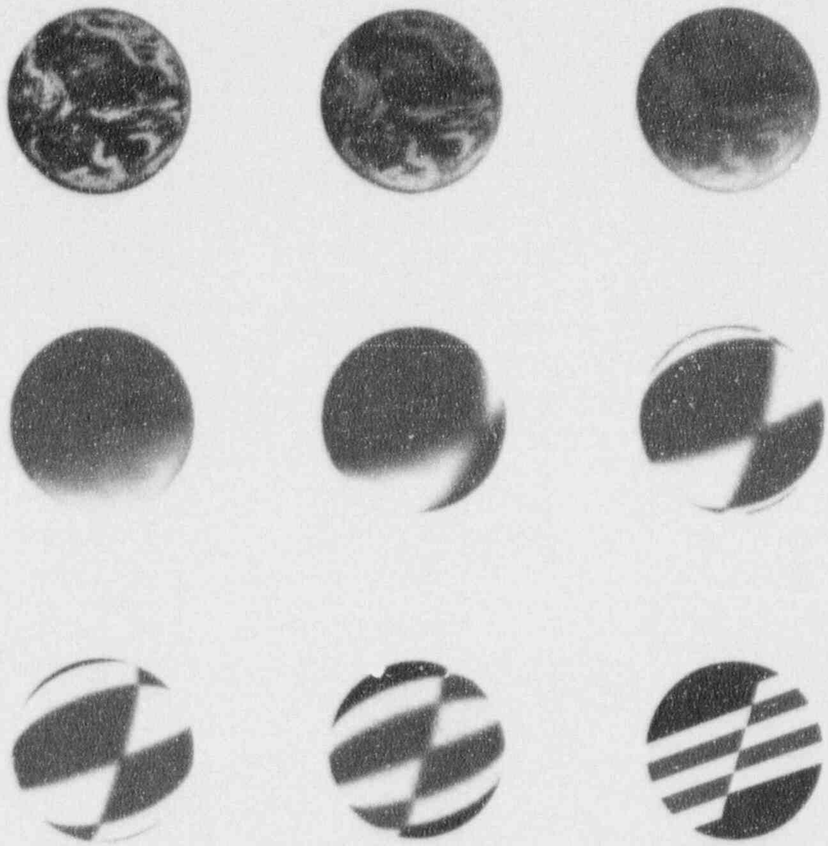
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Boston Edison Company
Registration on Form
S-3 and Form S-8

We are aware that our report dated October 27, 1994 on our review of the interim financial information of Boston Edison Company for the period ended September 30, 1994 and included in this Form 10-Q is incorporated by reference in the Company's registration statements on Form S-3 (File Nos. 33-36824 and 33-57840) and on Form S-8 (File Nos. 33-00810, 33-7558, 33-38434, 33-48424, 33-48425, 33-59662 and 33-59682). Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of the registration statements prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

Boston, Massachusetts
October 27, 1994

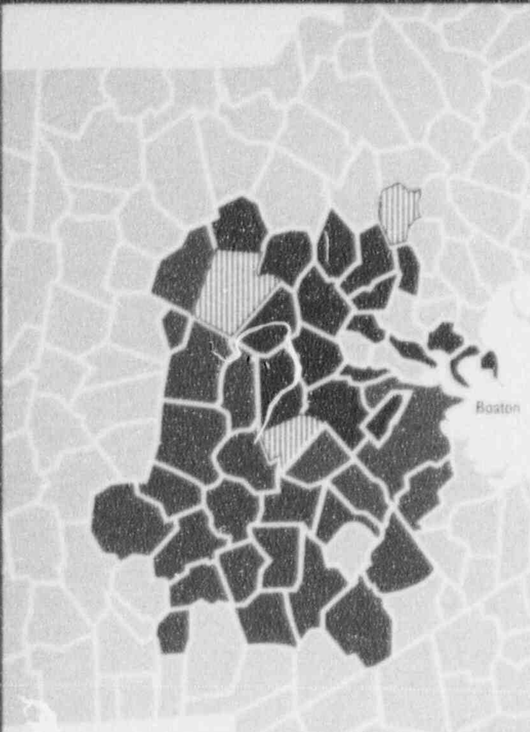
COOPERS & LYBRAND L.L.P.



**Boston Edison Company**

**1993 Annual Report**

~~9404190255~~ 44pp




Serviced by Boston Edison:

- Northeast Area
- Central Area
- Southwest Area
- Wholesale customer

## Financial Highlights:

| | years ended December 31, 1993 | 1992 | % change |
|---|---|---|---|
| Operating revenues (000) | **$1,482,253** | $1,411,753 | + 5.0% |
| Income available for common stock (000) | **$102,513** | $90,748 | +13.0% |
| Common shares outstanding - weighted average (000) | **44,959** | 43,144 | + 4.2% |
| Common stock data: | | | |
| Earnings per share | **$2.28** | $2.10 | + 8.6% |
| Dividends declared per share | **$1.715** | $1.655 | + 3.6% |
| Payout ratio | **75%** | 78% | - 3.8% |
| Book value per share | **$19.42** | $18.77 | + 3.5% |
| Return on average common equity | **11.9%** | 11.5% | + 3.5% |
| Fixed charge coverage (SEC) | **2.27x** | 1.93x | +17.6% |

Certain reclassifications have been made to the data reported in the prior year to conform to the method of presentation used in 1993.

## Contents:



## On the Cover:

### Our New Corporate Identification

In recognition of our ever-increasing competitive environment, and the need to distinguish ourselves from the competition, we recently updated our corporate identification. This new identification evolves from our old signature, but changes enough to take us into the next century. The circle represents the earth and reflects our commitment to the environment, and streamlined service for customers. The lines form to communicate energy working in concert with the environment. You'll now see the new identification in all our communications with you.

## About the Company:

Boston Edison is a public utility engaged principally in the generation, purchase, transmission, distribution and sale of electric energy. It was incorporated in 1886. We supply electricity at retail to an area of approximately 590 square miles within 30 miles of Boston, encompassing the City of Boston and 39 surrounding cities and towns. The population of the territory served at retail is approximately 1,500,000.

We also supply electricity to other utilities and municipal electric departments at wholesale for resale. About 86 percent of our revenues are derived from retail electric sales, 12 percent from wholesale sales and 2 percent from other sources.

We will also improve revenue growth by actively marketing new electric technologies, products, and services to our customers to improve their operations and help the environment. By combining new electric technologies with demand-side management programs, we will offer customers a total value package of energy options and services to run their homes and businesses, and create additional revenues for Boston Edison.

To help control costs, we will continue to seek out and invest in technologies that enable us to work more efficiently and effectively. To that end, we have established a new technology research and development function which will evaluate and integrate new technologies into our operations to lower costs and enhance customer service.

Finally, we have a strategy to pursue electricity-related business opportunities through our first unregulated subsidiary, the Boston Energy Technology Group. We will invest up to $45 million over three years in new businesses, including an electric vehicle recharging distributorship. Our latest new business acquisition, REZ-TEK International Corp., is a company which has developed an innovative system that treats cooling water used in commercial and industrial air conditioning systems in an energy efficient and environmentally sound manner that eliminates chemical treatment.

None of what we have discussed is achievable without focusing on the human side of our enterprise. Employees have been responsible for our success to date, and will be key to creating our future. They are responsible for continuing to improve internal operations and offering products and services to increase value to our customers.

Our 1993 performance is evidence of our strength and conviction to succeed. We are in control of our business, and by continuously improving all aspects of our operations, we are creating our future.

Bernard W. Reznicek
Chairman and
Chief Executive Officer

Tom May

Thomas J. May
President and
Chief Operating Officer

February 17, 1994

**The inset (top) is a model of our new Energy Management Center, scheduled to open in 1994. This center will incorporate a new interactive computer mapping system (pictured in background), using remote terminal phone line technology to provide more accurate, on-line information on system performance. The facility will give employees the ability to control the delivery of electricity from our generating stations to our customers' homes.**

## Dear Shareholder:

Nineteen ninety-three was an excellent year for Boston Edison shareholders. For the fifth consecutive year, our management team and employees worked together to provide total returns that beat both market and industry averages. In fact, the total return on your investment, including dividends paid, was 14.5 percent. Earnings were also good in 1993, rising 8.6 percent, to $2.28 per share. And, the Board of Directors again increased your dividend by 6 cents, or 3.5 percent.

Our positive performance was the result of our commitment to controlling costs and continued operational excellence. To control costs in 1993, we completed several refinancings, which dramatically altered the make-up of our debt and some of our preferred stock, resulting in annual savings of more than $11 million in interest and dividend costs. We also continued to reduce the number of employees in our workforce resulting in a decrease from 4,540 in 1992 to 4,404 in 1993, a reduction of 136 positions. Since 1991, our workforce has been reduced mainly through attrition by close to 400 positions, or nine percent.

Operationally in 1993, Pilgrim Nuclear Power Station completed its shortest refueling outage ever at 57 days, and earned its best "report card" from the Nuclear Regulatory Commission. Three of our fossil units completed major overhauls on time and within budget, preparing us for strong unit performance and reliable power for customers for many years to come.

Our focus on competition intensified in 1993 as evidenced by our strategic plan. Its details emphasize reduced costs and improved service to both wholesale and retail customers, more efficient and effective technology and new energy-related businesses, while recognizing the need to continue providing investors with steady financial growth that outperforms the industry.

Our financial condition will improve from recent victories in the wholesale customer market. In 1993, we signed agreements with two existing wholesale customers and added a new customer to our list: the Town of Braintree. We have now successfully negotiated contracts to supply power to five wholesale customers until at least the year 2002.

For our retail customers, we seek to provide price stability. To that end, we have set an aggressive goal to not seek any additional base rate increases, beyond what is already approved, through the year 2000. Our managers are therefore challenged to continue providing financial growth for shareholders, while holding prices steady for customers. This can only be accomplished by simultaneously increasing revenues and reducing the costs of doing business.

Increasing sales is largely dependent upon the strength of our local economy. Therefore, we have assumed a leadership role in helping our cities and our state create jobs, and we are lending our material and human resources to build solid and safe communities. Recent reports indicate some success as local unemployment figures fell below the national average, office vacancies decreased, consumer confidence improved, and home starts and sales have begun to rise. Given these positive indicators, we have revised our forecasts for improved sales growth to 1.5 percent.



President and Chief Operating Officer, Tom May

Chairman and Chief Executive Officer, Bernie Reznicek

*To retain and expand our customer base, we must deliver value in the form of energy efficient and environmentally beneficial products and quality services to help customers run their homes and businesses.*

## Customer Sales, Service and Marketing

Customers demand excellent service, and look for "one stop" shopping. To accomplish this, we've restructured and refocused our sales and service organizations, and elevated standards for performance. We're creating a customer-driven, profit-enhancing marketing plan, building the skills and competencies of our marketing and sales forces, and, most importantly, reengineering service delivery processes for our customers.

**Wanda Vasquez is a customer service representative who helps customers with billing questions, service issues, and applications for new electric service.**

We're developing a better understanding of our customer market segments so that we may become energy consultants for each group. This understanding will improve our ability to provide customers with a variety of demand side management programs, as well as quality services and efficient electric technologies which meet their needs and expectations.

Some of the new, energy efficient technologies and environmentally beneficial products we're offering include electric chillers which provide efficient, reliable cooling for large commercial facilities. For the variety of medical customers in our territory, electric disinfection and volume reduction systems offer a cost-effective, environmentally sound way to treat and dispose of hazardous medical wastes. We're also working with residential customers to offer advanced heating and cooling systems for significant cost savings.

We've reallocated our customer representatives' time to help us accomplish our goal. The result: front-line sales and service employees will spend more time in the field, working one-on-one with customers, with the full support of an in-house technical and administrative team. These representatives will provide customers value through a variety of services, including real-time information on customers' energy usage and patterns accessed through lap-top computers and remote data links to corporate headquarters.

**Tom Puddister is one of a team of auto mechanics who maintains our fleet of electric cars and vans.**

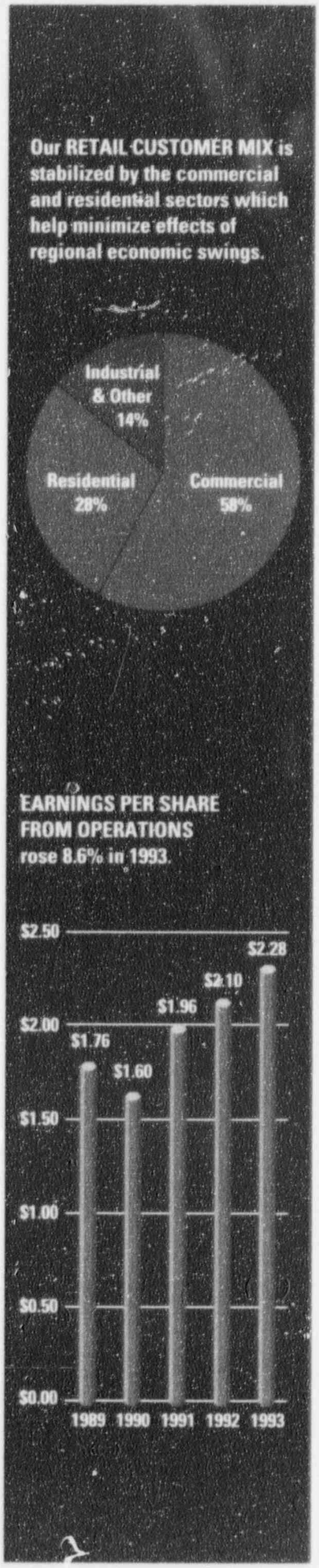
A system called CADIMAGE will provide us with valuable computer graphics, database mapping, and facilities management needed in our daily field operations.

We are also adding services that allow us to use our technical knowledge to meet customers' internal operating needs, thus expanding our role to provide customer services on the other side of the meter.

While many of our efforts are targeted to existing customers, we'll continue to pursue new ones aggressively, especially in the wholesale market. We are currently preparing a number of active bids for new wholesale customers which include value-added programs and services that should help set us apart from the competition.

Customers expect Boston Edison to be a good corporate citizen, and to take our role in the community seriously. In addition to corporate giving, education, and environmental protection programs, we fulfill our corporate responsibility by helping to bring jobs to Massachusetts.

Our 1993 efforts garnered solid results: our economic development rate, which provides 4-year rate discounts to eligible customers, helped attract seven new manufacturing




firms and more than $1 million in annual base revenues for Boston Edison. In addition, we've been instrumental in developing and implementing a program in which local CEOs promote Massachusetts to CEOs around the country, in order to attract business to the state.

Finally, we'll continue to support the electric vehicle and electric mass transit markets through infrastructure development, coordination with fleet managers to encourage the purchase of electric vehicles, support of legislation, use of electric vehicles in our fleet, demonstrations at area schools, and loaning vehicles to media and opinion leaders. Expansion of the electric transportation market is good news for the environment, and for revenue growth.

Our success will be measured by stronger customer relationships, greater employee opportunities, a larger customer base, and increased revenues and profits.

## VALUE-ADDED SERVICES

CADIMAGE is a computer graphic and database application technology that replaces manual paper maps and diagrams of the facilities, lines and stations throughout our service territory with on-line, computerized files.

CADIMAGE's original purpose was as an internal tool for improving employee efficiency through better information. We are also exploring a partnership with the Town of Arlington to investigate how CADIMAGE may provide communities with value-added services. CADIMAGE may have applications in servicing municipal needs such as planning, assessing, engineering, and public safety.

Left to right are Arlington Town Manager, Don Marquis; CADIMAGE Development Coordinator, Dick Cohane; and Executive Vice President, George Davis.

*Customer satisfaction depends, in large part, on the price and reliability of our product. To provide a reliable, competitively priced product we must control costs, manage our business well, and invest in technologies that improve efficiencies and reduce costs.*

## Cost Control & Operational Excellence

Stable, predictable prices are important to customers. So, we've recently announced a goal to avoid requesting base price increases, beyond what is already approved, through the year 2000.

To accomplish the goal, we must continue our efforts to control costs. We must continue to make full use of employees' skills and available technology. Thanks to improved employee efficiency and better use of technology, we've been able to reduce our workforce, primarily through attrition. We'll continue to reduce our total number of employees based on further technological advances and restructurings for improved efficiency.

**Ed Foley is a fossil station mechanic who provides maintenance for all major plant equipment at our New Boston power plant to ensure its safe, reliable, and efficient operation.**

Management and union leaders have worked well together to improve performance and reduce costs. For example, in 1993, we worked with our union-represented employees and their leadership to combine 14 specific service job descriptions into just four classifications. These employees are now being trained, and will be responsible for handling a wider variety of field work for improved customer service at a lower cost.

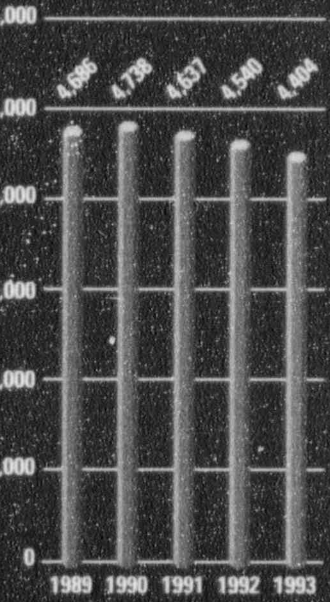
**Al Abramson is a splicer in our electric customer service area who maintains and repairs the underground cables that provide power to our customers.**

Pursuing technological advances in metering can also help us save money through faster payment of customer bills, lower labor costs per meter read, and avoidance of safety and access problems for our meter readers. In 1994, we'll invest nearly $7 million in equipment that reads, disconnects, and reconnects meters remotely.

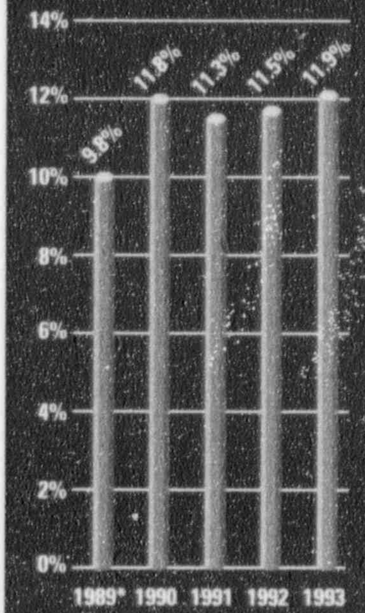
We'll control costs by better managing our inventories. In 1993, we reduced inventory by $13 million, and in 1994, we'll work with our vendors to incorporate a "just-in-time" inventory philosophy for further savings and efficiencies.

Effective maintenance of our plants and systems is necessary for success. In 1994 and beyond, we'll benefit from 1993's preventive maintenance overhauls

**TOTAL NUMBER OF EMPLOYEES decreased 3% in 1993 through attrition, in line with our plans to pare down by about 100 employees annually through the year 2000.**




**RETURN ON EQUITY in 1993 increased for the second year, coming in close to 12%.**




* Adjusted for one-time write-off.

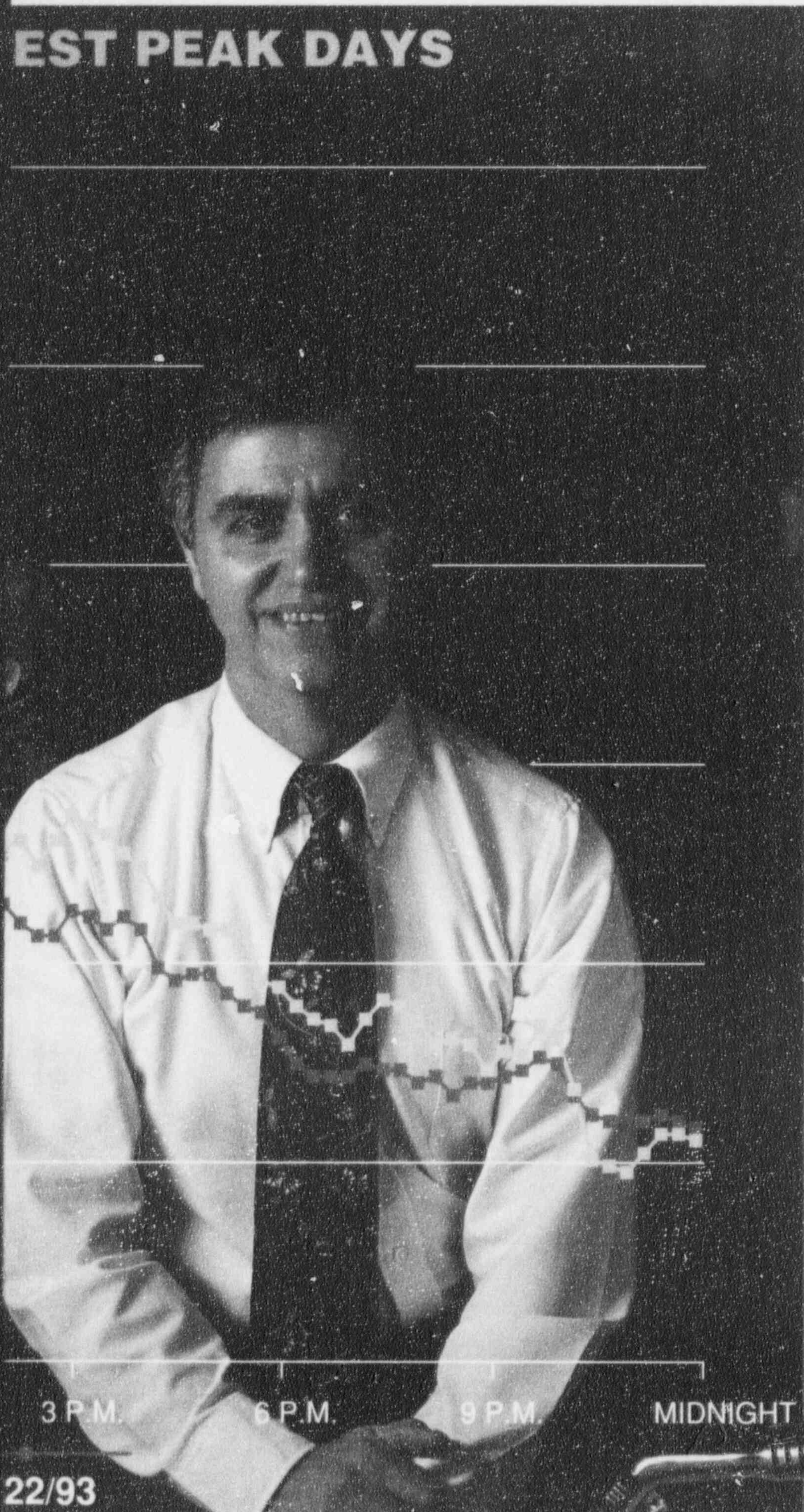
of half our fossil units. In fact, this increased focus on maintenance has permitted us to extend our fossil unit overhaul cycles from five to six years, and refueling intervals at Pilgrim Station to every two years. This will help us to exceed the on-line capacity range of 60 - 68% set by our state regulators for Pilgrim Station.

To control maintenance and equipment costs, we'll use computerized models and available technologies such as vibration monitoring to identify problems before they become severe. The result: minimum unit down-time, and reductions in rush orders and high cost replacement equipment.

Critical to our goals of cost control and continuous improvement will be the ongoing involvement of our managers. These employees will run their departments as small business units. To help our managers monitor performance against the competition in areas such as employee productivity, customer service, and environmental performance, the company will use benchmarking tools.

Looking outside the company, we'll continue our work with state officials and regulators on rules which affect the methods we use and the costs we incur to meet customers' power demands. Our state regulators have created an integrated resource management (IRM) process in which electric utilities forecast future energy needs and propose how they will meet them by balancing conservation programs and all other available supply options. We're working closely with regulators to ensure the IRM process results in meeting customer demand for power at the lowest possible cost.

FIRST AND SECOND HIG
Demand (KW)
11000
10000
7000
6000
5000
MIDNIGHT
3 A.M.
6 A.M.
9 A.M.
NOON
12/21/93
1





## FIELD-BASED ENERGY CONSULTING

LOADMAP is a software application developed by our employees to help customers manage their energy usage and costs. LOADMAP provides computerized spreadsheets of monthly energy, demand, and efficiency statistics.

LOADMAP and other software programs are offered by our customer sales representatives to nearly 200 commercial and industrial customers as important field-based energy consulting tools. For instance, The Gillette Company's South Boston manufacturing center uses LOADMAP to help them analyze their power consumption and the impact their production operations have on energy usage and costs.

Left to right are Major Account Representative, Tom Horan; Vice President of Sales and Service, Alison Alden; and The Gillette Company's Manager of Power and Utilities, Bill Bushey.

*Employee involvement is crucial for Boston Edison's success in a competitive environment. Our employees serve customers, implement corporate strategies, run our business, and identify ideas for improvement. Our employees understand the competitive nature of our business, the importance of cost control, and the need to provide excellent service and value to our customers. We must continue to provide employees with the tools, information, involvement, and management necessary for success.*

**Employee Effectiveness and Involvement**

As the largest single shareholder group, holding nearly 2 million shares, Boston Edison employees are personally and professionally invested in our company's success. In addition, more than 40% of our employees are also our customers, since they live within our service territory.

**Rosa Menard is a career development specialist who manages our job rotation program for employees.**

Employees have been instrumental in all aspects of our evolution to a strong competitive company. Design teams of employees have shaped reorganizations of our workforce to ensure we have the right processes, procedures, organizations and people to meet customers' demands.

These teams have analyzed the work we do, the value of the work to the customer, the processes involved, and the existing staffing levels. They identified low value work that should be eliminated, process improvements for greater efficiencies, and appropriate staffing levels for these new functions.

And long after the design teams have done their job, we'll continue to keep employees involved in making it easy for customers to do business with us. One employee team, called the Key Account Group, is currently defining how we'll work with our major customers. Another team, called the Customer Support Group, is reengineering the services we provide to medium and large sized customers.

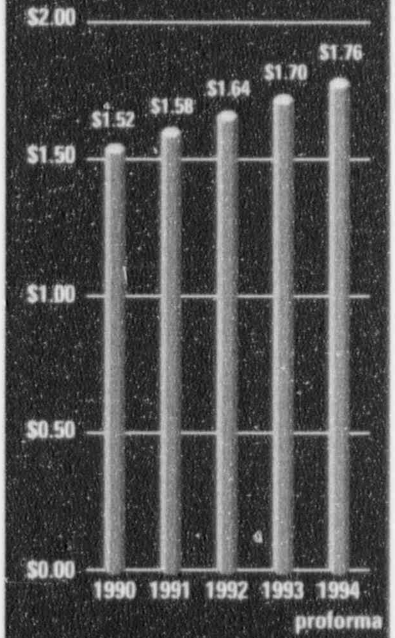
**Jean Dickson is a facilitator who leads employee teams in re-designing work processes and organizational structure.**

Another team is identifying process and technology improvements to streamline new customer work orders. These improvements will reduce the cost of providing new services, while offering better customer service.

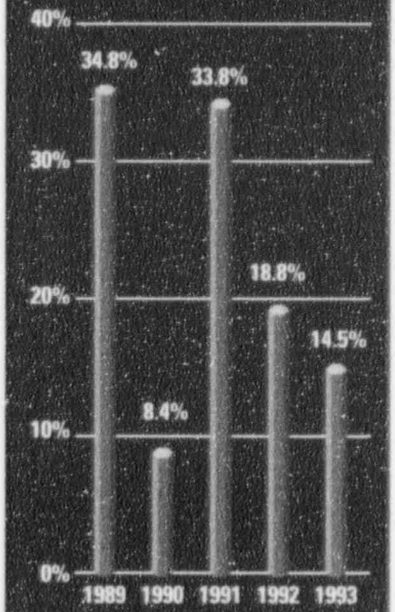
Employees are committed to fully understanding our new business environment, so that they may respond to it effectively. A series of competitive business issue videos and fact sheets have been produced, a standing-room-only series of utility finance classes were introduced, and our popular lunchtime lecture series has been refocused to emphasize the new challenges we face in trying to keep and attract customers.

Employees are also learning valuable new perspectives through a new company initiative. By participating in job rotations in 1993, several employees moved to new areas, managed new projects and people, and learned new skills important to our success.

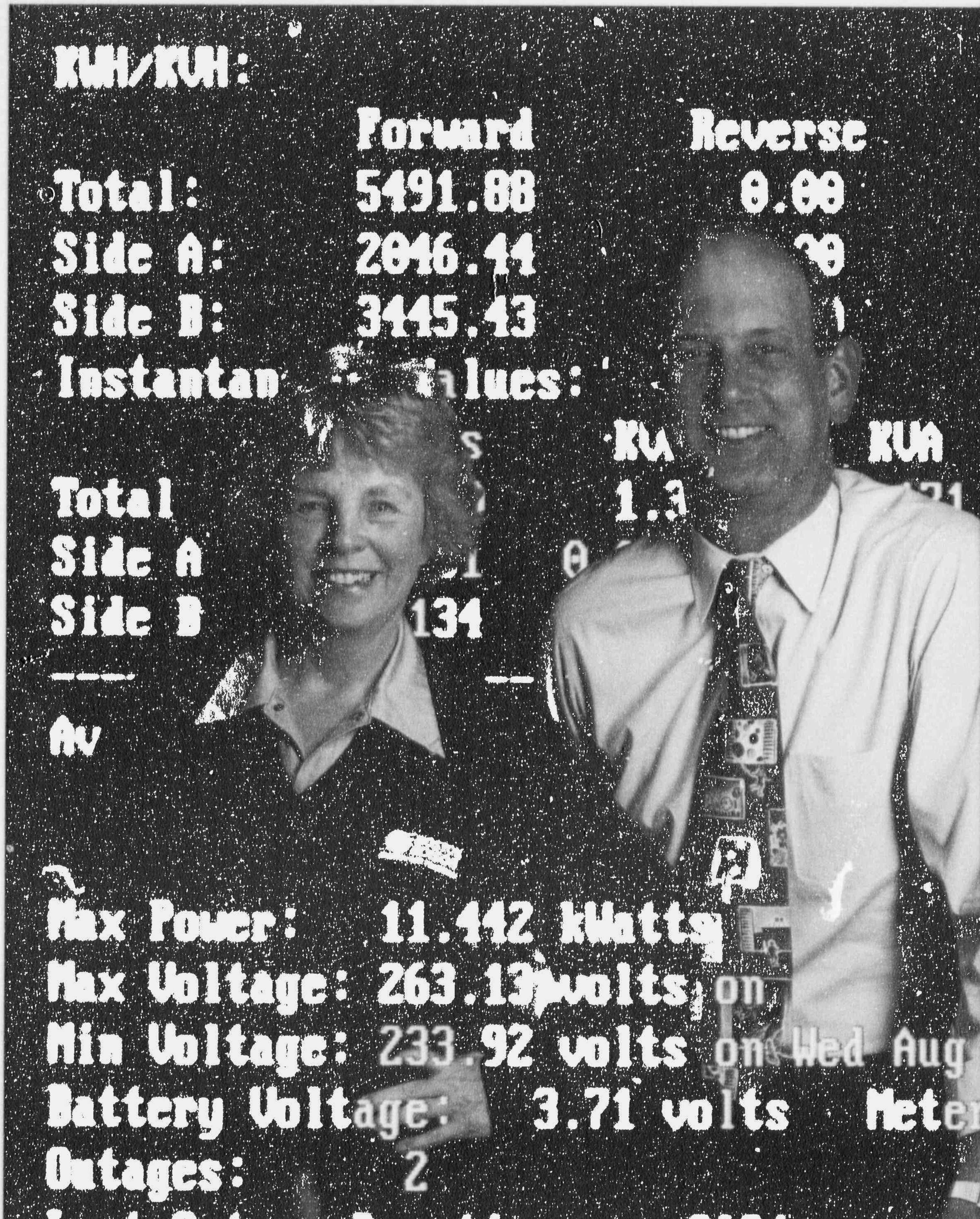
**DIVIDENDS PAID PER SHARE** increased on a percentage basis by more than the industry average in each of the last four years.

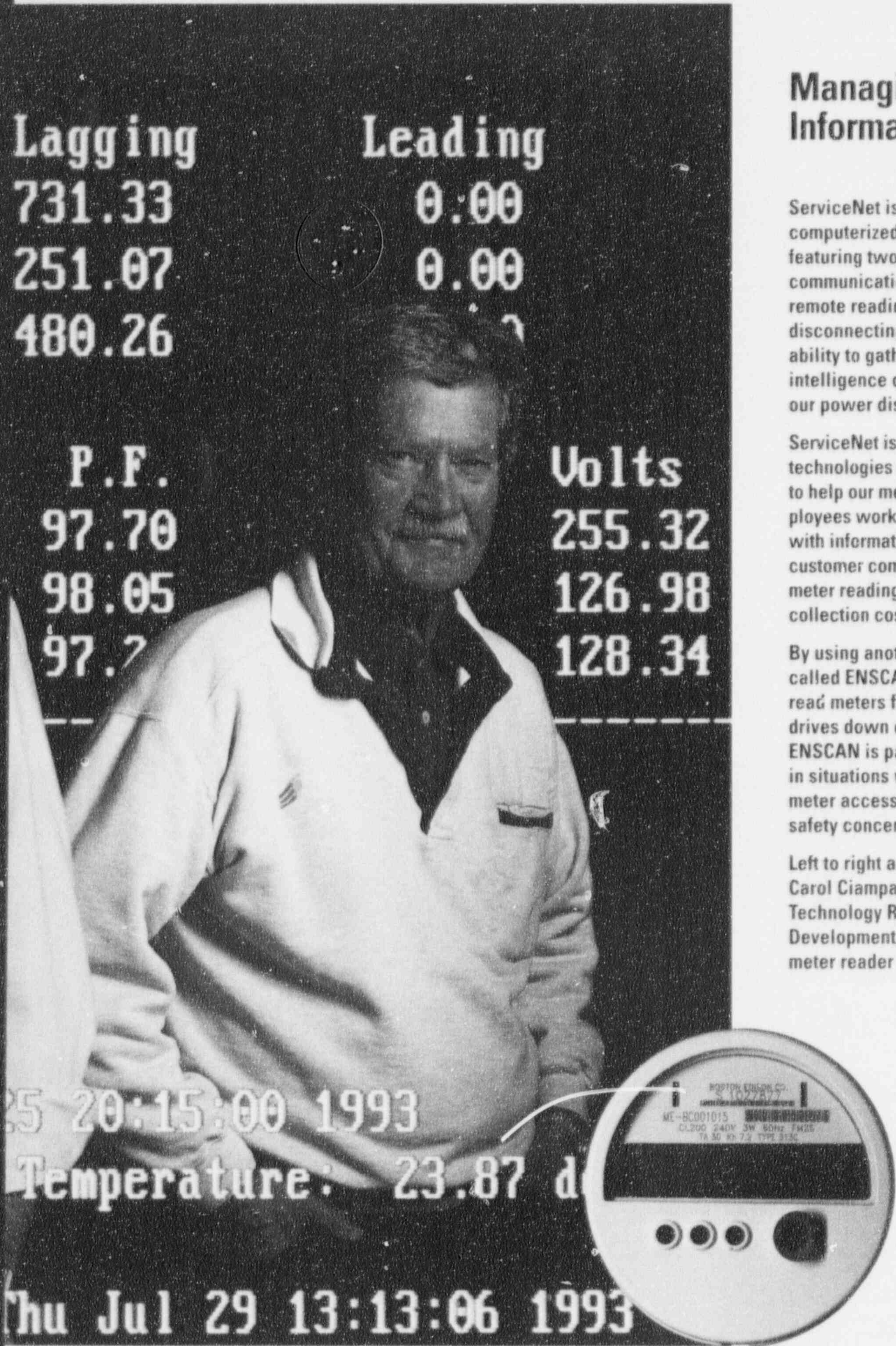



**ANNUAL TOTAL RETURN TO SHAREHOLDERS** has exceeded industry and market averages for the past five years.




Looking ahead, our managers are better able to see into the future and plan strategically, thanks to a new tool called the workforce planning model. This computerized technique will help managers forecast staffing requirements by analyzing variables such as attrition rates and productivity figures.


KWH/KVH:
Forward Reverse
Total: 5491.88 0.00
Side A: 2046.44
Side B: 3445.43
Instantan
alues:
Kw KVA
Total 1.3
Side A
Side B 134
Av
Max Power: 11.442 kWatts
Max Voltage: 263.13 volts on
Min Voltage: 233.92 volts on Wed Aug
Battery Voltage: 3.71 volts Meter
Outages: 2
Last Outage Duration 2624 sec on




## Managing with Information

ServiceNet is an integrated, computerized technology featuring two-way radio communications that allows for remote reading, connecting and disconnecting of meters, and the ability to gather real-time intelligence on the operation of our power distribution systems.

ServiceNet is one of several new technologies we've incorporated to help our meter reading employees work efficiently, manage with information, reduce customer complaints, and lower meter reading, billing, and collection costs.

By using another technology called ENSCAN, employees can read meters from a van as it drives down customers' streets. ENSCAN is particularly helpful in situations where there are meter access or employee safety concerns.

Left to right are meter reader Carol Ciampa; Vice President of Technology Research and Development, Dick Hahn; and meter reader Mike Joyce.

## Regulatory Proceedings

### *Retail settlement agreements*

Effective November 1992 our state regulators, the Massachusetts Department of Public Utilities, approved a three-year settlement agreement. This agreement provides us with retail rate increases, allows for the recovery of demand side management (DSM) conservation program expenditures, specifies certain accounting adjustments and clarifies the timing and recognition of certain expenses. The agreement also sets a limit on our rate of return on common equity of 11.75% for 1993 through 1995, excluding any penalties or rewards from performance incentives.

The retail rate increases consist of a new annual performance adjustment charge effective November 1992 and two additional rate increases of $29 million effective November 1993 and November 1994. The performance adjustment charge varies annually based upon the performance of our Pilgrim Nuclear Power Station. This charge is further described in our discussion of financial condition.

Our 1993 results of operations were affected by the recovery of DSM program expenditures, accounting adjustments and timing and recognition of certain expenses as further described in the following Results of Operations section.

Our state regulators approved a previous three-year settlement agreement effective November 1989. That agreement also provided us with retail rate increases and specified certain accounting adjustments. The 1989 agreement primarily affected our results of operations through 1992.

## Results of Operations

### 1993 Versus 1992

Earnings per common share were $2.28 in 1993 and $2.10 in 1992. The increase in earnings is primarily the result of an annual rate increase effective November 1992, lower purchased power expense due to a long-term contract expiration, no amortization of deferred cancelled nuclear unit costs and lower interest expense. These positive changes were partially offset by higher operations and maintenance expense and higher income tax and property tax expenses.

### *Operating revenues*

Operating revenues increased 5% over 1992 as follows:

(in thousands)

| | |
|---|---|
| Retail electric revenues | $70,837 |
| Demand side management revenues | 33,601 |
| Wholesale and other revenues | (2,794) |
| Short-term sales revenues | (31,144) |
| Increase in operating revenues | $70,500 |

Retail electric revenues increased $70.8 million. The November 1992 and 1993 rate increases resulted in $40.6 million of additional revenues in 1993. Fuel and purchased power revenues increased $29.5 million over 1992, partly due to lower revenues received from short-term power sales as discussed below.

We began recovery of certain demand side management program costs, lost base revenues and incentives in August 1992. Our 1993 revenues provided $45.9 million related to 1991, 1992 and 1993 DSM programs. Our 1992 revenues of $12.3 million related primarily to 1991 programs.

The decrease in wholesale and other revenues reflects an estimated provision for refunds to customers of approximately $8 million as a result of orders from our state regulators on our generating unit performance program.

Lower short-term power sales revenues were a result of changes in our generation availability and the needs of short-term power purchasers. All revenues from short-term sales serve to reduce fuel and purchased power billings to retail customers and have no effect on earnings.

### *Operating expenses*

Fuel expense decreased $19.5 million primarily due to a 21.5% decrease in generation, resulting from planned overhauls of our fossil plants. Interchange purchases increased due to the lower generation, resulting in a $7.5 million net increase in purchased power expense. The net increase also reflects savings of approximately $10 million from a long-term purchased power contract that expired in October 1993. Both our fuel and purchased power expenses are substantially fully recoverable through fuel and purchased power revenues.

Other operations and maintenance expense increased 7.1% primarily due to increases in employee benefits and nuclear production expenses. Postretirement benefits expense increased by $7 million primarily as a result of the adoption of a new accounting standard and pension expense increased by $5 million; both are provided for in our 1992 settlement agreement and further explained in Note I to the consolidated financial statements. A refueling outage at Pilgrim Station in 1993 resulted in higher nuclear production expenses.

Depreciation and amortization expense increased in 1993 primarily due to a higher annual decommissioning charge for Pilgrim Station effective November 1992 provided by the 1992 settlement agreement. The new charge is based on a 1991 estimate of decommissioning costs as further discussed in Note D to the consolidated financial statements. In addition, the effect of lower depreciation rates implemented in accordance with the settlement agreement was offset by the effect of a higher depreciable plant balance.

In accordance with our 1992 settlement agreement we did not expense any of the $19 million of remaining deferred costs associated with the cancelled Pilgrim 2 nuclear unit in 1993. We will expense the remaining costs in 1994 and/or 1995.

Amortization of deferred nuclear outage costs includes amounts related to the 1993 and 1991 refueling outages at Pilgrim Station. In 1993 we deferred approximately $14 million of refueling outage costs. We began to amortize these costs in June 1993 over five years as approved in the 1992 settlement agreement.

The increase in demand side management programs expense is consistent with the increase in DSM revenues. DSM expense includes some costs recovered over a twelve month period and other costs recovered over six years. We began to recover previously deferred DSM expenses in August 1992. In 1993 we expensed and collected from customers approximately $30 million of deferred 1991, 1992 and 1993 program costs. Over six years we are expensing and collecting from our customers $11 million of costs capitalized in 1992 and $37 million of costs capitalized in 1993. The 1993 expense related to these capitalized costs was $7 million.

Municipal property and other taxes increased in 1993 due to the absence of tax abatements. In 1992 property taxes were reduced by $10.4 million of tax abatements in accordance with our 1989 settlement agreement.

Our effective annual income tax rate for 1993 was 23.4% vs. 8.7% for 1992. Both rates were significantly reduced by adjustments to deferred income taxes of $20 million in 1993 and $23 million in 1992 made in accordance with the 1992 and 1989 settlement agreements. The 1992 rate was also reduced due to tax benefits of approximately $7 million resulting from mandated payments made in accordance with the 1989 agreement. Our adoption of a new accounting standard for income taxes in 1993 did not significantly affect earnings. We expect our effective tax rate to be close to the statutory rate in 1994.

*Interest charges and preferred and preference dividends*
Total interest charges decreased $3.8 million in 1993. Interest on long-term debt decreased primarily due to the refinancing of substantially all our first mortgage bonds in 1993 at lower interest rates, partially offset by higher amortization of redemption premiums. Other interest charges decreased due to a lower short-term debt level and lower short-term interest rates. Allowance for funds used during construction (AFUDC), which represents the financing costs of construction, decreased as a result of a lower AFUDC rate related to lower short-term interest rates.

Preferred and preference dividends decreased 5% due to the replacement of a preferred and a preference stock issue with less costly issues of preferred stock.

**1992 Versus 1991**
Earnings per common share were $2.10 in 1992 and $1.96 in 1991. The increase in earnings is primarily the result of a rate increase effective November 1991, incentive revenues earned from the performance of Pilgrim Station and lower income tax and interest expenses. These increases were partially offset by higher operations and maintenance and property tax expenses. We also had a one-time charge in 1992 for costs incurred for a deferred generating plant project.

*Operating revenues*
Operating revenues increased 4.2% over 1991 as follows:

(in thousands)

| | |
|---|---|
| Retail electric revenues | $27,672 |
| Demand side management revenues | 12,343 |
| Wholesale and other revenues | 1,881 |
| Short-term sales revenues | 15,356 |
| Increase in operating revenues | $57,252 |

Retail electric revenues increased $27.7 million. We received a $25 million rate increase effective November 1991 as part of the 1989 settlement agreement. We also earned $8.2 million in incentive revenues in 1992 as a result of Pilgrim Station's capacity factor exceeding its target set in the agreement. Fuel and purchased power revenues decreased approximately $5 million due to higher purchased power costs more than offset by higher revenues received from short-term power sales as discussed below.

In 1992 we began to receive revenues for the recovery of certain DSM program costs, lost base revenues and incentives. The 1992 revenues relate primarily to 1991 DSM programs.

Our short-term power sales increased in 1992 as a result of our high generating unit availability and the greater power needs of other New England utilities. All revenues from short-term sales served to reduce fuel and purchased power billings to retail customers and had no effect on earnings.

*Operating expenses*
Purchased power expense increased $18 million in 1992 due to new long-term purchased power contracts. Both our fuel and purchased power expenses are substantially fully recoverable through fuel and purchased power revenues.

Other operations and maintenance expense increased 2.3% due primarily to increases in employee benefit expenses and bad debts.

Amortization of deferred nuclear outage costs in 1992 and 1991 includes amounts primarily related to the 1991 refueling outage at Pilgrim Station. In 1991 we deferred approximately $23 million of refueling outage costs. We began to expense these costs over five years in September 1991 as approved by our state regulators.

Municipal property and other taxes increased 21% primarily due to a reduction in residential and commercial real estate values caused by the depressed economy. This resulted in higher tax rates applied to our personal property values. In accordance with our 1989 settlement agreement, municipal property tax expenses were reduced by tax abatements of $10.4 million in 1992 and $13.6 million in 1991.

Our effective annual income tax rate for 1992 was 8.7% vs. 16.5% for 1991. Both rates were significantly reduced by adjustments to deferred income taxes of $23 million in 1992 and $13 million in 1991 made in accordance with the 1989 settlement agreement. We also received tax benefits in both years as a result of payments mandated by the agreement.

*Other income and expense*
In 1992 we expensed $8 million of costs previously invested in the proposed Edgar Energy Park generation project. This project was deferred indefinitely as additional generating capacity is not expected to be needed for several years.

*Interest charges and preferred and preference dividends*
Total interest charges decreased 4.6% primarily due to lower interest rates on our average short-term borrowings. AFUDC decreased 12.7% due to a lower AFUDC rate related to lower short-term interest rates.

Preferred and preference dividends decreased approximately $3 million primarily due to the replacement of two preference stock series with less costly issues of preferred stock.

*Earnings per share*
Net income increased 13%. However, earnings per common share for 1992 increased only 7%, reflecting an increase in the weighted average number of common shares outstanding primarily a result of our 1991 and 1992 common stock issuances.

## Financial Condition

Our 1992 settlement agreement provides us with increased revenues from retail customers over the three-year period ending October 1995. Additionally, a long-term purchased power contract with annual charges of approximately $60 million expired in October 1993 with no related change in revenues. We are limited to an annual rate of return on equity during the three-year period of 11.75%, excluding any penalties or rewards from performance incentives.

Our continued ability to achieve or exceed the 11.75% rate of return on equity will be primarily dependent upon our ability to control costs and to earn performance incentives from generation performance mechanisms specified in both the 1989 and 1992 settlement agreements. The most significant impact that incentives can have on our financial results is based on Pilgrim Station's annual capacity factor. Effective November 1993 an annual capacity factor between 60% and 68% will provide us with approximately $45 million of revenues through the performance adjustment charge. For each percentage point increase in capacity factor above 68%, annual revenues will increase by $670,000. For each percentage point decrease in capacity factor below 60% (to a minimum of 35%) annual revenues will decrease by $770,000. Pilgrim's capacity factor for the performance year ending October 1994 is expected to be approximately 81% (assuming normal operating conditions), an increase over the 66% capacity factor achieved in the performance year ended October 1993, as no refueling outage is scheduled for 1994. We earned approximately $40 million in performance charge revenues in the performance year ended October 1993.

Our fossil generation unit performance can provide an increase or decrease of up to $4 million in revenues in each performance year, however, we do not expect any revenue adjustments from this mechanism.

## Liquidity

We meet our plant expenditure cash requirements primarily with internally generated funds. These funds (excluding payments made related to settlement agreements) provided for 74%, 90% and 89% of our plant expenditures in 1993, 1992 and 1991, respectively. Our current estimate of plant expenditures for 1994 is $233 million, including $20 million of nuclear fuel additions. These expenditures will be used primarily to maintain and improve existing transmission, distribution and generation facilities. We also estimate capitalizable DSM expenditures to be $38 million in 1994, which will be collected from customers over six years. We do not expect plant expenditures, excluding nuclear fuel and DSM, to vary significantly from the 1994 amount in the four years thereafter. We have long-term debt and preferred stock payment requirements of $2 million in 1994, $102.6 million in 1995, and $103.6 million per year in 1996 through 1998.

External financings continue to be necessary to supplement our internally generated funds, primarily the issuance of short-term commercial paper and bank borrowings. We currently have authority from our federal regulators to issue up to $350 million of short-term debt. We have a $200 million revolving credit agreement and arrangements with several banks to provide additional short-term credit on a committed as well as on an uncommitted and as available basis. At December 31, 1993 we had $204.1 million of short-term debt outstanding, none of which was incurred under the revolving credit agreement. In 1993 our state regulators approved a financing plan allowing us to issue up to $1.1 billion in securities through 1994 and to use the proceeds to refinance long-term securities and short-term debt. At December 31, 1993 we had $245 million remaining authorized to be issued under the plan which can be used to issue common stock, preferred stock and long-term debt. As a result of our refinancing activities in 1993 we expect to realize annualized savings of approximately $11.5 million. Refer to Note F to the consolidated financial statements for specific information relating to our recent financing activities.

## Outlook for the Future

*Electricity sales*
A significant portion of our electricity sales is made to commercial customers rather than industrial customers. As a result our sales have been only moderately impacted by the decline in the local Massachusetts economy. Our retail sales increased 1.2% in 1993 and we anticipate only slight growth in retail sales in the near term.

Implementation of DSM programs, which are designed to assist customers in reducing electricity use, will result in lower growth in electricity sales. The 1992 settlement agreement established annual DSM spending levels over $50 million through 1994. The agreement provides for collection from customers of certain costs primarily in the year incurred and others over a six-year period. We are also provided with incentives and recovery of lost revenues based on the actual reduction in customer electricity usage from these programs and a return on the costs that we recover over six years.

### *Competition*

As we are operating in a time of increasing competition from other electric utilities and non-utility generators to sell electricity for resale, we have secured long-term power supply agreements with our four wholesale customers. Through these agreements our rates are set principally through the year 2002. We also obtained a new wholesale customer in 1993 for which we will provide up to 30 megawatts of contract demand power for ten years beginning November 1994.

Our state regulators require utilities to purchase power from qualifying non-utility generators at prices set through a bidding process. In June 1993 our state regulators ordered us to purchase 132 megawatts of power from an independent power producer, starting as early as 1995. We oppose this order since we do not believe we need any new power for several years. In July 1993 we asked the Massachusetts Supreme Judicial Court to reverse the order. We are currently awaiting a decision from the court. In addition, our state regulators have created an integrated resource management (IRM) process in which electric utilities forecast their future energy needs and propose how they will meet those needs by balancing conservation programs with all other supplies of energy. We will submit an IRM filing in March 1994.

Direct competition with other electric utilities for retail electricity sales is still subject to substantial limitations, but these limitations may be reduced in the future. In 1993 we announced our goal of not seeking additional rate increases, other than those provided in the 1992 settlement agreement, for our residential, commercial and industrial customers until at least the year 2000. We plan to accomplish this by controlling costs and increasing operating efficiencies without sacrificing quality of service or profitability. The announcement reflects our strong commitment to be a competitively priced reliable provider of energy.

### *Non-utility business*

In 1993 we created an unregulated subsidiary known as the Boston Energy Technology Group (BETG) following approval from our state regulators. We have authority to invest up to $45 million in this wholly-owned subsidiary over the next three years. BETG will engage in demand side management activities through its wholly-owned subsidiary Ener-G-Vision, Inc. and businesses involving electric transportation and the related infrastructure through its wholly-owned subsidiary TravElectric Services Corporation. We do not currently have a substantial investment in BETG and do not anticipate it significantly impacting our results of operations in the next several years.

In January 1994 BETG acquired a substantial majority interest in the assets of REZ-TEK International, Inc., a manufacturer of ozone water treatment systems. The new entity, which will be known as REZ-TEK International Corp., will continue the business of producing a system that treats cooling water used in commercial and industrial air conditioning systems in an energy efficient and environmentally sound manner.

## Other Matters

### *Environmental*

We are subject to numerous federal, state and local standards with respect to air and water quality, waste disposal and other environmental considerations. These standards can require that we modify our existing facilities or incur increased operating costs.

In 1991 we entered into a consent order with the Massachusetts Department of Environmental Protection (DEP) and other interested parties to undertake certain improvements in the emission control systems at New Boston Station. These improvements included the replacement of four existing chimney stacks with two taller stacks in order to improve the air quality in the vicinity of the station, and the installation of low nitrogen oxides burners. The capital cost of these modifications along with other associated improvements has been approximately $78 million through 1993 with an additional $3 million expected to complete these projects in 1994.

New Boston Station has the ability to burn natural gas, oil or both. As part of the DEP consent order we also agreed to operate the station using natural gas as fuel for a minimum of nine months per year beginning in April 1992. Beginning in April 1995 we will be required to operate the station fueled exclusively by natural gas, except in certain emergency circumstances. We have made arrangements for a nine month supply of natural gas to the station until April 1995 and are currently in the process of negotiating with natural gas suppliers and transporters concerning the economics and availability of natural gas to New Boston on a year-round basis after that time. Year-round gas supplies are currently not available to the station and, as a result, the outcome of our negotiations with natural gas suppliers and transporters and the impact on the operation of New Boston Station are uncertain.

The 1990 Clean Air Act Amendments will require a significant reduction in nationwide emissions of sulfur dioxide from fossil fuel-fired generating units. The reduction will be accomplished by restricting sulfur dioxide emissions through a market-based system of allowances. We believe that we will have allowances issued to us that are in excess of our needs and which may be marketable. Any gain from the sale of these may be subject to future regulatory treatment. Other provisions of the 1990 Clean Air Act Amendments involve limitations on emissions of nitrogen oxides from existing generating units. Combustion system modifications made to New Boston and Mystic Stations, including the installation of the low nitrogen oxides burners at New Boston, will allow the units to meet the provisions of the 1995 standards. Depending upon the outcome of certain air quality modeling studies, additional emission reductions may also be required by 1999. The extent of any additional reductions and the costs of any further modifications is uncertain at this time.

State regulations revised in 1993 require that properties where releases of hazardous materials occurred in the past be further cleaned up according to a timetable developed by the DEP. We are currently evaluating the potential costs associated with the cleanup of sites where we have been identified as the owner or operator. There are uncertainties associated with

these potential costs due to the complexities of cleanup technology, regulatory requirements and the particular characteristics of the different sites. We also continue to face possible liability as a potentially responsible party in the cleanup of certain other multi-party hazardous waste sites in Massachusetts and other states. At the majority of these other sites we are one of many potentially responsible parties and our alleged share of the responsibility is a small percentage. We do not expect any of our potential cleanup liabilities to have a material impact on financial condition, although provisions for cleanup costs could have a material impact on quarterly earnings.

We presently dispose of low-level radioactive waste (LLW) generated at Pilgrim Station at licensed disposal facilities in Barnwell, South Carolina. As a result of developments which have occurred pursuant to the Low-Level Radioactive Waste Policy Amendments Act of 1985, our continued access to such disposal facilities has become severely limited and significantly increased in cost. Refer to Note D to the consolidated financial statements for further discussion regarding LLW disposal.

In recent years a number of published reports have discussed the possibility that adverse health effects may be caused by electromagnetic fields (EMF) associated with electric transmission and distribution facilities and appliances and wiring in buildings and homes. Some scientific reviews conducted to date by several state and federal agencies have suggested associations between EMF and such health effects, while other studies have not substantiated such associations. We support further research into the subject and are participating in the funding of industry sponsored studies. We are aware that public concern regarding EMF in some cases has resulted in litigation, in opposition to existing or proposed facilities before regulators, or in requests for legislation or regulatory standards concerning EMF levels. We have not been significantly affected to date by these developments and cannot predict their potential impact on us, however, we continue to closely monitor all aspects of the EMF issue.

### *Litigation*

In March 1991 we were named in a lawsuit alleging discriminatory employment practices under the Age Discrimination in Employment Act of 1967 concerning 46 employees affected by our 1988 reduction in force. Legal counsel is vigorously defending this case. Based on the information presently available we do not expect that this litigation or certain other legal matters in which we are currently involved will have a material impact on our financial condition. However, an unfavorable decision ordered against us could have a material impact on quarterly earnings.

### *Labor negotiations*

We began negotiations involving our labor contracts in early February 1994. These contracts expire on May 15, 1994. We anticipate favorable resolution of these negotiations prior to that date.

### *New accounting pronouncements*

We will adopt Statement of Financial Accounting Standards (SFAS) No. 112, Employers' Accounting for Postemployment Benefits, and SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, in the first quarter of 1994. Refer to Notes I and J to the consolidated financial statements for further discussion of these pronouncements.

## Consolidated Statements of Income

| (in thousands, except earnings per share) | 1993 | years ended December 31, 1992 | 1991 |
|---|---|---|---|
| ***Operating revenues*** | **$ 1,482,253** | $ 1,411,753 | $ 1,354,501 |
| Operating expenses: | | | |
| Fuel | **176,366** | 195,873 | 200,912 |
| Purchased power | **364,482** | 356,931 | 338,994 |
| Other operations and maintenance | **406,271** | 379,350 | 370,758 |
| Depreciation and amortization | **137,722** | 129,045 | 126,151 |
| Amortization of deferred cost of cancelled nuclear unit | **0** | 24,381 | [illegible]381 |
| Amortization of deferred nuclear outage costs | **6,546** | 4,901 | [illegible] |
| Demand side management programs | **37,504** | 8,221 | [illegible] |
| Taxes - property and other | **93,102** | 80,426 | 66,216 |
| Income taxes | **34,941** | 11,725 | 17,111 |
| Total operating expenses | **1,256,934** | 1,190,853 | 1,148,640 |
| ***Operating income*** | **225,319** | 220,900 | 205,861 |
| Other income (expense), net | **589** | (2,074) | 5,684 |
| Operating and other income | **225,908** | 218,826 | 211,545 |
| Interest charges: | | | |
| Long-term debt | **104,375** | 106,850 | 108,912 |
| Other | **9,778** | 12,525 | 16,947 |
| Allowance for borrowed funds used during construction | **(6,463)** | (7,847) | (8,984) |
| Total interest charges | **107,690** | 111,528 | 116,875 |
| ***Net income*** | **118,218** | 107,298 | 94,670 |
| Preferred and preference dividends provided | **15,705** | 16,550 | 17,611 |
| ***Balance available for common stock*** | **$ 102,513** | $ 90,748 | $ 77,059 |
| Common shares outstanding (weighted average) | **44,959** | 43,144 | 39,348 |
| ***Earnings per share of common stock*** | **$ 2.28** | $ 2.10 | $ 1.96 |

## Consolidated Statements of Retained Earnings

| (in thousands) | 1993 | years ended December 31, 1992 | 1991 |
|---|---|---|---|
| Balance at beginning of year | **$ 192,948** | $ 174,477 | $ 161,143 |
| Net income | **118,218** | 107,298 | 94,670 |
| Subtotal | **311,166** | 281,775 | 255,813 |
| Cash dividends declared: | | | |
| Preferred stock | **15,705** | 14,923 | 9,476 |
| Preference stock | **0** | 1,953 | 8,135 |
| Common stock | **77,169** | 71,951 | 63,725 |
| Subtotal | **92,874** | 88,827 | 81,336 |
| Balance at end of year | **$ 218,292** | $ 192,948 | $ 174,477 |

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

## Consolidated Balance Sheets

| (in thousands) | | 1993 | | December 31, 1992 |
|---|---|---|---|---|
| ***Assets*** | | | | |
| Property, plant and equipment, at original cost: | | | | |
| Utility plant in service | $ 3,904,776 | | $ 3,629,727 | |
| Less: accumulated depreciation | 1,258,359 | $ 2,646,417 | 1,177,294 | $ 2,452,433 |
| Nuclear fuel | 273,867 | | 270,420 | |
| Less: accumulated amortization | 220,477 | 53,390 | 201,978 | 68,442 |
| Construction work in progress | | 144,835 | | 182,458 |
| Total | | 2,844,642 | | 2,703,333 |
| Investments in electric companies, at equity | | 24,292 | | 25,398 |
| Nuclear decommissioning fund, at cost | | 66,060 | | 50,871 |
| Current assets: | | | | |
| Cash and cash equivalents | 8,768 | | 3,947 | |
| Accounts receivable | 171,098 | | 185,563 | |
| Accrued unbilled revenues | 29,823 | | 28,564 | |
| Fuel, materials and supplies, at average cost | 79,381 | | 93,931 | |
| Prepaid expenses and other | 9,738 | 298,808 | 6,644 | 318,649 |
| Deferred debits: | | | | |
| Power contracts | 36,275 | | 43,717 | |
| Cancelled nuclear unit | 19,067 | | 19,067 | |
| Nuclear outage costs | 25,524 | | 17,970 | |
| Pension and postretirement costs | 24,416 | | 10,449 | |
| Redemption premiums | 59,116 | | 40,506 | |
| Regulatory asset - income taxes, net | 26,916 | | 0 | |
| Other | 52,183 | 243,497 | 64,274 | 195,983 |
| Total assets | | $ 3,477,299 | | $ 3,294,234 |
| ***Capitalization and Liabilities*** | | | | |
| Common stock equity | | $ 876,479 | | $ 840,312 |
| Cumulative preferred stock: | | | | |
| Non-mandatory redeemable series | | 123,000 | | 123,000 |
| Mandatory redeemable series | | 96,000 | | 98,000 |
| First mortgage bonds | | 40,000 | | 631,825 |
| Sewage facility revenue bonds, net | | 32,497 | | 24,248 |
| Debentures | | 1,200,000 | | 385,000 |
| Unsecured medium-term notes | | 0 | | 50,000 |
| Current liabilities: | | | | |
| Long-term debt/preferred stock due within one year | $ 2,000 | | $ 6,800 | |
| Notes payable | 204,151 | | 275,500 | |
| Accounts payable | 144,760 | | 154,251 | |
| Interest accrued | 25,467 | | 21,497 | |
| Dividends payable | 22,696 | | 22,192 | |
| Other | 27,336 | 426,410 | 12,482 | 492,722 |
| Deferred credits: | | | | |
| Power contracts | 36,275 | | 43,717 | |
| Accumulated deferred income taxes | 484,796 | | 448,720 | |
| Accumulated deferred investment tax credits | 71,140 | | 75,213 | |
| Nuclear decommissioning reserve | 73,744 | | 57,165 | |
| Other | 16,958 | 682,913 | 24,312 | 649,127 |
| Commitments and contingencies | | - | | |
| Total capitalization and liabilities | | $ 3,477,299 | | $ 3,294,234 |

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

## Consolidated Statements of Cash Flows

| (in thousands) | 1993 | years ended December 31, 1992 | 1991 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 118,218 | $ 107,298 | $ 94,670 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 130,074 | 123,243 | 121,572 |
| Amortization of nuclear fuel | 21,816 | 25,473 | 19,869 |
| Amortization of deferred cost of cancelled nuclear unit, net | 0 | 22,340 | 21,112 |
| Other amortization | 9,433 | 2,132 | 1,696 |
| Allowance for funds used during construction | (6,463) | (7,847) | (8,984) |
| Deferred income taxes | 10,303 | 17,165 | 24,476 |
| Investment tax credits | (4,073) | (4,273) | (4,290) |
| (Deferral) amortization of nuclear outage costs, net | (7,554) | 4,901 | (22,062) |
| Net changes in: | | | |
| Accounts receivable and accrued unbilled revenues | 13,206 | (18,188) | (3,519) |
| Fuel, materials and supplies | 9,722 | (2,330) | 12,716 |
| Accounts payable | (9,491) | 41,899 | (19,510) |
| Rate and contract settlements | (175) | (31,363) | (44,546) |
| Other current assets and liabilities | 16,408 | (2,565) | 3,079 |
| Other, net | (4,958) | (13,777) | (24,588) |
| *Net cash provided by operating activities* | 296,466 | 264,108 | 171,691 |
| Cash flows provided (used) by investing activities: | | | |
| Plant and nuclear fuel (excluding AFUDC) | (253,885) | (231,025) | (214,213) |
| Capitalized demand side management costs | (37,156) | (11,469) | 0 |
| Decommissioning fund | (15,189) | (7,210) | (5,896) |
| Investments in electric companies | 1,106 | 1,836 | (1,515) |
| *Net cash used by investing activities* | (305,124) | (247,868) | (221,624) |
| Cash flows provided (used) by financing activities: | | | |
| Issuances: | | | |
| Common stock | 10,823 | 68,345 | 68,800 |
| Preferred stock | 40,000 | 40,000 | 50,000 |
| Long-term debt | 815,000 | 60,000 | 146,120 |
| Redemptions: | | | |
| Debt retirements | (648,625) | (123,600) | (118,600) |
| Preferred/preference stock | (40,000) | (40,333) | (50,000) |
| Net change in short-term debt | (71,349) | 65,200 | 35,770 |
| Dividends paid | (92,370) | (86,184) | (79,545) |
| *Net cash provided (used) by financing activities* | 13,479 | (16,572) | 52,545 |
| Net increase (decrease) in cash and cash equivalents | 4,821 | (332) | 2,612 |
| Cash and cash equivalents at the beginning of the year | 3,947 | 4,279 | 1,667 |
| Cash and cash equivalents at the end of the year | $ 8,768 | $ 3,947 | $ 4,279 |

| | | | |
|---|---|---|---|
| Cash paid during the year for: | | | |
| Interest, net of amounts capitalized | $ 103,720 | $ 113,076 | $ 115,488 |
| Income taxes | $ 30,305 | $ 10,095 | $ 18,979 |

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

## Note A. Significant Accounting Policies

### *1. Basis of Consolidation and Accounting*
The consolidated financial statements include the activities of our wholly-owned subsidiaries, Harbor Electric Energy Company and Boston Energy Technology Group. All significant intercompany transactions have been eliminated.

We follow accounting policies prescribed by our federal and state regulators. We are also subject to the accounting and reporting requirements of the Securities and Exchange Commission. The financial statements comply with generally accepted accounting principles. Certain prior period amounts on the financial statements were reclassified to conform with current presentation.

### *2. Revenue Recognition*
We record revenues for electricity used by our customers, but not yet billed, in order to more closely match revenues with expenses.

### *3. Forecasted Fuel and Purchased Power Rates*
The rate charged to retail customers for fuel and purchased power allows for all fuel costs, the capacity portion of some purchased power costs and some transmission costs to be billed to customers monthly using a forecasted rate. The difference between actual and estimated costs is included in accounts receivable on our consolidated balance sheets until subsequent rates are adjusted. State regulators have the right to reduce our subsequent fuel rates if they find that we have been unreasonable or imprudent in the operation of our generating units or in purchasing fuel.

### *4. Depreciation and Nuclear Fuel Amortization*
Our physical property was depreciated on a straight-line basis in 1993, 1992 and 1991 at composite rates of approximately 3.09%, 3.36% and 3.41% per year, respectively, based on estimated useful lives of the various classes of property. The cost of decommissioning Pilgrim Station, our nuclear unit, is excluded from the depreciation rates. When property units are retired, their cost, net of salvage value, is charged to accumulated depreciation.

The cost of nuclear fuel is amortized based on the amount of energy Pilgrim Station produces. Nuclear fuel expense also includes an amount for the estimated costs of ultimately disposing of the spent nuclear fuel and for the decontamination and decommissioning of the United States enrichment facilities used in the production of nuclear fuel. These costs are recovered from our customers through fuel charges.

### *5. Allowance for Funds Used During Construction (AFUDC)*
AFUDC represents the estimated costs to finance plant expenditures. In accordance with regulatory accounting, AFUDC is included as a cost of utility plant. AFUDC is not an item of current cash income, but payment is received for these costs from customers over the service life of the plant in the form of increased revenues collected as a result of higher depreciation expense. Our AFUDC rates in 1993, 1992 and 1991 were 3.62%, 4.48%, and 6.85%, respectively, and represented only the cost of debt.

### *6. Cash and Cash Equivalents*
Cash and cash equivalents are comprised of highly liquid securities with maturities of three months or less.

### *7. Allowance for Doubtful Accounts*
Our accounts receivable are substantially all recoverable. This recovery occurs both from customer payments and from the portion of customer charges that provides for the recovery of bad debt expense. Accordingly, we do not maintain a significant allowance for doubtful accounts balance.

### *8. Deferred Debits*
Deferred debits consist primarily of costs incurred which will be collected from customers through future charges in accordance with agreements with our state regulators. These costs will be expensed when the corresponding revenues are received in order to appropriately match revenues and expenses. A portion of these costs is currently being charged to and collected from customers.

### *9. Amortization of Discounts, Premiums and Redemption Premiums on Securities*
We expense discounts, premiums, redemption premiums and related expenses associated with issuances of securities or refinancing of existing securities in equal annual installments over the life of the replacement securities subject to regulatory approval.

## Note B. Retail Settlement Agreements

In 1992 and 1989 our state regulators, the Massachusetts Department of Public Utilities, approved three-year settlement agreements relating to our rate case proceedings. These agreements provided for retail rate increases, accounting adjustments and demand side management program expenditures; clarified the timing and recognition of certain expenses and set limits on our rate of return on common equity. Refer to Management's Discussion and Analysis for further information related to these settlement agreements.

The settlement agreements did not affect our contract or wholesale power rates charged to other utilities, which are regulated by our federal regulators, the Federal Energy Regulatory Commission.

## Note C. Income Taxes

In the first quarter of 1993 we prospectively adopted Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). This required us to change our methodology of accounting for income taxes from the deferred method to an asset and liability approach. The deferred method of accounting was based on the tax effects of timing differences between income for financial reporting purposes and taxable income. The asset and liability approach requires the recognition of deferred tax liabilities and assets for the future tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. In accordance with SFAS 109 we recorded a net regulatory asset of $26.9 million and a corresponding net increase in accumulated deferred income taxes as of December 31, 1993. The regulatory asset represents the additional future revenues to be collected from customers for deferred income taxes.

Accumulated deferred income taxes on our consolidated balance sheet at December 31, 1993 includes $587.8 million of gross deferred income tax liabilities net of $103.0 million of gross deferred income tax assets. We have approximately $19 million of alternative minimum tax carryforwards available at December 31, 1993. The major components of accumulated deferred income taxes are a result of differences between book and tax expenses relating to property, plant and equipment.

Deferred income tax expense reflected in our consolidated income statements is incurred when certain income and expenses are reported on the tax return in different years than reported in the financial statements. Investment tax credits are included in income over the estimated useful lives of the related property.

Components of income tax expense are as follows:

| (in thousands) | 1993 | 1992 | 1991 |
|---|---|---|---|
| Excess tax depreciation over book depreciation | $ 12,382 | $ 9,765 | $ 10,802 |
| Deferred fuel expense | (3,142) | 2,587 | 56 |
| Debt portion of allowance for funds used during construction | 2,114 | 2,495 | 2,856 |
| Massachusetts corporate franchise tax | 5,089 | 6,134 | 7,140 |
| Deferred nuclear outage expense | 2,472 | (1,558) | 7,014 |
| Cost of removal | 3,272 | 6,904 | 4,277 |
| Rate and contract settlements | 0 | 10,013 | 10,196 |
| Municipal property taxes | (489) | 3,351 | 3,745 |
| Demand side management programs | 3,775 | 2,978 | 2,256 |
| Cancelled nuclear unit | 0 | (4,621) | (8,998) |
| Reversal of deferred taxes - settlement agreement, net | (19,231) | (23,000) | (13,000) |
| Adjustment of prior year income tax accrual | (2,154) | 4,134 | 2,563 |
| Call premiums on refunded bond issues | 5,821 | 1,029 | (288) |
| Trust contributions - postretirement benefits | 3,451 | 0 | 0 |
| Other | (3,057) | (3,828) | (5,395) |
| Subtotal deferred income taxes | 10,303 | 16,383 | 23,224 |
| Current income tax expense | 28,711 | (385) | (1,823) |
| Investment tax credits | (4,073) | (4,273) | (4,290) |
| Provision for income taxes | 34,941 | 11,725 | 17,111 |
| Taxes on other income: | | | |
| Current | 1,205 | (2,348) | 405 |
| Deferred | 0 | 782 | 1,252 |
| Subtotal | 1,205 | (1,566) | 1,657 |
| Total income tax expense | $ 36,146 | $ 10,159 | $ 18,768 |

The effective income tax rates reflected in the consolidated financial statements and the reasons for their differences from the statutory federal income tax rate are explained below:

| | 1993 | 1992 | 1991 |
|---|---|---|---|
| Statutory tax rate | **35.0%** | 34.0% | 34.0% |
| State income tax, net of federal income tax benefit | **4.2** | 3.9 | 4.1 |
| Investment tax credits | **(2.6)** | (3.6) | (3.8) |
| Municipal property tax adjustment | **(0.6)** | (1.6) | (1.6) |
| Adjustment of deferred taxes on cancelled nuclear unit | **-** | 2.7 | - |
| Reversal of deferred taxes - settlement agreement | **(13.0)** | (19.6) | (11.5) |
| Federal tax benefit of mandated payments from settlement agreements | **-** | (6.2) | (3.3) |
| Other | **0.4** | (0.9) | (1.4) |
| Effective tax rate | **23.4%** | 8.7% | 16.5% |

## Note D. Estimated Future Costs of Disposing of Spent Nuclear Fuel and Retiring Nuclear Generating Plants

The existing fuel storage facility at Pilgrim Station includes sufficient room for spent nuclear fuel generated through early 1995. We have a request for a license amendment pending before the Nuclear Regulatory Commission (NRC) to allow modification of the storage facility to provide sufficient room for spent nuclear fuel generated through the end of Pilgrim's operating license in 2012. The NRC is reviewing our request and we expect approval in 1994. At that time we will initially modify the facility to provide spent fuel storage capacity through approximately 2003. It is the ultimate responsibility of the United States Department of Energy (DOE) to permanently dispose of spent nuclear fuel as required by the Nuclear Waste Policy Act of 1982. We currently pay a fee of $1.00 per net megawatthour sold from Pilgrim Station generation under a nuclear fuel disposal contract with the DOE. The fee is collected from customers through fuel charges.

When Pilgrim Station's operating license expires in 2012 we will be required to decommission the plant. During rate proceedings we provided our regulators a 1991 study documenting a cost of $328 million to decommission the plant. The study is based on the "green field" method of decommissioning, which provides for the plant site to be completely restored to its original state. We are expensing these estimated decommissioning costs over Pilgrim's expected service life. The 1993 expense of approximately $13 million is included in depreciation expense on the consolidated income statements. We receive recovery of this expense from charges to our retail customers and from other utility companies and municipalities who purchase a contracted amount of Pilgrim's electric generation. The funds we collect from decommissioning charges are deposited in an external trust and are restricted so that they may only be used for decommissioning and related expenses. The net earnings on the trust funds, which are also restricted, increase the nuclear decommissioning fund balance and nuclear decommissioning reserve, thus reducing the amount to be collected from customers. The 1991 decommissioning study has been partially updated for internal planning purposes to evaluate the potential financial impact of long-term spent fuel storage options resulting from delays in DOE spent fuel removal on the estimated decommissioning cost. The partial update indicates an estimated decommissioning cost of approximately $400 million in 1991 dollars based upon a revised spent fuel removal schedule and utilization of dry spent fuel storage technology. We will continue to monitor DOE spent fuel removal schedules and developments in spent fuel storage technology along with their impact on the decommissioning estimate.

We are also an investor in two other domestic nuclear units. Both of these units receive through the rates charged to their customers an amount to cover the estimated cost to dispose of their spent nuclear fuel and to retire the units at the end of their useful lives.

We presently dispose of low-level radioactive waste (LLW) generated at Pilgrim Station at licensed disposal facilities in Barnwell, South Carolina. As a result of developments which have occurred pursuant to the Low-Level Radioactive Waste Policy Amendments Act of 1985, our continued access to such disposal facilities has become severely limited and significantly increased in cost. We have access to the South Carolina site through July 1994, but do not presently believe that disposal site access will be provided after that date. Although legislation has been enacted in Massachusetts establishing a regulatory method for managing the state's LLW including the possible siting, licensing and construction of a LLW disposal facility within the state, it appears unlikely that such a facility will be constructed in a timely manner. Pending the construction of a disposal facility within the state or the adoption by the state of some other LLW management method, we continue to monitor the situation and are investigating other available options, including the possibility of on-site storage.

## Note E. Cancelled Nuclear Unit

In May 1982 we began to expense the cost of our cancelled Pilgrim 2 nuclear unit over approximately eleven and one-half years in accordance with an order received from state regulators. We did not expense any of these costs in 1993. Instead, the remaining balance of approximately $19 million at December 31, 1993 and 1992 will be expensed in 1994 and/or 1995 as approved by our state regulators in our 1992 settlement agreement.

## Note F. Capital Stock and Indebtedness

*Capital Stock*

| (dollars in thousands, except per share amounts) | | | 1993 | 1992 | December 31, 1991 |
|---|---|---|---|---|---|
| **Common stock equity:** | | | | | |
| Common stock, par value $1 per share, 100,000,000 shares authorized; 45,129,227, 44,763,055 and 42,047,356 shares issued and outstanding | | | $ 45,129 | $ 44,763 | $ 42,047 |
| Premium on common stock | | | 612,653 | 602,196 | 536,567 |
| Retained earnings | | | 218,292 | 192,948 | 174,477 |
| Surplus invested in plant | | | 405 | 405 | 405 |
| Total common stock equity | | | $ 876,479 | $ 840,312 | $ 753,496 |
| **Cumulative preferred stock:** | | | | | |
| Par value $100 per share, 2,410,000 shares currently authorized; issued and outstanding: | | | | | |
| Non-mandatory redeemable series: | | | | | |
| Series | Current Shares Outstanding | Redemption Price/Share | | | |
| 4.25% | 180,000 | $103.625 | $ 18,000 | $ 18,000 | $ 18,000 |
| 4.78% | 250,000 | $102.800 | 25,000 | 25,000 | 25,000 |
| 7.75% | 400,000 | - | 40,000 | 0 | 0 |
| 8.25% | 400,000 | - | 40,000 | 40,000 | 0 |
| 8.88% | 0 | - | 0 | 40,000 | 40,000 |
| Total non-mandatory redeemable series | | | $ 123,000 | $ 123,000 | $ 83,000 |
| Mandatory redeemable series: | | | | | |
| Series | Current Shares Outstanding | | | | |
| 7.27% | 480,000 | | $ 48,000 | $ 48,000 | $ 50,000 |
| 8.00% | 500,000 | | 50,000 | 50,000 | 50,000 |
| Total mandatory redeemable series | | | 98,000 | 98,000 | 100,000 |
| Less: due within one year | | | 2,000 | 0 | 0 |
| Total mandatory redeemable series, net | | | $ 96,000 | $ 98,000 | $ 100,000 |
| **Cumulative preference stock:** | | | | | |
| Par value $1 per share, 8,000,000 shares authorized; none currently issued and outstanding | | | | | |
| Non-mandatory redeemable series: | | | | | |
| $1.46 series | | | $ 0 | $ 0 | $ 2,675 |
| Premium on $1.46 series | | | 0 | 0 | 35,658 |
| Total preference stock | | | $ 0 | $ 0 | $ 38,333 |

*Dividends Declared per Share*

| | 1993 | 1992 | 1991 |
|---|---|---|---|
| **Common stock** | $ 1.715 | $ 1.655 | $ 1.595 |
| **Preferred stock:** | | | |
| 4.25% series | $ 4.253 | $ 4.250 | $ 4.250 |
| 4.78% series | 4.785 | 4.780 | 4.780 |
| 7.27% series | 7.270 | 7.270 | 7.270 |
| 7.75% series | 5.707 | 0 | 0 |
| 8.00% series | 8.000 | 8.000 | 1.337 |
| 8.25% series | 8.250 | 5.278 | 0 |
| 8.88% series | 2.220 | 8.880 | 8.880 |
| **Preference stock:** | | | |
| $1.46 series | $ 0 | $ 0.365 | $ 1.460 |
| Stated rate auction preference stock | 0 | 0 | 6.900 |

## *Indebtedness*

| (dollars in thousands) | | | 1993 | December 31, 1992 |
|---|---|---|---|---|
| **Long-term debt:** | | | | |
| First mortgage bonds: | | | | |
| Series | Interest Rate | Maturity | | |
| I | 4.750% | 1995 | $ 0 | $ 25,000 |
| J | 6.125% | 1997 | 0 | 40,000 |
| K | 6.875% | 1998 | 0 | 50,000 |
| L | 9.000% | 1999 | 0 | 50,000 |
| M | 9.375% | 2000 | 0 | 60,000 |
| N | 8.125% | 2001 | 0 | 75,000 |
| S | Variable | 2002 | 25,000 | 25,000 |
| Q | 9.750% | 2003 | 0 | 59,375 |
| R | 10.950% | 2004 | 0 | 44,250 |
| P | 9.250% | 2007 | 0 | 60,000 |
| U | 10.250% | 2014 | 15,000 | 15,000 |
| W | 9.500% | 2016 | 0 | 135,000 |
| Total first mortgage bonds | | | 40,000 | 638,625 |
| Less: due within one year | | | 0 | 6,800 |
| Total first mortgage bonds, net | | | $ 40,000 | $ 631,825 |
| Sewage facility revenue bonds | | | $ 36,300 | $ 36,300 |
| Less: funds held by trustee | | | 3,803 | 12,052 |
| Total sewage facility revenue bonds, net | | | $ 32,497 | $ 24,248 |
| Debentures: | | | | |
| 8.875%, due 1995 | | | $ 100,000 | $ 100,000 |
| 5.125%, due 1996 | | | 100,000 | 0 |
| 5.700%, due 1997 | | | 100,000 | 0 |
| 5.950%, due 1998 | | | 100,000 | 0 |
| 6.800%, due 2000 | | | 65,000 | 0 |
| 6.050%, due 2000 | | | 100,000 | 0 |
| 6.800%, due 2003 | | | 150,000 | 0 |
| 9.875%, due 2020 | | | 100,000 | 100,000 |
| 9.375%, due 2021 | | | 125,000 | 125,000 |
| 8.250%, due 2022 | | | 60,000 | 60,000 |
| 7.800%, due 2023 | | | 200,000 | 0 |
| Total debentures | | | $ 1,200,000 | $ 385,000 |
| Unsecured medium-term notes | | | $ 0 | $ 50,000 |
| **Short-term debt:** | | | | |
| Notes payable: | | | | |
| Bank loans | | | $ 106,501 | $ 162,500 |
| Commercial paper | | | 97,650 | 113,000 |
| Total notes payable | | | $ 204,151 | $ 275,500 |

*1. Common Stock*

Since December 31, 1990, we issued the following shares of common stock:

| (in thousands) | Number of Shares | | Total Par Value | | Premium on Common Stock |
|---|---|---|---|---|---|
| Balance December 31, 1990 | 38,998 | $ | 194,993 | $ | 314,822 |
| Dividend reinvestment plan | 449 | | 2,181 | | 6,844 |
| Change in par value of common stock [(a)] | 0 | | (157,727) | | 157,727 |
| New issue [(b)] | 2,600 | | 2,600 | | 57,174 |
| Balance December 31, 1991 | 42,047 | | 42,047 | | 536,567 |
| Dividend reinvestment plan | 416 | | 416 | | 9,658 |
| New issue [(c)] | 2,300 | | 2,300 | | 55,971 |
| Balance December 31, 1992 | 44,763 | | 44,763 | | 602,196 |
| Dividend reinvestment plan [(d)] | 366 | | 366 | | 10,457 |
| **Balance December 31, 1993** | **45,129** | **$** | **45,129** | **$** | **612,653** |

(a) In November 1991 our Articles of Organization were amended to increase authorized common stock from 50 million to 100 million shares and reduce the par value from $5 to $1 per common share.

(b) We used the net proceeds of the 1991 common stock issuance to retire $55 million of Series X, 11% first mortgage bonds.

(c) We used the net proceeds of the 1992 common stock issuance to reduce short-term debt.

(d) At December 31, 1993, the remaining authorized common shares reserved for future issuance under the Dividend Reinvestment and Common Stock Purchase Plan were 815,170 shares.

*2. Cumulative Non-Mandatory Redeemable Preferred and Preference Stock*

In June 1992 we issued 400,000 shares of 8.25% cumulative non-mandatory redeemable preferred stock at par. The stock is redeemable at $100 per share plus accrued dividends beginning in June 1997. These shares were sold in the form of 1.6 million depositary shares, each representing a one-fourth interest in a share of the preferred stock. We used the proceeds of this issue to fully retire the $1.46 series cumulative non-mandatory redeemable preference stock.

In May 1993 we issued 400,000 shares of 7.75% cumulative non-mandatory redeemable preferred stock at par. The stock is redeemable at $100 per share plus accrued dividends beginning in May 1998. These shares were sold in the form of 1.6 million depositary shares, each representing a one-fourth interest in a share of the preferred stock. We used the proceeds of this issue to fully retire the 8.88% series cumulative non-mandatory redeemable preferred stock.

*3. Cumulative Mandatory Redeemable Preferred Stock*

The 480,000 shares of our 7.27% sinking fund series cumulative preferred stock are currently redeemable at our option at $104.36. The redemption price declines annually each May to par value in May 2002. In May 1993 the stock became subject to sinking fund requirements to retire 20,000 shares at $100 per share plus accrued dividends each year through May 2002. In 1992 we purchased 20,000 shares at a discount on the open market which satisfied the mandatory sinking fund requirement for May 1993. Beginning in 1993, we have the non-cumulative option each May to redeem additional shares, not to exceed 20,000, for the sinking fund at $100 per share plus accrued dividends.

We are not able to redeem any part of our 500,000 shares of $100 par value 8% series cumulative preferred stock prior to December 2001. The entire series is subject to mandatory redemption in December 2001 at $100 per share, plus accrued dividends.

*4. Long-Term Debt*

Substantially all our property, plant, equipment, materials and supplies are subject to lien under the terms of our Indenture of Trust and First Mortgage dated December 1, 1940, and its supplements. Currently only the outstanding Series S and U first mortgage bonds are subject to the terms of the indenture.

The aggregate principal amounts of our first mortgage bonds, debentures, and sewage facility revenue bonds (including sinking fund requirements) due in 1994 and 1995 are $0 and $100.6 million, respectively, and $101.6 million per year in 1996 through 1998.

Our first mortgage bonds, Series S, adjustable rate due 2002, paid interest at 9.2% per year for the period January 15, 1993 through January 14, 1994. The rate is adjusted annually and is based upon the ten-year constant maturity Treasury rate as published by the Federal Reserve Board. The interest rate for the period January 15, 1994 through January 14, 1995 is 8.2%.

In September 1992 we issued $60 million of 8.25% debentures which mature in September 2022. The debentures are redeemable at prices decreasing from 103.78% of par beginning in September 2002, to 100% of par beginning in September 2012. We used the net proceeds from the sale to reduce short-term debt. In October 1992 we redeemed the remaining balance of $45 million Series X first mortgage bonds.

In February 1993 we issued $65 million of 6.8% debentures due in 2000. We used the proceeds of this issue to reduce short-term debt. These debentures are not redeemable prior to maturity.

In March 1993 we issued $650 million of debentures and used the proceeds to retire ten of twelve outstanding series of first mortgage bonds and reduce short-term debt. The debentures were issued in five separate series with interest rates ranging from 5.125% to 7.8% and maturing between 1996 and 2023. The 5 1/8% debentures due 1996, 5.70% due 1997, 5.95% due 1998 and 6.80% due 2003 are not redeemable prior to maturity. The 7.80% debentures due 2023 are first redeemable in March 2003 at a redemption price of 103.73%. The redemption price decreases annually each March to par value in March 2013. There is no sinking fund requirement for any series of the debentures.

In August 1993 we issued $100 million of 6.05% debentures due in 2000. We used the proceeds from this sale to reduce short-term debt. These debentures are not redeemable prior to maturity and have no sinking fund requirements.

We redeemed $50 million of 9.65% medium-term notes in September 1992 and $50 million of 9.75% medium-term notes in September 1993.

### 5. *Sewage Facility Revenue Bonds*

In December 1991, Harbor Electric Energy Company (HEEC), a wholly-owned subsidiary, issued $36.3 million of long-term sewage facility revenue bonds. The bonds are tax-exempt, subject to annual mandatory sinking fund redemption requirements and mature in the years 1995-2015. The weighted average interest rate of the bonds is 7.3%. A portion of the proceeds from the bonds was used to retire $21 million of short-term sewage facility revenue bonds at maturity. The remainder of the proceeds, which is on deposit with the trustee, is being used to finance the construction of HEEC's permanent substation located on Deer Island (in Boston Harbor) and to fund an amount which must remain in reserve with the trustee. If HEEC should have insufficient funds to pay certain costs on a timely basis or be unable to meet certain net worth requirements, we would be required to make additional capital contributions or loans to the subsidiary up to a maximum of $7 million.

### 6. *Short-Term Debt*

We have arrangements with certain banks to provide short-term credit on both a committed and an uncommitted and as available basis. We currently have authority to issue up to $350 million of short-term debt.

We have a $200 million revolving credit agreement with a group of banks. This agreement is intended to provide a standby source of short-term borrowings. Under the terms of this agreement we are required to maintain a common equity ratio of not less than 30% at all times. Commitment fees must be paid on the unused portion of the total agreement amount.

Information regarding our short-term borrowings, comprised of bank loans and commercial paper is as follows:

| (thousands of dollars) | | 1993 | | 1992 | | 1991 |
|---|---|---|---|---|---|---|
| Maximum short-term borrowings | $ | 320,000 | $ | 314,998 | $ | 324,400 |
| Weighted average amount outstanding | $ | 220,149 | $ | 233,286 | $ | 221,481 |
| Weighted average interest rates, excluding commitment fees | | 3.4% | | 4.1% | | 6.4% |

## Note G. Fair Value of Securities

The following methods and assumptions were used to estimate the fair value of each class of securities for which it is practicable to estimate the value:

***Nuclear decommissioning fund***

The fair value of $70.1 million is based on quoted market prices of securities held.

***Cash and cash equivalents***

The carrying amount of $8.8 million approximates fair value due to the short-term nature of these securities.

***Mandatory redeemable cumulative preferred stock, first mortgage bonds, sewage facility revenue bonds and debentures***

The fair values of these securities are based upon the quoted market prices of similar issues. Carrying amounts and fair values as of December 31, 1993 are as follows:

| (in thousands) | | Carrying Amount | | Fair Value |
|---|---|---|---|---|
| Mandatory redeemable cumulative preferred stock | $ | 98,000 | $ | 105,935 |
| First mortgage bonds | | 40,000 | | 44,132 |
| Sewage facility revenue bonds | | 36,300 | | 40,528 |
| Debentures | | 1,200,000 | | 1,237,924 |

## Note H. Commitments and Contingencies

*1. Capital Commitments*

At December 31, 1993, we had estimated contractual obligations for plant and equipment of approximately $71 million.

*2. Lease Commitments*

We have leases for certain facilities and equipment. Our estimated minimum rental commitments under both noncancelable leases and transmission agreements for the years after 1993 are as follows:

(in thousands)

| | | |
|---|---|---|
| 1994 | $ | 27,375 |
| 1995 | | 23,878 |
| 1996 | | 21,299 |
| 1997 | | 19,217 |
| 1998 | | 17,969 |
| Years thereafter | | 139,474 |
| Total | $ | 249,212 |

We will capitalize a portion of these lease rentals as part of plant expenditures in the future. Our total expense for both lease rentals and transmission agreements for 1993, 1992 and 1991 was $30 million, $30 million and $33.5 million, respectively, net of capitalized expenses of $5 million, $5 million, and $4.8 million, respectively.

*3. Hydro-Quebec*

We have an approximately 11% equity ownership interest in two companies which own and operate transmission facilities to import electricity from the Hydro-Quebec system in Canada, which is included in our consolidated financial statements. As an equity participant we are required to guarantee, in addition to our own share, the total obligations of those participants who do not meet certain credit criteria and are compensated accordingly. At December 31, 1993, our portion of these guarantees was approximately $22 million.

*4. Yankee Atomic Electric Company*

In February 1992 the Board of Directors of Yankee Atomic Electric Company (Yankee Atomic) decided to permanently discontinue power operation of the Yankee Atomic nuclear generating station and, in time, decommission that facility. We relied on Yankee Atomic for less than one percent of our system capacity. We have a 9.5% stock investment of approximately $2 million in Yankee Atomic.

In 1993 Yankee Atomic received approval from federal regulators to continue to collect its investment and decommissioning costs through July 2000, the period of the plant's operating license. The estimate of our share of Yankee Atomic's investment and costs of decommissioning is approximately $33 million as of December 31, 1993. This estimate is recorded on our consolidated balance sheet as a power contract liability in deferred credits. An offsetting power contract regulatory asset is included in deferred debits as we continue to collect these costs from our customers in accordance with our 1992 settlement agreement.

*5. Nuclear Insurance*

The federal Price-Anderson Act currently provides $9.4 billion of financial protection for public liability claims and legal costs arising from a single nuclear-related accident. The first $200 million of nuclear liability is covered by commercial insurance. Additional nuclear liability insurance up to approximately $8.8 billion is provided by a retrospective assessment of up to $75.5 million per incident levied on each of the 116 units licensed to operate in the United States, with a maximum assessment of $10 million per reactor per accident in any year. The additional nuclear liability insurance amount may change as new commercial nuclear units are licensed and existing units give up their licenses. In addition to the nuclear liability retrospective assessments, if the sum of all public liability claims and legal costs arising from any nuclear accident exceeds the maximum amount of financial protection, each licensee can be assessed an additional five percent of the maximum retrospective assessment.

We have purchased insurance from Nuclear Electric Insurance Limited (NEIL) to cover some of the costs to purchase replacement power during a prolonged accidental outage at Pilgrim Station and the cost of repair, replacement, decontamination or decommissioning of our utility property resulting from covered incidents at Pilgrim Station. Our maximum potential total assessment for losses which occur during current policy years is approximately $14.6 million under both the replacement power and excess property damage, decontamination and decommissioning policies. All companies insured with NEIL are subject to retroactive assessments if losses are in excess of the total funds available to NEIL. While assessments may also be made for losses in certain prior policy years, we are not aware of any losses in those years which we believe are likely to result in an assessment.

*6. Litigation*

In March 1991 we were named in a lawsuit alleging discriminatory employment practices under the Age Discrimination in Employment Act of 1967 concerning 46 employees affected by our 1988 reduction in force. Legal counsel is vigorously defending this case. Based on the information presently available we do not expect that this litigation or certain other legal matters in which we are currently involved will have a material impact on our financial condition. However, an unfavorable decision ordered against us could have a material impact on quarterly earnings.

*7. Hazardous Waste*

State regulations revised in 1993 require that properties where releases of hazardous materials occurred in the past be further cleaned up according to a timetable developed by the Massachusetts Department of Environmental Protection. We are currently evaluating the potential costs associated with the cleanup of sites where we have been identified as the owner or operator. There are uncertainties associated with these potential costs due to the complexities of cleanup technology, regulatory requirements and the particular characteristics of the different sites. We also continue to face possible liability as a potentially responsible party in the cleanup of certain other multi-party hazardous waste sites in Massachusetts and other states. At the majority of these other sites we are one of many potentially responsible parties and our alleged share of the responsibility is a small percentage. We do not expect any of our potential cleanup liabilities to have a material impact on financial condition, although provisions for cleanup costs could have a material impact on quarterly earnings.

## Note I. Pensions, Other Postretirement and Postemployment Benefits

*1. Pensions*

We have a noncontributory funded retirement plan, with certain features that allow voluntary contributions. Benefits are based upon an employee's years of service and compensation during the last years of employment. Our funding policy is to contribute each year an amount that is not less than the minimum required contribution under federal law or greater than the maximum tax deductible amount. Plan assets are primarily equities, bonds, insurance contracts and real estate.

Net pension cost included the following components:

| (in thousands) | 1993 | 1992 | 1991 |
|---|---|---|---|
| Current service cost - benefits earned | $ 11,734 | $ 10,683 | $ 8,567 |
| Interest cost on projected benefit obligation | 33,181 | 32,287 | 29,817 |
| Actual return on plan assets | (44,470) | (23,281) | (60,873) |
| Net amortization and deferral | 8,528 | (13,549) | 26,811 |
| Net pension cost (a) | $ 8,973 | $ 6,140 | $ 4,322 |

(a) In accordance with an agreement with our state regulators, we deferred our net pension costs in excess of the annual funding amounts and will recover these costs from customers over time. Net pension costs recorded as expense were approximately $5 million in 1993 and $0 in 1992 and 1991.

We used the following assumptions for calculating pension cost:

| | 1993 | 1992 | 1991 |
|---|---|---|---|
| Discount rate | 8.25% | 8.25% | 9.00% |
| Expected long-term rate of return on assets | 10.00% | 10.00% | 10.00% |
| Compensation increase rate | 4.50% | 4.50% | 4.50% |

We changed our discount rate assumption to 7.0% for calculating pension cost effective January 1994.

The plan's funded status at December 31, 1993 and 1992 was as follows:

| (in thousands) | 1993 | 1992 |
|---|---|---|
| Actuarial present value of benefit obligations: | | |
| Accumulated benefit obligation, including vested benefits of $384,150 and $322,836 | $ 400,895 | $ 339,035 |
| Plan assets at fair value | $ 394,233 | $ 392,407 |
| Projected obligation for service rendered to date | (509,661) | (418,312) |
| Projected benefit obligation in excess of plan assets | (115,428) | (25,905) |
| Unrecognized prior service cost | 8,139 | 8,817 |
| Unrecognized net (gain) loss | 75,352 | (6,810) |
| Unrecognized net obligation | 9,932 | 10,866 |
| Net pension liability | $ (22,005) | $ (13,032) |

We used the following assumptions for calculating the plan's year-end funded status:

| | 1993 | 1992 |
|---|---|---|
| Discount rate | 7.00% | 8.25% |
| Compensation increase rate | 4.50% | 4.50% |

### 2. *Other Postretirement Benefits*

In addition to pension benefits, we also currently provide health care and other benefits to our retired employees who meet certain age and years of service eligibility requirements. Effective January 1993 we adopted Statement of Financial Accounting Standards No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions (SFAS 106). This requires us to record a liability during the working years of employees for the expected costs of providing their postretirement benefits other than pensions (PBOPs). Prior to 1993 our policy was to record the cost of PBOPs when paid. Our transition obligation on January 1, 1993 was approximately $183 million, which we elected to recognize over 20 years as perm d by SFAS 106. Our total cost of PBOPs under SFAS 106 in 1993 was approximately $28 million, an increase of approximat 18 million over costs incurred under our prior method of accounting for PBOPs. Our 1992 settlement agreement provides us with a phase-in of a portion of the increased costs and allows us to defer the additional costs in excess of the phase-in amounts to the extent that we fund an external trust. In December 1993 we deposited $18 million on a tax deductible basis into external trusts for the payment of PBOPs. Accordingly, in 1993 we recorded an expense of approximately $16 million, reflecting the amount of cost recovery from customers, and deferred approximately $12 million for future recovery. We capitalized approximately 19% of these costs.

Postretirement benefits cost consisted of the following in 1993:

(in thousands)

| | | |
|---|---|---|
| Current service cost - benefits earned | $ | 4,351 |
| Interest cost on transition obligation | | 14,286 |
| Amortization of transition obligation | | 9,151 |
| Net postretirement benefits cost | $ | 27,788 |

We used an 8.0% weighted average discount rate and 4.5% rate of compensation increase assumption for calculating the transition obligation and the 1993 postretirement benefits cost. Our expected long-term rate of return on assets is 9.0%. We also assumed a 12.5% health care cost trend rate. Effective January 1, 1994 we changed the discount and health care cost trend rates to 7.0% and 9.0%, respectively, in order to more accurately estimate our future benefit payments. The health care cost trend rate is assumed to decrease by one percent each year to 5% in 1998 and years thereafter. Changes in the health care cost trend rate will affect our cost and obligation amounts. For example, a one percent increase in the rate would increase the total service and interest costs in 1993 by approximately 16% and would increase the accumulated obligation at December 31, 1993 by approximately 13%.

The postretirement benefits program's funded status at December 31, 1993 was as follows:

(in thousands)

| | | | | |
|---|---|---|---|---|
| Trust assets at fair value | | | $ | 18,016 |
| Accumulated obligation for service rendered to date from: | | | | |
| Retirees | $ | (75,216) | | |
| Active employees eligible to retire | | (64,880) | | |
| Active employees not eligible to retire | | (73,285) | | (213,381) |
| Accumulated benefit obligation in excess of trust assets | | | | (195,365) |
| Unrecognized loss | | | | 21,497 |
| Unrecognized net obligation | | | | 173,868 |
| Net postretirement benefits liability | | | $ | 0 |

The trust assets consist of money market funds at December 31, 1993.

### 3. *Postemployment Benefits*

Statement of Financial Accounting Standards No. 112, Employers' Accounting for Postemployment Benefits, will be effective for the first quarter of 1994. This statement will require us to record a liability computed on an actuarial basis for the estimated cost of providing postemployment benefits. Postemployment benefits provided to former or inactive employees, their beneficiaries and covered dependents include salary continuation, severance benefits, disability-related benefits (including workers' compensation), job training and counseling and continuation of health care and life insurance coverage. We currently recognize the cost of these benefits primarily as claims are paid. We do not anticipate a material effect on net income from adopting this statement.

## Note J. New Accounting Pronouncement

We will adopt Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, in the first quarter of 1994. This statement may require us to classify the investments in our nuclear decommissioning fund on our consolidated balance sheet based on how long we intend to hold the individual securities. These investments may be classified as "available for sale" and we may also be required to report any unrealized gains and losses on the investments as a separate component of shareholders' equity. We do not expect the adoption of this statement to have a material effect on shareholders' equity.

## Note K. Long-Term Power Contracts

*1. Long-Term Contracts for the Purchase of Electricity*

We purchase electric power under several long-term contracts for which we pay a share of the generating unit's capital and fixed operating costs through the contract expiration date. The total cost of these contracts is included in purchased power expense in our consolidated income statements. Information relating to these contracts as of December 31, 1993 is as follows:

| Contract | Contract Expiration Date | Units of Capacity Purchased[a] % | Units of Capacity Purchased[a] MW | proportionate share (in thousands) 1993 Minimum Debt Service | proportionate share (in thousands) 1993 Interest Portion of Minimum Debt Service | proportionate share (in thousands) Debt Outstanding Through Cont. Exp. Date |
|---|---|---|---|---|---|---|
| Canal Unit 1 | 2001 | 25.0 | 142 | $ 781 | $ 314 | $ 2,118 |
| Mass. Bay Transportation Authority | 2005 | 100.0 | 35 | (b) | (b) | (b) |
| Connecticut Yankee Atomic | 2007 | 9.5 | 56 | 2,579 | 1,670 | 15,898 |
| Ocean State Power - Unit 1 | 2010 | 23.5 | 65 | 5,323 | 3,948 | 22,747 |
| Ocean State Power - Unit 2 | 2011 | 23.5 | 65 | 4,422 | 3,376 | 19,401 |
| Northeast Energy Associates | (c) | (c) | 219 | (c) | (c) | (c) |
| L'Energia | 2013 | 73.0 | 64 | (d) | (d) | (d) |
| Total | | | 646 | $ 13,105 | $ 9,308 | $ 60,164 |

(a) The Northeast Energy Associates contract represents 6.4% of our total system generation capabilits. The remaining units listed above represent 12.6% in total.

(b) We are required to pay the greater of $22.00 per kilowatt-year or 90% of the New England Power Pool capability responsibility adjustment charge up to $63.00 per kilowatt-year times the qualified capacity (currently rated at 33.6MW) plus incremental operating, maintenance and fuel costs. The total charges for this contract in 1993 were approximately $2 million.

(c) We purchase approximately 75.5% of the energy output of this unit under two contracts. One contract represents 135MW and expires in the year 2015. The other contract is for 84MW and expires in 2010. We pay for this energy based on a price per kWh actually received. We do not pay a proportionate share of the unit's capital and fixed operating costs. The total charges for these contracts in 1993 were approximately $116 million.

(d) The L'Energia contract started in March 1993. We purchase 73% of the energy output of this unit. We pay for this energy based on a price per kWh actually received. The total charges under this contract for 1993 were approximately $15 million.

Our total fixed and variable costs for these contracts in 1993, 1992 and 1991 were approximately $225 million, $217 million and $154 million, respectively. Our minimum fixed payments under these contracts for the years after 1993 are as follows:

| (in thousands) | |
|---|---|
| 1994 | $ 69,432 |
| 1995 | 72,418 |
| 1996 | 75,376 |
| 1997 | 71,147 |
| 1998 | 72,429 |
| Years thereafter | 725,236 |
| Total | $ 1,086,038 |
| Total present value | $ 558,600 |

*2. Long-Term Power Sales*

In addition to our power sales to four wholesale customers, we sell a percentage of Pilgrim Station's output to other utilities under long-term contracts. Information relating to these contracts is as follows:

| Contract Customer | Contract Expiration Date | Units of Capacity Sold % | Units of Capacity Sold MW |
|---|---|---|---|
| Commonwealth Electric Company | 2012 | 11.0 | 73.7 |
| Montaup Electric Company | 2012 | 11.0 | 73.7 |
| Various municipalities | 2000[a] | 3.7 | 25.0 |
| Total | | 25.7 | 172.4 |

(a) Subject to certain adjustments.

Under these contracts, the utilities pay their proportional share of the costs of operating Pilgrim Station and associated transmission facilities. These costs include operation and maintenance expenses, insurance, local taxes, depreciation, decommissioning and a return on capital.

## To the Stockholders and Directors of Boston Edison Company

We have audited the accompanying consolidated balance sheets of Boston Edison Company and subsidiaries (the Company) as of December 31, 1993 and 1992 and the related consolidated statements of income, retained earnings 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

Coopers & Lybrand

Boston, Massachusetts
January 25, 1994

## Selected Consolidated Financial Statistics (Unaudited)

### Quarterly Financial Data

(in thousands, except earnings per share)

| | Operating Revenues | Operating Income | Net Income | Balance Available for Common Stock | Earnings Per Share of Common Stock [a] |
|---|---|---|---|---|---|
| 1993 | | | | | |
| First quarter | $ 354,752 | $ 41,721 | $ 15,452 | $ 11,377 | $ 0.25 |
| Second quarter | 346,074 | 49,282 | 22,829 | 19,125 | 0.43 |
| Third quarter | 436,024 | 96,319 | 70,015 | 66,052 | 1.47 |
| Fourth quarter | 345,403 | 37,997 | 9,922 | 5,959 | 0.13 |
| 1992 | | | | | |
| First quarter | $ 343,505 | $ 41,930 | $ 13,816 | $ 9,553 | $ 0.23 |
| Second quarter | 300,566 | 32,629 | 4,953 | 852 | 0.02 |
| Third quarter | 408,255 | 100,890 | 73,698 | 69,593 | 1.60 |
| Fourth quarter | 359,427 | 45,451 | 14,831 | 10,750 | 0.24 |

(a) Based upon the weighted average number of common shares outstanding during the quarter.

Our electricity sales and revenues are seasonal in nature, with both being lower in the spring and fall seasons. Quarterly earnings for 1993 reflect a change in the months for which certain customers were billed at higher rates as mandated by our state regulators. These customers were billed at these higher rates in July through October in 1992 and in June through September in 1993. The change in billing increased second quarter earnings and reduced fourth quarter earnings by approximately $0.23 per share in 1993.

### Quarterly Stock Data

Following are the reported high and low sales prices of our common stock on the New York Stock Exchange as reported daily in the *Wall Street Journal* for each of the quarters in 1993 and 1992 and the dividends declared per share during each of those quarters:

| | 1993 High | 1993 Low | 1993 Dividends | 1992 High | 1992 Low | 1992 Dividends |
|---|---|---|---|---|---|---|
| First quarter | $ 30 1/2 | $ 26 3/8 | $ 0.425 | $ 24 5/8 | $ 22 1/8 | $ 0.410 |
| Second quarter | 30 7/8 | 27 7/8 | 0.425 | 26 | 22 3/8 | 0.410 |
| Third quarter | 32 5/8 | 29 3/4 | 0.425 | 26 7/8 | 24 7/8 | 0.410 |
| Fourth quarter | 32 1/4 | 27 7/8 | 0.440 | 28 1/4 | 24 3/4 | 0.425 |

## Selected Consolidated Sales Statistics (Unaudited)

| | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|
| *Electric energy: (kWh in thousands)* | | | | | |
| Sources (system output): | | | | | |
| Generated | **9,787,092** | 11,679,824 | 10,602,110 | 12,744,238 | 11,679,060 |
| Purchased | **5,326,224** | 5,449,225 | 4,651,101 | 3,305,491 | 4,177,079 |
| New England Power Pool | **1,575,310** | 932,121 | 1,274,522 | 1,065,731 | 1,170,847 |
| Total | **16,688,626** | 18,061,170 | 16,527,733 | 17,115,460 | 17,026,986 |
| Disposition: | | | | | |
| Retail sales: | | | | | |
| Commercial | **7,292,681** | 7,202,580 | 7,132,179 | 7,183,347 | 7,095,297 |
| Residential | **3,487,370** | 3,424,275 | 3,382,306 | 3,430,720 | 3,413,801 |
| Industrial | **1,590,669** | 1,678,242 | 1,684,864 | 1,750,325 | 1,845,441 |
| Other [a] | **145,242** | 292,510 | 279,540 | 275,213 | 259,762 |
| Total retail billed | **12,515,962** | 12,597,607 | 12,478,889 | 12,639,605 | 12,614,301 |
| Wholesale and contract sales [a] | **2,272,669** | 2,517,247 | 1,660,082 | 1,674,114 | 1,138,682 |
| New England Power Pool | **877,978** | 1,898,059 | 1,252,797 | 1,885,165 | 2,090,238 |
| Total system | **15,666,609** | 17,012,913 | 15,391,768 | 16,198,884 | 15,843,221 |
| Miscellaneous usage | **1,020,017** | 1,048,257 | 1,135,965 | 916,576 | 1,183,765 |
| Total | **16,686,626** | 18,061,170 | 16,527,733 | 17,115,460 | 17,026,986 |
| Kilowatthours - annual growth percent: | | | | | |
| Retail sales: | | | | | |
| Commercial | **1.3%** | 1.0% | (0.7)% | 1.2% | 1.3% |
| Residential | **1.8** | 1.2 | (1.4) | 0.5 | (0.5) |
| Industrial | **(5.2)** | (0.4) | (3.7) | (5.2) | 0.3 |
| Other | **(50.3)** | 4.6 | 1.6 | 6.0 | 16.9 |
| Total retail billed [a] | **(0.6)** | 1.0 | (1.3) | 0.2 | 0.9 |
| Wholesale and contract sales | **(9.7)** | 51.6 | (0.8) | 47.0 | 85.2 |
| New England Power Pool | **(53.7)** | 51.5 | (33.5) | (9.8) | 149.0 |
| Total system | **(7.9)%** | 10.5% | (5.0)% | 2.2% | 13.6% |
| Total electric operating revenues by class: | | | | | |
| Commercial | **49%** | 47% | 47% | 46% | 45% |
| Residential | **27%** | 26% | 26% | 27% | 26% |
| Industrial | **10%** | 10% | 10% | 10% | 10% |
| Wholesale and contract | **12%** | 13% | 12% | 13% | 15% |
| Other | **2%** | 4% | 5% | 4% | 4% |
| Electric sales statistics: | | | | | |
| Residential averages: | | | | | |
| Annual kWh use | **6,160** | 6,101 | 6,053 | 6,150 | 6,160 |
| Revenue per kWh | **11.49¢** | 10.84¢ | 10.60¢ | 10.09¢ | 10.15¢ |
| Annual bill | **$ 709.75** | $ 657.41 | $ 641.62 | $ 620.54 | $ 625.24 |
| Customers: | | | | | |
| Average number | **651,141** | 646,215 | 642,967 | 642,041 | 637,871 |

(a) Effective February 1993 a former retail customer became a wholesale customer as allowed under Massachusetts state law. Excluding the effect of this customer's change in status, total retail sales billed increased 1.2% in 1993.

Certain reclassifications and recalculations were made to the data reported in prior years to conform with the method of presentation used in 1993.

## Selected Consolidated Operating Statistics (Unaudited)

| | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|
| Capacity - MW: | | | | | |
| New Boston Station | **760** | 760 | 760 | 760 | 760 |
| Pilgrim Station | **670** | 670 | 670 | 670 | 670 |
| Mystic Station | **1,006** | 1,005 | 1,015 | 1,014 | 1,018 |
| W.F. Wyman Unit 4 | **36** | 36 | 36 | 36 | 36 |
| Jet turbines | **283** | 281 | 281 | 281 | 273 |
| Total | **2,755** | 2,752 | 2,762 | 2,761 | 2,757 |
| Contract purchases | **938** | 1,157 | 1,293 | 924 | 1,102 |
| Contract sales | **(283)** | (303) | (293) | (173) | (171) |
| Net capability at year-end | **3,410** | 3,606 | 3,762 | 3,512 | 3,688 |
| Net capability at peak-MW | **3,663** | 3,587 | 3,695 | 3,505 | 3,483 |
| Capability responsibility to NEPOOL at peak-MW | **3,190** | 3,396 | 3,311 | 3,393 | 3,443 |
| Edison territory: | | | | | |
| Hourly peak-MW | **2,662** | 2,545 | 2,652 | 2,548 | 2,626 |
| Load factor | **60.5%** | 62.5% | 60.0% | 62.2% | 61.4% |
| Generating station economy: (BTU/net kWh) | **10,345** | 10,234 | 10,331 | 10,403 | 10,309 |
| Average cost of fuel (Company) - ¢ per million BTU: | | | | | |
| Fossil | **250.42** | 246.69 | 240.18 | 255.51 | 254.56 |
| Nuclear | **50.67** | 52.18 | 56.18 | 59.05 | 56.79 |
| Composite | **162.02** | 166.93 | 180.49 | 191.48 | 223.86 |
| Capability (net kW): | | | | | |
| Fossil | **84%** | 81% | 81% | 81% | 82% |
| Nuclear | **16%** | 19% | 19% | 19% | 18% |
| Generation (system kWh excluding interchange): | | | | | |
| Fossil | **68%** | 69% | 70% | 72% | 87% |
| Nuclear | **32%** | 31% | 30% | 28% | 13% |
| Utility plant ($ in 000's): | | | | | |
| Expenditures | **247,394** | 213,621 | 202,589 | 240,902 | 234,253 |
| Retirements | **34,147** | 34,036 | 30,333 | 27,180 | 14,042 |
| Accumulated depreciation | **1,258,359** | 1,177,294 | 1,097,991 | 1,015,371 | 950,298 |
| Depreciable plant | **3,841,752** | 3,567,160 | 3,488,269 | 3,277,616 | 3,130,031 |
| Number of employees at year-end | **4,404** | 4,540 | 4,637 | 4,738 | 4,686 |

## Selected Consolidated Financial Statistics (Unaudited)

| | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|
| Operating revenues (000) | **$ 1,482,253** | $ 1,411,753 | $ 1,354,501 | $ 1,314,440 | $ 1,339,956 |
| Balance for common (000) | **$ 102,513** | $ 90,748 | $ 77,059 | $ 77,788 | $ (33,788) |
| Per common share: | | | | | |
| Earnings (loss) | **$ 2.28** | $ 2.10 | $ 1.96 | $ 2.01[a] | $ (0.88)[b] |
| Dividends declared | **$ 1.715** | $ 1.655 | $ 1.595 | $ 1.535 | $ 1.745 |
| Dividends paid | **$ 1.70** | $ 1.64 | $ 1.58 | $ 1.52 | $ 1.82 |
| Book value | **$ 19.42** | $ 18.77 | $ 17.92 | $ 17.22 | $ 16.73 |
| Operating cash flow [c] | **$ 6.60** | $ 6.85 | $ 5.50 | $ 5.68 | $ 6.39 |
| Payout ratio | **75%** | 78% | 81% | 76% | -[d] |
| Return on average common equity | **11.9%** | 11.5% | 11.3% | 11.8% | (4.6)% |
| Year-end dividend yield | **5.9%** | 6.2% | 6.6% | 7.9% | 7.6% |
| Fixed charge coverage (SEC) | **2.27x** | 1.93x | 1.86x | 2.13x | 0.52x |
| Capitalization: | | | | | |
| Total debt | **57%** | 56% | 58% | 59% | 57% |
| Preferred and preference equity | **9%** | 9% | 10% | 10% | 11% |
| Common equity | **34%** | 35% | 32% | 31% | 32% |
| Long-term debt (000) | **$ 1,272,497** | $ 1,091,073 | $ 1,136,765 | $ 1,074,025 | $ 948,839 |
| Mandatory redeemable preferred/preference stocks (000) | **$ 98,000** | $ 98,000 | $ 100,000 | $ 100,000 | $ 100,000 |
| Total assets (000) | **$ 3,477,299** | $ 3,294,234 | $ 3,119,285 | $ 3,012,589 | $ 2,876,691 |
| Internal generation after dividends (000)[c] | **$ 186,938** | $ 207,348 | $ 191,016 | $ 187,954 | $ 147,449 |
| Plant and nuclear fuel expenditures (000) | **$ 253,885** | $ 231,025 | $ 214,213 | $ 255,784 | $ 235,946 |
| Internal generation [c] | **74%** | 90% | 89% | 73% | 62% |
| Common stockholders at year-end | **42,392** | 44,063 | 44,687 | 45,826 | 49,149 |
| Common shares outstanding: | | | | | |
| Weighted average | **44,959,050** | 43,143,953 | 39,347,824 | 38,778,901 | 38,245,648 |
| Year-end | **45,129,227** | 44,763,055 | 42,047,356 | 38,998,531 | 38,526,085 |
| Stock price - High | **32 5/8** | 28 1/4 | 24 7/8 | 20 1/4 | 22 1/8 |
| - Low | **26 3/8** | 22 1/8 | 18 1/4 | 16 1/2 | 15 3/8 |
| - Year-end | **29 3/4** | 27 1/2 | 24 3/4 | 20 | 20 |
| Year-end market value (000) | **$ 1,342,595** | $ 1,230,984 | $ 1,040,672 | $ 779,971 | $ 764,913 |
| Trading volume (shares) | **18,729,400** | 26,460,900 | 17,464,300 | 19,652,300 | 29,938,900 |
| Market/book (year-end) | **1.53x** | 1.47x | 1.38x | 1.16x | 1.20x |
| Price/earnings ratio (year-end) | **13.0** | 13.1 | 12.6 | 10.0 | -[d] |

(a) Includes $0.41 per common share from an accounting change.
(b) Includes $2.78 per common share loss applicable to rate and contract settlements.
(c) Excludes effect of rate and contract settlements.
(d) Not calculated based upon a loss per common share. A payout ratio of and a price/earnings ratio of 10.5 were calculated based upon $1.90 earnings per common share, excluding the $2.78 per common share los to rate and contract settlements.

Certain reclassifications and recalculations were made to the data reported in prior years to conform with the method of presentation used in 1993.

## Officers

Bernard W. Reznicek, Chairman of the Board and Chief Executive Officer

Thomas J. May, President and Chief Operating Officer

George W. Davis, Executive Vice President

E. Thomas Boulette, Senior Vice President - Nuclear

Cameron H. Daley, Senior Vice President - Power Supply

John J. Desmond, III, Senior Vice President - Legal

L. Carl Gustin, Senior Vice President - Marketing & Corporate Relations

John J. Higgins, Jr., Senior Vice President - Human Resources

Ronald A. Ledgett, Senior Vice President - Power Delivery

Charles E. Peters, Jr., Senior Vice President - Finance

Alison Alden, Vice President - Sales & Service

Marc S. Alpert, Vice President and Treasurer

C. Bruce Damrell, Vice President - Engineering, Operations & Services

Richard S. Hahn, Vice President - Technology Research & Development

Douglas S. Horan, General Counsel

Joel Y. Kamya, Vice President - Production Operations

Martin S. Karl, Vice President - Marketing

Edward S. Kraft, Vice President - Nuclear Operations and Station Director

Arthur P. Phillips, Jr., Vice President - Corporate Information Services

Robert J. Weafer, Jr., Vice President, Controller and Chief Accounting Officer

Theodora S. Convisser, Clerk of the Corporation

Donald Anastasia, Assistant Treasurer

James J. Judge, Assistant Treasurer and Director - Corporate Planning

Wayne R. Frigard, Assistant Clerk of the Corporation

## Directors

a,d William F. Connell, Chairman and Chief Executive Officer, Connell Limited Partnership (metals recycling and processing and industrial production)

d,f Gary L. Countryman, Chairman of the Board and Chief Executive Officer, Liberty Mutual Insurance Company

George W. Davis, Executive Vice President, Boston Edison Company

a,e,f Thomas G. Dignan, Jr., Partner, Ropes & Gray (law firm)

b,c,d Charles K. Gifford, President, Bank of Boston Corporation (bank holding company) and The First National Bank of Boston

b,f Nelson S. Gifford, Former Vice Chairman, Avery Dennison Corporation (pressure-sensitive adhesives and materials, office products, product identification and control systems and specialty chemicals)

a,c Kenneth I. Guscott, General Partner, Long Bay Management Company (real estate development)

a,b,c Matina S. Horner, Executive Vice President, Teachers Insurance and Annuity Association and College Retirement Equities Fund

a,c Thomas J. May, President and Chief Operating Officer, Boston Edison Company

b,d Sherry H. Penney, Chancellor, University of Massachusetts at Boston

a,c Bernard W. Reznicek, Chairman and Chief Executive Officer, Boston Edison Company

e,f Herbert Roth, Jr., Former Chairman of the Board and Chief Executive Officer, LFE Corporation (traffic and industrial process control systems)

e,f Stephen J. Sweeney, Former Chairman of the Board and Chief Executive Officer, Boston Edison Company

b,c,d Paul E. Tsongas, Partner, Foley, Hoag & Eliot (law firm)

e,f Charles A. Zraket*, Trustee, The MITRE Corporation (not-for-profit system research and engineering firm)

a Member of Executive Committee
b Member of Audit, Finance and Risk Management Committee
c Member of Pricing Committee
d Member of Executive Personnel Committee
e Member of Nuclear Oversight Committee
f Member of Capital Investment Committee

* Will retire on April 22, 1994

## Dividend Reinvestment Plan

Our Dividend Reinvestment and Common Stock Purchase Plan (the plan) is available to our common and preferred stockholders. Under the plan, common and preferred stockholders may have their dividends reinvested in our common stock at current market prices. All participants may invest optional cash contributions, up to a maximum of $5,000 per quarter, which will be invested at the current market price. Participants do not pay fees or commissions.

All recordholders of shares of common and preferred stock are eligible to participate directly in the plan. Beneficial owners of our stock whose shares are registered in names other than their own (e.g., a broker or bank nominee) must arrange participation with the recordholder. If for any reason a beneficial owner is unable to arrange participation with their broker or bank nominee, they must become a recordholder by having the shares transferred to their own name.

All correspondence concerning changes in plan ownership should be directed to the plan agent:

**The First National Bank of Boston**
**Dividend Reinvestment Unit**
**Mail Stop: 45-01-06**
**P. O. Box 1681**
**Boston, Massachusetts 02105-1681**

## Important Stockholder Information

### Annual Meeting

Our Annual Meeting of Stockholders will be held on April 22, 1994, at 11:00 a.m. If you wish to receive a copy of Bernie Reznicek's remarks, please write to our Investor Relations Department at the General Offices address listed below.

### Company Contact

Theodora Convisser

Clerk of the Corporation

### Investor Relations Contact

Dan Desjardins

Director, Investor Relations

### General Offices

800 Boylston Street, Boston, Massachusetts 02199-8003

(617) 424-2000

### Stock Listings

New York and Boston stock exchanges

### Stock Symbol

BSE

### Dividend Payment Dates

Common and Preferred:

1st of February, May, August, November

### Tax Status of 1993 Dividends

Generally, unless you are subject to certain exemptions, all dividends on our common or preferred stock are to be considered 100% taxable.

### Stock Transfer Agent, Registrar of Stock and Dividend Reinvestment Plan Agent

The First National Bank of Boston

### SEC Form 10-K

Stockholders may obtain a copy of our annual report to the Securities and Exchange Commission on Form 10-K by making a written request to our Investor Relations Department.

### Quarterly Report to Shareholders

Beneficial owners of our stocks whose shares are registered in names other than their own (e.g., a broker or bank nominee) may obtain copies of our Quarterly Reports to Shareholders on an on-going basis by making a written request to our Investor Relations Department to be placed on their mailing list. Note that the Annual Report will continue to be mailed to beneficial owners directly by their bank or broker.

### Inquiries Concerning Stock

If you have questions concerning your dividend payments, dividend direct deposit, dividend reinvestment plan status, transfer procedures or other stock account matters, please contact our Stock Transfer Agent at the following address:

**The First National Bank of Boston**
**Shareholder Services Division**
**Mail Stop: 45-02-09**
**P. O. Box 644**
**Boston, Massachusetts 02102-0644**

If you are submitting documents requesting a transfer, address change or account consolidation, please use this same address with **Mail Stop: 45-01-05.** If you would like to contact the bank by telephone call **617-575-2900** or toll-free **1-800-442-2001**.

**Boston Edison**
*Investor Relations P356*
*800 Boylston Street*
*Boston, Massachusetts 02199-8003*