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Annual Report 1990

The portrayal of a lineman at work in a challenging environment represents all the men and women of the NU family. More than that, it symbolizes their dedication, skill, and experience. These are the attributes that let a person see change as a challenge rather than an obstacle and as an opportunity rather than a problem. The success of a company mirrors the quality of its employees. The fact that NU is recognized nationally as a leader in energy-related services is testament to the service commitment of the NU family.

On July 1, 1991, NU will mark the completion of its first 25 years. Our employees' strong tradition of service and performance excellence has been one of the few constants over that time. It has benefited shareholders and customers and has enriched the entire region. That heritage now becomes the basis for a renewed commitment to meeting demands still ahead.

The Report

The history of NU is one of successful, positive responses to change. Since the formation of NU in 1966, geopolitical events and ecological trends have affected just about every aspect of the electric utility industry. Commitment to nuclear power, energy conservation, and protection of the environment are prime examples of NU's responses to the changed conditions. In each case, we did more than react—we took early, decisive actions, and we developed innovative solutions. As a result, NU didn't merely adapt, it progressed. Rather than follow, NU became a nationally recognized pacesetter.

During the time that NU was making substantial commitments for a reliable, socially responsible, and cost-effective supply of energy services for the region, regulators adopted more restrictive policies that prevented timely, fair returns on these investments. Other policy changes imposed competition, yet maintained regulatory constraints. A combination of cost containment, system efficiencies, and capacity sales to other utilities formed the core of our successful response to these regulator-induced financial pressures. Well-considered longer term expansion and diversification strategies have also been developed and are currently being implemented.

This annual report documents the heritage of achievement that has provided exceptional value to our customers and has strongly positioned the company to meet the future energy needs of the region. It also examines the uncontrollable external pressures—the net effects of prior regulatory decisions, tax impacts, and a sluggish economy—that now require rate relief. The successful resolution of this latest challenge will bring into better balance the strong commitment we have to customers and shareholders alike.

The Company

Northeast Utilities is the parent company of the NU system (collectively referred to as NU). NU is one of the largest utilities in the country, and the largest in New England, with 8,225 employees serving about 1.26 million customers in Connecticut and western Massachusetts.

HEC Inc. was added to NU during 1990 as a nonutility subsidiary company to provide energy management services, primarily in New England and New York.

- **Electric Operating Subsidiaries**
  - The Connecticut Light and Power Company
  - Western Massachusetts Electric Company
  - Holyoke Water Power Company
- **Support Subsidiaries**
  - Northeast Nuclear Energy Company (nuclear operations)
  - Northeast Utilities Service Company (systemwide service)
- **Nonutility Subsidiaries**
  - Charter Oak Energy, Inc. (cogeneration)
  - HEC Inc. (energy management)
- **Realty Subsidiaries**
  - The Quinnehtuk Company
  - The Rocky River Realty Company

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HIGHLIGHTS	1990	1989	% Increase
Operating Revenues*	$2,616,319,000	$2,473,571,000	5.8
Net Income	$211,007,000	$209,083,000**	.9
Earnings Per Common Share	$1.94	$1.92**	1.0
Common Shares Outstanding (Average)	109,003,818	108,669,106	.3
Dividends Paid Per Share	$1.76	$1.76***	—
Sales of Electricity (kWh–Thousands)*	29,611,000	29,547,000	.2
Electric Customers (Year-end)*	1,260,181	1,251,700	.7
Construction Expenditures****	$292,902,000	$270,589,000	8.2

* The reported amounts reflect the reclassification of bulk power sales transactions from operating expenses to operating revenues. See Note 1 of Notes to Consolidated Financial Statements.

** Includes gas operations discontinued in 1989.

*** Excludes 1989 special stock distribution related to the discontinuance of gas operations.

**** Excludes nuclear fuel.

Letter to Our Shareholders

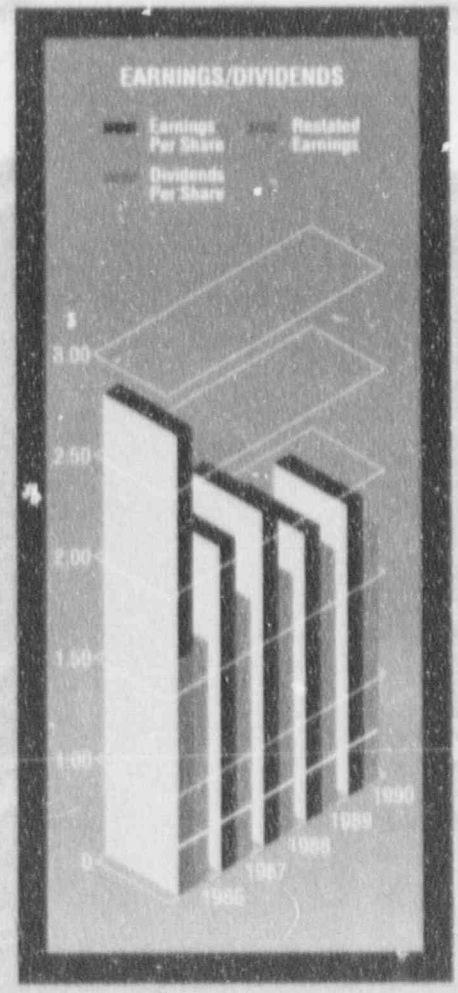
The affiliation that resulted in the formation of Northeast Utilities (NU), on July 1, 1966, brought with it a heritage of, and a commitment to, service that can be traced back to the late eighteenth century. The challenges and demands now placed upon NU employees have changed dramatically, but the commitment to meeting the needs of shareholders, customers, and the entire region remains unswerving.

The NU affiliation was based, in large part, upon the benefits of expansion. Economies of scale, added stability, and greater diversity were–and continue to be–compelling reasons for further expansion. Size alone, however, shouldn't be the goal. The true measure of a successful strategy is the ability to convert the potential benefits of greater size into tangible, measurable achievements.

Thus, the size of NU–the largest electric utility in New England and among the 30 largest in the country–is a source of strength and of pride, but it doesn't truly describe the company, nor does it adequately characterize NU's position within our industry. Simply stated, we firmly believe that NU is recognized as an outstanding electric services company. That's not a claim lightly made, nor one based upon a few carefully selected facets of our operations. Rather, it considers all aspects of our business, from generating efficiency to cost control, from effective resource planning to meeting the changing needs of our customers, and from community regard to investor value. It's an assessment that considers not only how well we're performing but also how perceptive we are in identifying changes sufficiently early to convert them into opportunities rather than having to react to them as constraints and crises.

First, let's consider two aspects of NU's commitment to nuclear power. We brought Millstone 3 into service at a comparatively low cost, and we obtained regulatory approval to recover about 90 percent of our investment. Unlike many utilities with similar undertakings, we did not have to cut our dividend. Furthermore, NU's nuclear operations have consistently and significantly exceeded national averages. This combination of an effective early commitment to nuclear capacity and on-going performance excellence will continue to be an asset in terms of competitive regional energy costs, compliance with more stringent environmental controls, protection against volatile oil prices, and provision of resources into the next century.

Second, when regulators urged an expansion of our efforts in conservation and cogeneration, we responded positively and imaginatively. We won national recognition for our pioneering efforts, and we are committed to maintaining our position. Beyond that, we focused our diversification efforts on energy endeavors, thus avoiding the mistake made by some utilities expanding into unrelated businesses. Charter Oak Energy, Inc., was formed in 1989 to pursue development and joint ownership of cogeneration and small-power production opportunities. HEC Inc., was added in 1990 to provide an unregulated conservation services capability.



Effective cost management is yet another area in which NU can take justifiable pride. Whenever staffing reductions have been necessary in recent years, they have been achieved almost always through attrition, even as the number of customers and the level of their needs continued to increase. Still, we continue to improve system reliability, and our customer satisfaction levels remain above the national averages. Over the past seven years, even while inflation continued and major investments were added to rate base, the real cost of electricity for our retail customers actually decreased.

Financial Performance

The development of a more competitive electric services business is a fundamental element of the strategies we've put in place to make NU a more profitable company. Substantial achievements in such areas as cost management, system reliability, and customer service continue to strengthen the cost-effectiveness and competitive strength of our core business. Yet, at a time when we're making substantial progress as an exemplary supplier of energy services, these successes are not adequately reflected in our financial performance. There are a number of key reasons for our recent earnings inertia,

the most significant of which can be traced to restrictive legislative and regulatory decisions during the 1980s. We're continuing to be impacted by the disallowance of portions of our investments in Millstone 3 and Seabrook. Likewise, since the early 1980s, we've been limited by rate decisions–similar to those throughout the country–that have reduced allowed returns on a utility's equity. Moreover, while NU shareholders were fully compensated for the value of the legally required spin-off of the gas business in 1989, the fact remains that the divestiture carved off about 5 percent of NU's per-share earnings.

At the close of the 1980s, further pressure on earnings was exerted by the national economic slowdown, which was most pronounced in the Northeast. While still positive, the rate of NU's retail sales growth during the last two years of the 1980s was only about one-third that of the preceding five years. Over the course of the decade, NU's dividend growth performance approximated the average throughout the utility industry–roughly 5 percent per year.

NU's earnings for 1990 were $1.94 per share, up 2 cents from the previous year. The still-lingering effect of past ratemaking decisions continued to have an impact on earnings. The more pronounced recessionary trend during the second half of the year took an even greater toll. These factors, plus unusually moderate weather, resulted in essentially flat 1990 sales. While the 1990 rate decision in Massachusetts did provide some relief, the amount granted was considerably less than requested, with much of it represented by the final phase-in of Western Massachusetts Electric Company's (WMECO) allowed investment in Millstone 3. That portion of the increase improves the quality–cash versus noncash–rather than the level of earnings.

Performance Outlook

The past several years have indeed been challenging ones, particularly with respect to financial performance, but there is cause for optimism. The drag on earnings resulting from disallowances associated with our nuclear capacity investments is becoming less significant. Regulators in Connecticut and Massachusetts have responded favorably to requests for more enlightened and equitable treatment in such areas as recognition of the full costs of our commitment to energy conservation–including the impact of reduced sales associated with conservation and load management. While further progress in these and other ratemaking areas is still essential, NU and the regulators can now focus upon topics such as the measurable effects of inflation, taxes, and reduced sales growth upon NU earnings. The rate increases filed by The Connecticut Light and Power Company (CL&P) and WMECO are sizeable, but fully justifiable and understandable. We hope to be treated more fairly and reasonably than has been the case in the past. We are confident that, over time, NU will be positioned to achieve well-deserved and overdue improvement in earnings through rates.

There are a number of other reasons for our optimism concerning the longer

"NU has a proud heritage of exceptional performance and a strong commitment to quality energy services."

term prospects for stronger earnings. We've worked hard to achieve excellence in all aspects of our business. As a result, we're well-positioned for the future and are simply not as vulnerable to the problems facing many other utilities. For example, NU's resource needs are satisfied into the next century, so we don't face the need for costly new generating units. Our in-place nuclear capacity provides protection against high oil prices. This protection is particularly valuable to customers as a result of the situation in the Persian Gulf. Yet, we know of men and women who served there–and continue to do so–who have provided protection of another kind. Our thoughts, prayers, and heartfelt gratitude go out to all these brave, patriotic people.

The fact that our oil-fired units are already in compliance with stringent state pollution requirements means that federal air-quality standards enacted in 1990 will have a minor impact on operating costs.

The acquisition of Public Service Company of New Hampshire (PSNH) is yet another reason for optimism. The resulting NU company will be stronger, more stable, and more diverse. The operational savings that will result will be substantial, and they will start almost immediately after the process has been completed. In fact, anticipated savings allowed CL&P to reduce its need for revenue increases by about 10 percent in its current rate filing. The acquisition rate agreement and related Seabrook power contract provide the basis for financing the acquisition and recovery of PSNH's investment in Seabrook. Our projections indicate NU shareholders will benefit from this acquisition in terms of increased earnings that will more than offset any short-term dilution as a result of additional NU stock offerings over the next three years to finance the acquisition.

Our long-term financial projections include estimates of the impact of the economy on sales growth for the next several years. However, the combination of low sales growth projected for 1991 and the uncertain outcome of the pending rate decisions in both Connecticut and Massachusetts leads us to a conservative earnings projection for the year. The company has a high dividend payout ratio, and there will be further dividend requirements on new common share issues to finance the PSNH acquisition. Based upon this overall assessment, the Board of Trustees voted, on January 22, 1991, not to increase the 1991 dividend but to maintain the indicated annual dividend rate at the $1.76 level.

A New Perspective

One of the underlying reasons for NU's position as a leading supplier of electric services is the way we perceive and react to change. Our management approach is to anticipate changing conditions, to analyze rigorously the opportunities that change presents to us, and to set an appropriate course of action that is flexible and avoids unnecessary costs and risks.

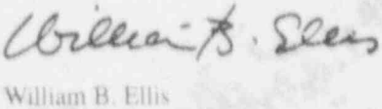
NU's strategic plan is based upon such a rigorous analysis of the changing business environment. It is the foundation for our long-term goals and for the strategic initiatives that we are undertaking. It also affords us the flexibility to adapt as new opportunities emerge. Our challenge lies in the number of opportunities and how frequently they arise. To be successful, our vision of the future must be shared throughout the NU organization. Also, the organization itself must be ready to anticipate, react, and adapt as new opportunities arise. We've already made substantial progress in making this a part of NU's culture. The challenge is not to begin but to continue.

Today, we readily accept the need for a more comprehensive marketing approach to the distinctly more competitive environment in which we now operate. In fact, we insist upon it. This reorientation from a mindset that sees NU primarily as a supplier of energy services to one that focuses upon identification and satisfaction of customers' needs is well under way. The consolidation of our customer service and transmission and distribution functions into the new Customer Service Operations is an example of this change.

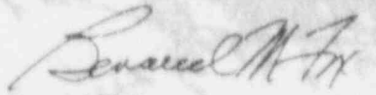
With our environmental and conservation programs, the key is one of reaffirming long-held commitments rather than redefining them. In these areas, we've consistently initiated new approaches and have achieved considerable successes. These innovative efforts will be sustained and will continue to benefit the entire region.

Fundamental to the way we look at all aspects of our business is the concept that quality is an integral part of the services we provide. Traditional thinking considers quality merely as an added cost of doing business. That linkage is essentially negative, and the logic behind it is incorrect. A linkage does exist, but it's a positive one that recognizes the implicit value of quality.

As the theme for this year's annual report implies, NU does have a proud heritage of exceptional performance. We are committed to maintaining our position as a preeminent supplier of quality electric energy services. More and more, the way we look at our markets and the way we conduct our business–our vision–will allow us to keep this commitment.



William B. Ellis
Chairman and
Chief Executive Officer



Bernard M. Fox
President and
Chief Operating Officer

March 1, 1991

The NU Acquisition of PSNH

Our initial interest in acquiring Public Service Company of New Hampshire (PSNH) was based on the strong conviction that a merger offered substantial long-term benefits to Northeast Utilities' (NU) existing shareholders and customers, while bringing PSNH out of bankruptcy and satisfying the ongoing needs of its customers. Today, some three years after launching our acquisition efforts, we're as convinced as ever of the benefits of the proposed acquisition.

Significant progress on this front was made during 1990. The bankruptcy court confirmed our PSNH acquisition plan in April, and the New Hampshire regulators approved it in July. In December, the Securities and Exchange Commission approved the acquisition, and an administrative law judge recommended that the Federal Energy Regulatory Commission do the same.

Economic Benefits

The identifiable cost savings of a merged system will come from three basic sources. There will be significant economies of scale, such as enhanced purchasing power and functional consolidations. Certain characteristics of the two companies are complementary and will provide benefits beyond those attributable to size alone. These range from offsetting peak-demand periods to a better mix of capacity and fuel types. Finally, NU's proven management capabilities, particularly more than 20 years of successfully operating nuclear plants including one (Millstone 3) almost identical to Seabrook, will contribute substantially to the savings of the merged system.

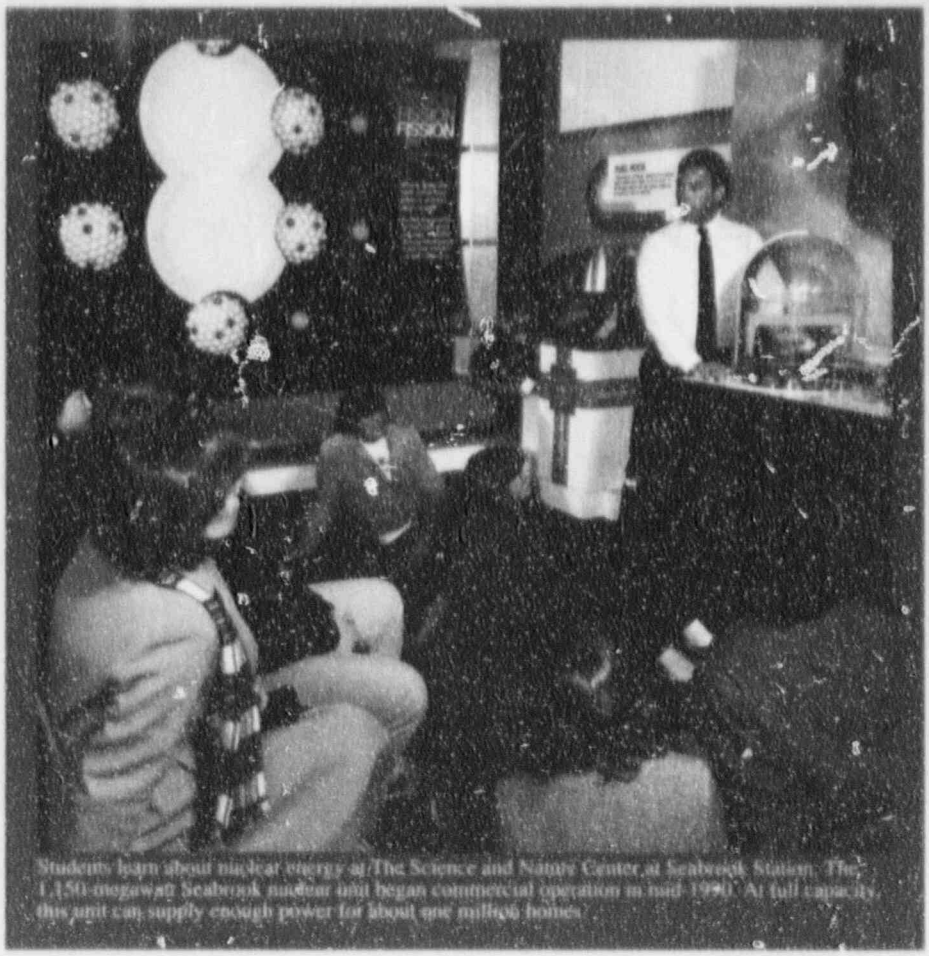
Revenue Plan

The key to the merger is a rate package that addresses the revenues needed to support the acquisition. An unprecedented rate agreement calls for seven consecutive 5.5 percent annual rate increases, along with comprehensive fuel and capacity clauses. A Seabrook power contract guarantees recovery of PSNH's 35.6 percent share of Seabrook costs over the life of that unit. Together, these two elements will provide the revenues necessary for PSNH to support the acquisition and give very strong assurance of full recovery of PSNH's investment in Seabrook.

Merger Process

We expect Step 1 of the merger process will be completed in April 1991. At that time, PSNH will emerge from bankruptcy as a free-standing company, managed–but not owned–by NU. PSNH financing of Step 1 will consist of some $1.5 billion in debt, $125 million in preferred stock, and new PSNH common stock. Step 2 will occur only after all regulatory and other conditions of the acquisition are satisfied. At that point, expected later this year, PSNH will become a wholly owned NU subsidiary, and NU will pay $20 a share for the PSNH common stock issued in Step 1. NU will finance its investment by issuing some $600 million in new NU common shares over a three-year period.

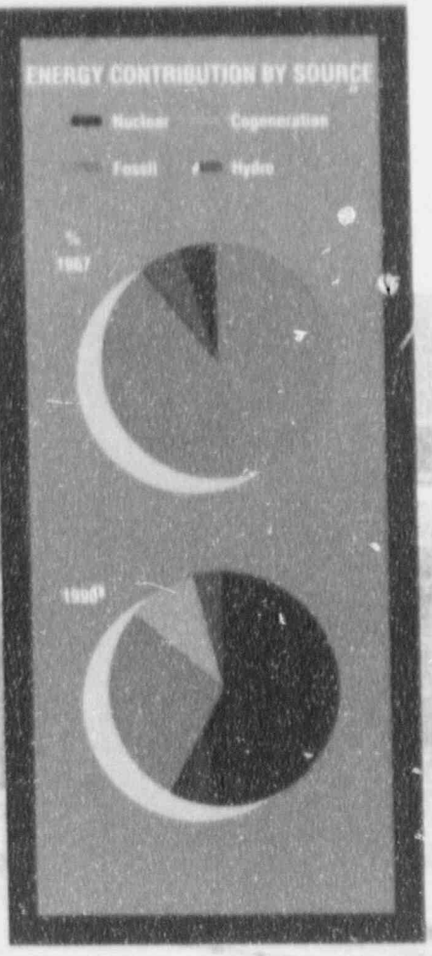
Our assumptions about this acquisition are sound and realistic. Our plan provides the revenues needed to support the acquisition and provides significant control of risks. The resulting company will be stronger, larger, and more balanced, with diversity of earnings and regulatory oversight. For all these reasons, we're confident that this acquisition will benefit NU and PSNH and our shareholders, customers, and employees.



Students learn about nuclear energy at The Science and Nature Center at Seabrook Station. The 1,150-megawatt Seabrook nuclear unit began commercial operation in mid-1990. At full capacity, this unit can supply enough power for about one million homes.

System Performance–Supply

Northeast Utilities (NU) is the largest utility in New England and is among the 30 largest in the country. As such, our concept of what constitutes excellence of supply must go beyond such important–but limited–concerns such as capacity, efficiency, and reliability. Our performance has direct and immediate impact upon our customers, but it also plays a broader and more enduring role as a key determinant in the quality of life and the economic competitiveness of the region. Similarly, the size and very nature of our business mean that we can have–must have–a very powerful and positive influence in areas such as control of pollution and protection of the environment. We have a proud heritage of successful pioneering efforts in these areas, and we're committed to continued excellence. Finally, we'll continue to look toward the future with the same combination of vision and pragmatism that has provided NU with tangible protection against energy shortages well into the first decade of the next century.



Operational Highlights

The net year-end generating capacity of the NU system was 5,910 megawatts (MW), while the 1990 peak load was 4,754 MW. This represents a reserve capacity of 24.3 percent, compared to the minimum target of 19.3 percent established by the New England Power Pool (NEPOOL). During 1990, NU provided its customers 26.9 billion kilowatt-hours of electricity–excluding bulk power sales. We also supplied other utilities in New England with an average of 1.5 million kilowatts of capacity under contracts, some of which extend through 1998. Over the total life of these contracts, NU will collect approximately $600 million in capacity-charge revenues.

Nuclear

NU has been operating nuclear units for more than 20 years, during which time we've become one of the country's premier nuclear utilities, with an outstanding record for safety and efficiency. The four facilities we currently operate have a total capacity of 3,258.5 MW. Over the past five years, NU's composite capacity factor for these units averaged 74.8 percent, compared to the latest available five-year national average of 61.4 percent. Moreover, these facilities have consistently received very high safety and operational ratings from the Nuclear Regulatory Commission. In fact, Connecticut Yankee (CY) has received the highest possible score.

Fossil/Hydro

NU's fossil-fueled units supplement the baseload of the nuclear plants by helping to satisfy intermediate- and peak-load conditions. They, too, have an outstanding record for exceptional performance: Their average availability for the 1985-1989 time frame exceeded the national average by more than seven percentage points. For 1990, performance above NEPOOL targets again translated into direct energy savings for our ratepayers. Our hydro plants also supplement baseload nuclear capacity. For example, the 1,080-MW pumped-storage facility at Northfield (Massachusetts) Mountain provides economical peak-load power for NU customers and for sales to other utilities. In November 1990, Phase II of the 2,000-MW Hydro-Quebec interconnection was placed in commercial operation. The New England utilities will, over the next ten years, purchase 7,000 million megawatt-hours of firm energy Canadian hydropower. NU will receive 22.8 percent of the savings created by the purchases.

Nonutility Generation

During 1990, electricity delivered by cogenerators and small power producers, including 22 under long-term contracts, represented about 10 percent of the total energy needs of the NU system, up significantly from the 4 percent contribution last year. By 1994, we project that 32 nonutility sources–equivalent to some 650 MW–will provide nearly 16 percent of overall NU system needs.

Fuel Mix

It is more apparent than ever that the NU vision and conviction that shareholders and customers, as well as the economy of the overall region, would benefit from a strong commitment to nuclear power were on target. In 1967, the year before the start-up of CY, fossil fuel accounted for 89 percent of NU's energy, with the balance about evenly split between hydropower and nuclear entitlements. During 1990, nuclear made up 58 percent of our fuel mix, with oil accounting for only 22 percent and coal-fired for 4 percent.

Nonutility generation–not a measurable factor until 1988–contributed another 10 percent. The balance came from hydropower at 4 percent and natural gas operation on an interruptible basis at 2 percent. The most obvious benefit of this commitment to nuclear energy is a substantial reduction in dependence upon costly and unreliable imported oil. At the current mix, NU now uses only 11 million barrels of oil per year–compared to 28 million barrels in 1973–yet, total requirements grew by some 37 percent. By way of further comparison, the NU entitlement from Millstone 3 during 1990 equated to nearly 8 million barrels of oil.

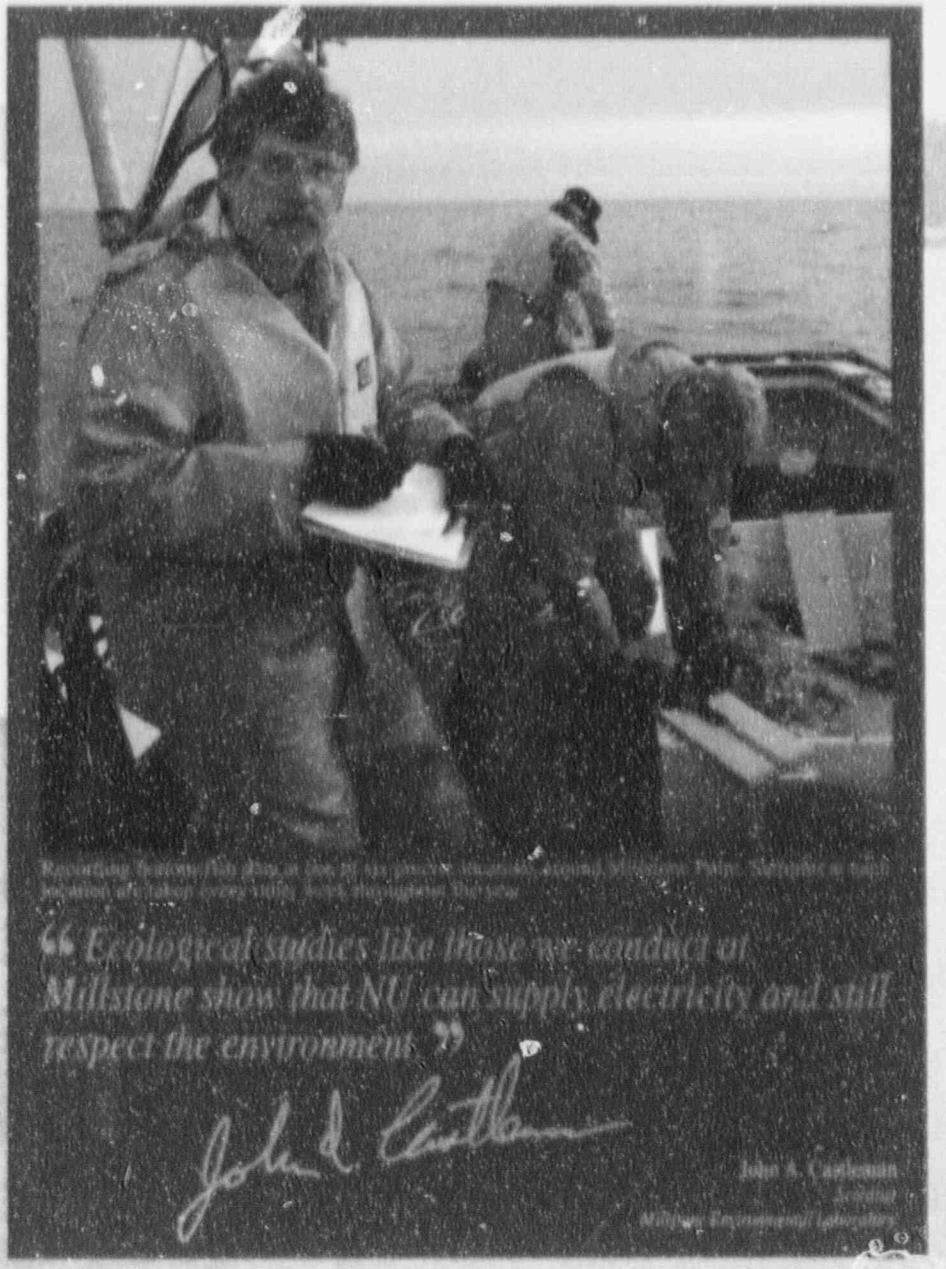
In addition to providing lower, more stable fuel costs, NU's nuclear capacity greatly limited our exposure to costs associated with new environmental legislation enacted by the federal government. Even in the case of our fossil-fired units, the impact of this legislation will be relatively minor, because all these units already use low-sulfur fuels. We estimate that compliance costs for these facilities by the year 2000 will be a relatively modest $15 million per year, which is less than 1 percent of annual revenues.

System Reliability

Since NU initiated an intensive distribution reliability program in 1987, we've become more sensitive and responsive to the needs of all customer classes for dependable electric service. Much has already been accomplished, but much more can still be achieved. The extent to which we'll be able to sustain the current high level of financial commitment is–to a great extent–contingent upon decisions in pending rate cases. To the extent possible, we will continue our efforts, building upon the successes already achieved.

The NU transmission and distribution reliability program involves capital and noncapital expenditures. Capital investments are aimed at strengthening our distribution reliability by means such as the installation of sophisticated switching equipment that isolates damaged locations from unaffected portions of major circuits. Capital expenditures specifically targeted for improved system reliability amounted to some $16 million in 1989. The 1990 amount exceeded $19 million–over twice the 1988 level. Additional distribution capital expenditures of $15 million spent in 1990 for plant modernization and voltage improvements also helped to improve system reliability. Noncapital expenditures focus upon tree-trimming operations. On average, NU spent about $22 million during each of the last three years, more than double the level of the mid-1980s. Tree-trimming continues to be the single-most effective reliability program, not only as a preventive measure, but also as a means of speeding up power restoration to customers after storm-induced damage.

We've made a major commitment to improved system reliability, and the results have been gratifying. Our key reliability statistic improved by almost 7 percent during 1990, following a truly impressive gain of 22 percent in 1989. As we get better, such progress will be more difficult to achieve, but we can–and will–continue to serve all customers at still higher levels of reliability.



System Performance–Demand

During 1990, Northeast Utilities (NU) served an average of 1,256,000 retail customers, satisfying their need for 24.2 billion kilowatt-hours (kWh) of electricity. Wholesale customers required an additional 682 million kWh–excluding bulk power sales. In the retail segment, residential customers accounted for 40 percent of sales, commercial establishments used 37 percent, and the industrial sector required 23 percent.

Demand Forecast

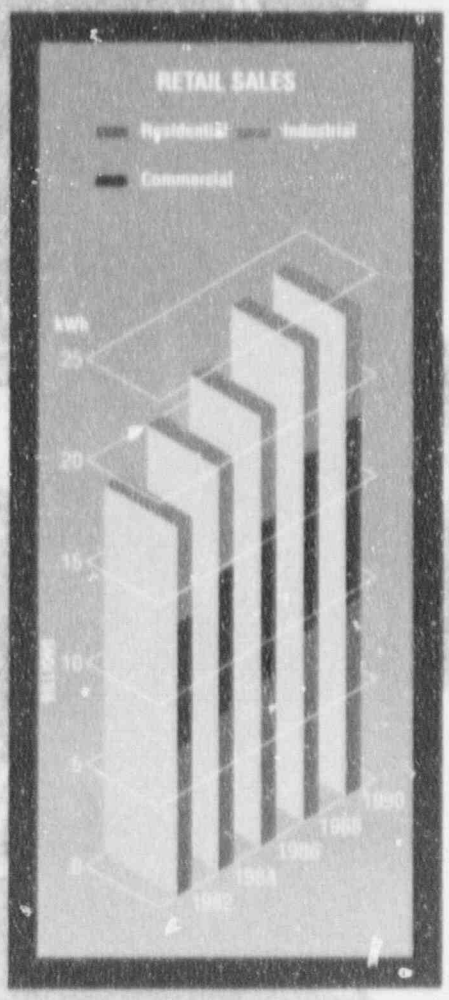
The mid-1980s represented a period of substantial growth for NU. Fueled by strength in home and business construction, the 1983-1988 period was particularly strong. The annual growth rate was an exceptional 4.3 percent, led by a commercial sector which increased demand by 32.2 percent during this period, and followed closely by a residential increase of 24.6 percent.

Demand for electricity is ultimately dependent upon regional, national, and international economic cycles. For example, our current demand forecast projects average annual sales growth of about 0.9 percent over the next ten years, compared to that of the 1980s of 2.1 percent. That's down from the 1.4 percent growth forecasted a year ago, but the gap is manageable, particularly since we had been basing our longer range planning on a slow-growth scenario well before the sudden impact of the Persian Gulf situation. For 1991, sales growth is now projected at about 1.7 percent. At that level, the impact of weather becomes a key determinant of actual results. A significant deviation from normal weather conditions throughout the year could impact the rate by about one-half of a percentage point.

Resource Planning

Our integrated demand and supply planning process is the means by which NU periodically updates its long-range resource needs. The current plan identifies a need for new resources beginning in 2007. The winter peak-load demand amounts to slightly over 6,000 megawatts (MW) in that year. For resource planning purposes, a reserve margin has to be added, bringing our total resource requirement to some 7,400 MW. This requirement would have been much higher without the positive influence of NU's comprehensive conservation programs. In 2007, these programs are projected to have a capacity savings of over 800 MW in the winter and about 1,000 MW during the summer.

Existing capacity, including NU's Seabrook entitlement, will satisfy 88 percent of the need projected in 2007. Another 650 MW, representing 9 percent, will be provided by cogeneration and small-power producers presently under contract with NU. Firm purchase commitments from Hydro-Quebec will satisfy the remaining resource need.



The combined contributions in 2007 from our conservation programs, nonutility capacity purchases, and Canadian hydropower amount to over 1,700 MW in the winter and nearly 2,100 MW during the summer.

These resource planning considerations exclude the NU-PSNH merger. Under a combined system, capacity requirements at the turn of the century would increase by some 2,350 MW, for a total–including reserves–of 8,650 MW. The fact still remains, however, that no major new additional resources will be required until 2005 with the merged systems.

Conservation and Load-Management Programs

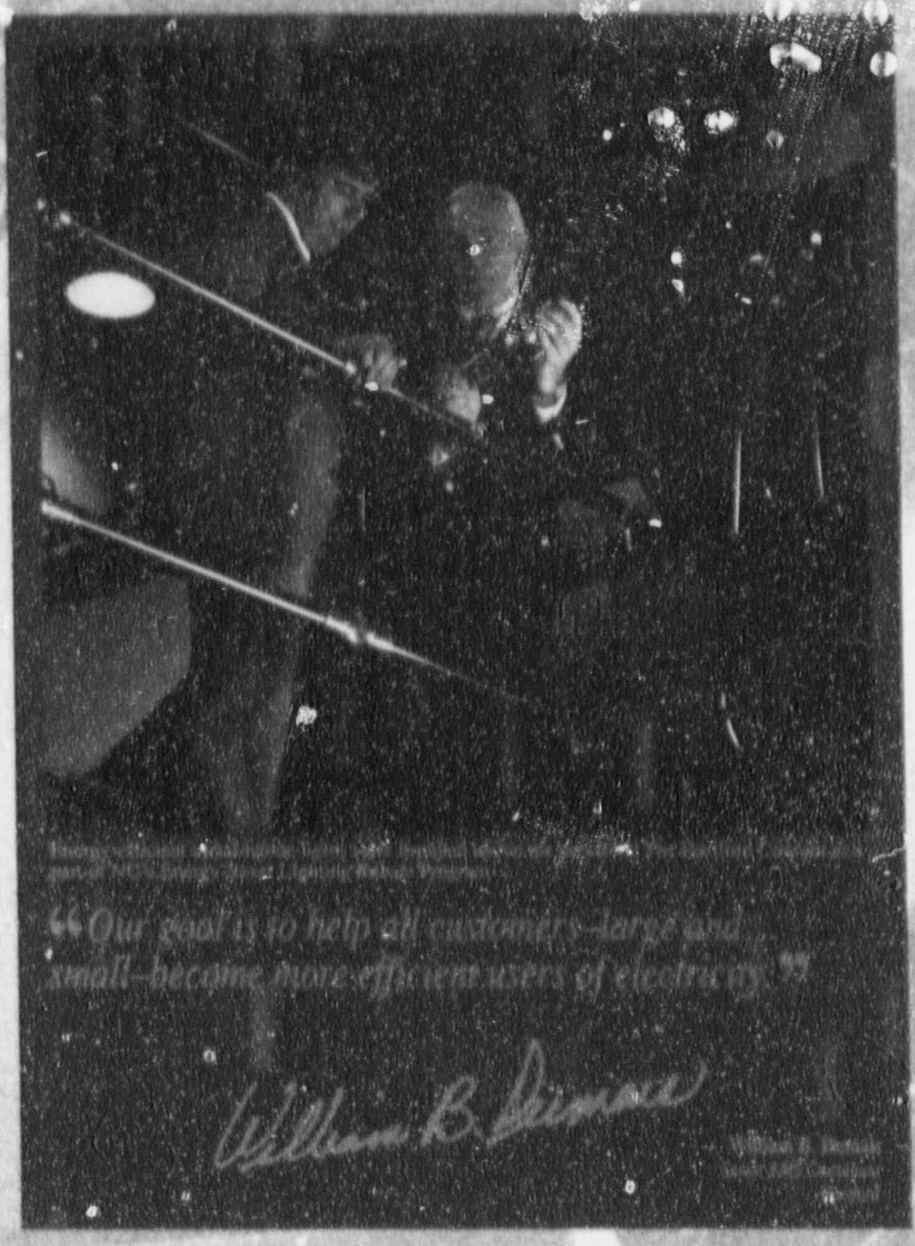
NU continues to be acknowledged as a national and world leader in the design and effective implementation of innovative conservation and load-management (C&LM) programs. We're extremely proud of this conservation heritage and commitment. NU, its customers, and the region as a whole derive substantial benefits from our C&LM expenditures. Participating ratepayers enjoy the direct and immediate benefit of lower utility bills. NU and all of its customers gain long-term from the postponement of costly construction of new generating units. For our larger commercial and industrial customers, the savings and energy management expertise available from NU often are the critical factors in assessing NU as their best electric energy service alternative. Finally, lower energy requirements improve the overall competitiveness of the region, in terms of lowered long-run costs and a healthier, cleaner environment.

During 1990, NU spent about $49 million for energy conservation, an increase of 115 percent from the previous year. While the company continually reassesses the design of its C&LM programs and commitment levels, we expect to sustain meaningful efforts for the remainder of the decade. The resulting benefits have been–and should continue to be–substantial. We have already mentioned that conservation measures included in the company's current plan are expected to reduce resource needs early in the next century by some 800 to 1,000 MW, depending on the season. By the mid-1990s, customers and the whole region will benefit from energy-use reductions that will displace the equivalent of over three million barrels of oil per year.

Through 2000, NU's industrial and commercial customers are expected to have saved some three billion kWh of electricity. C&LM programs are designed for all customers in these two classes, from the smallest to the largest. These programs focus on four basic aspects of energy conservation.

More efficient lighting is promoted via our Energy-Saver Lighting Rebate Program. Both the Energy Action Program and the Customer-Initiated Program are concerned with retrofit activities that improve energy usage by upgrading items such as motors, controls, and air-handling systems. NU's EnergyCHECK Program makes energy audits available to companies with 10,000 to 50,000 square feet of space. A similar program for customers with less space includes funding of the audit and resulting installation of conservation measures.

The final area addresses use of energy-efficient design elements in new construction over 10,000 square feet. NU's new office facility in Berlin, Connecticut, scheduled for completion by May 1992, is an excellent example of the conservation measures available through advanced energy-efficient design techniques. Energy requirements will be 1.2 million kWh less per year than would be the case for a similarly sized building of standard design. Those savings should equate to more than 2,200 barrels of oil per year.



NU's residential customers have consistently benefited from our long-standing commitment to energy conservation programs. During 1990, NU designed and received regulatory approval for an extensive new array of programs for Connecticut customers under the SPECTRUM$_{sc}$ Conservation Services Program. At the request of state regulators, SPECTRUM program implementation was accelerated in response to the Persian Gulf situation. Combining four new components with proven programs, SPECTRUM services address the major uses of electricity in single and multifamily dwellings: space heating and cooling, water heating, lighting, and appliances. Customers in western Massachusetts also benefit from a SPECTRUM Conservation Services Program. NU is particularly proud of those program elements which make conservation practices affordable for lower income customers.

Regulation and Public Policy

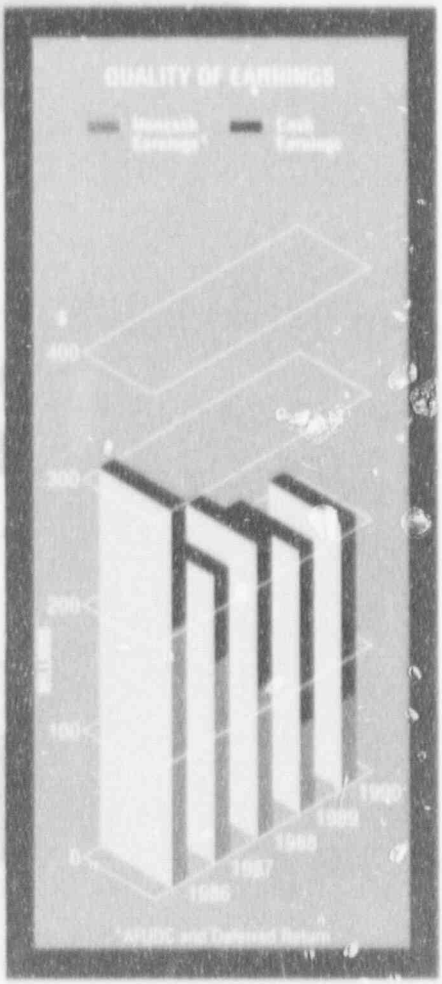
In most respects, the difficulties that we experienced with the legislative and regulatory policies and practices of the 1980s are now behind us. We are finding that both legislators and regulators are increasingly open to innovative concepts for dealing with the issues of the 1990s. There is increasing awareness of the need to strengthen our competitive position by permitting more effective responses to the needs of our larger industrial customers. We will be better able to retain load, and these customers, in turn, will become more cost competitive. The benefits of the improved regulatory climate will accrue to those who live and work in the region.

Examples of Progress

Both The Connecticut Light and Power Company (CL&P) and Connecticut manufacturers should ultimately benefit from legislation that requires the Department of Public Utility Control (DPUC) to consider manufacturers' energy costs when setting rates by class and also to consider flexible pricing in the interest of economic development. If this legislation results in the reduction, if not the full elimination, of interclass rate subsidies, Northeast Utilities (NU) and the entire region will benefit.

In a second instance, CL&P gained the support of the Connecticut Conservation Collaborative of its filing of a surcharge on rates in order to raise an additional $20 million annually to help offset increased conservation expenditures. The DPUC approval of the surcharge, which became effective January 1, 1991, combined with expenditures currently factored into rates, will offset a major part of 1991 activities, with the remainder to be deferred for future collection.

In a third case, the DPUC approved a settlement agreement whereby $167 million of CL&P's investment in the Seabrook nuclear facility, as of June 30, 1990, will be placed into retail



rate base. As a result of write-offs reflecting the construction cost cap imposed by a Connecticut statute and the tax benefits associated with the settlement agreement, there was little impact on 1990 earnings.

In June 1990, the Department of Public Utilities (DPU) granted Western Massachusetts Electric Company (WMECO) an annual rate increase of $20 million, or 6.5 percent. While we're disappointed that the DPU didn't approve the full $32.5 million requested, we are pleased that WMECO's allowed investment in Millstone 3 is now fully phased into rates.

In a separate action, the DPU approved changes that will allow WMECO to recover through rates both the direct costs and lost revenues associated with conservation programs. The DPU also authorized financial incentives for programs that achieve at least 75 percent of their energy-saving goals. The recognition of lost sales and some level of incentive for conservation measures is a major step in the establishment of enlightened conservation regulation that will be of mutual benefit to NU, its shareholders, and its customers.

An Immediate Need

We can no longer avoid the fact that significant costs have not yet been recognized in rates. A portion of these costs is related to our investments and associated costs for projects such as Millstone 3, Seabrook, and transmission lines to carry electricity from Hydro-Quebec. Such investments not only assure an adequate supply of power but also insulate customers from the effects of high, unstable oil prices. Other costs that now require immediate recognition in rates range from NU's significant financial commitments for superior system reliability to the cumulative impact of seven years of inflation.

For the past several years, NU has been able to counter the combined effects of costs associated with system growth and improvements and general inflationary pressures by a combination of sales growth, revenues from capacity sales to other utilities, and comprehensive cost-containment measures. For example, we reduced personnel levels by more than 500 positions, or 6 percent, over the past four years, during which time the number of customers we served rose by some 60,000, or 5 percent. We did it while still improving the reliability of service provided to our customers. Because of such efforts, favorable fuel prices, and the benefit of strong sales growth through most of the 1980s, CL&P's average kilowatt-hour price was only 1 percent higher in 1990 than it was in 1984, after its last

significant rate increase became effective in 1983. Over the same period of time, the Consumer Price Index increased more than 30 percent.

Now, our ability to absorb costs without substantial rate relief has come to an end. Current conditions, most of which are beyond our control, must be addressed immediately. Sales growth has slowed dramatically. Federal taxes collected from ratepayers in excess of projected tax liabilities, which were used to offset rate increases, were depleted on December 31, 1990. This equates to a $40 million loss of expense coverage for CL&P and a $10 million loss for WMECO. These and the numerous other cost increases already mentioned, which were manageable in the past, can no longer be ignored.

Thus, both CL&P and WMECO have filed for rate increases. The CL&P filing was made on January 7, 1991 and calls for a revenue increase of about $228 million, or 11.5 percent. CL&P also asked the DPUC to permit $96 million of the increase to become effective in February or March 1991. In connection with that request, CL&P has extended by 45 days, to mid-August, the date for a final decision on the full increase request. The WMECO filing on December 14, 1990, requests $43.3 million in increased revenues, or 11.9 percent.

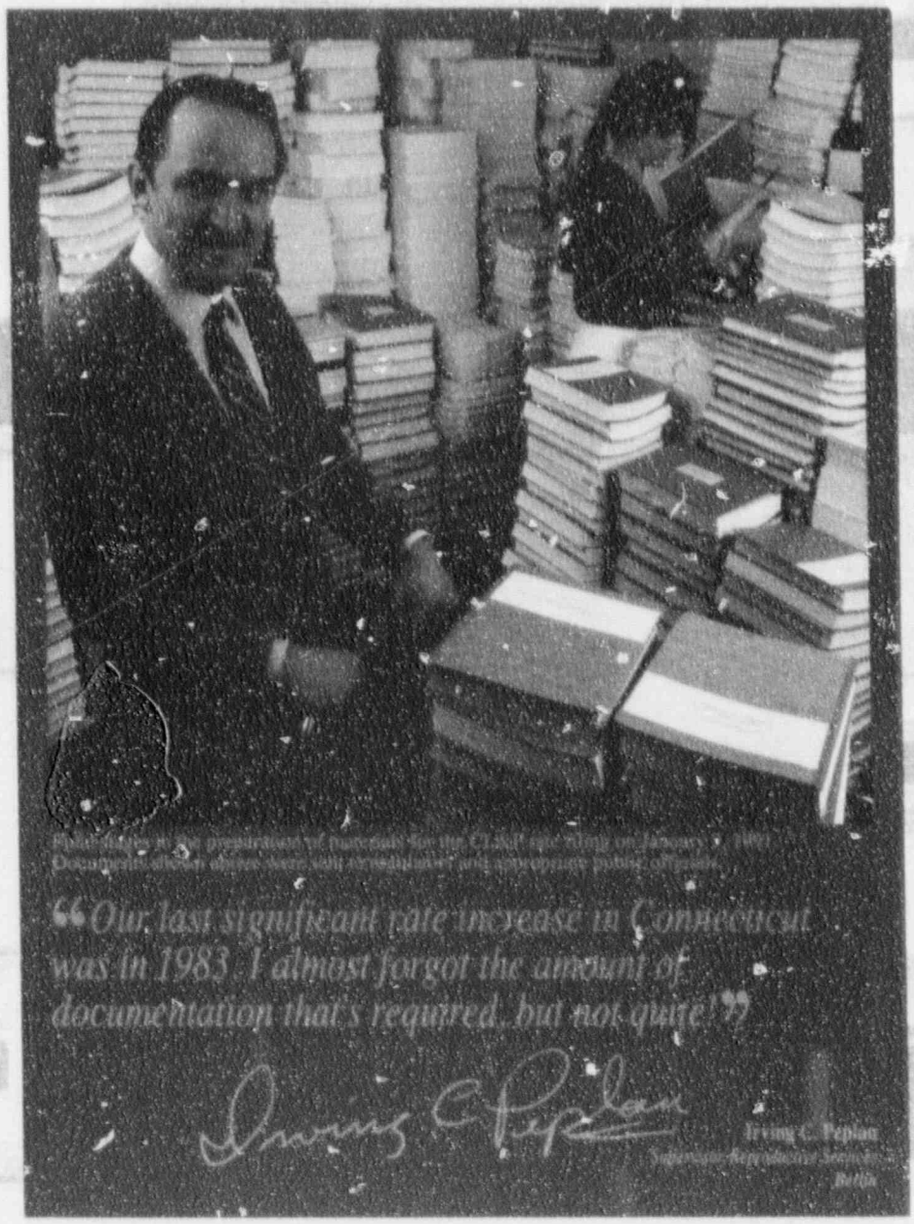
The Outlook

The need for these rate increase requests comes at a rather inopportune time, given the prevailing economic climate and the prospects in both states for tax increases. However, despite the timing and magnitude of these filings, we are reasonably optimistic that regulators in both states will recognize the very valid bases for each request.

CL&P's kilowatt-hour price continues to compare favorably with other utilities in the region, which speaks to the steps we've taken to contain costs, at a time when we also responded effectively to regulatory requests for added expenditures for conservation and reliability programs. In other words, we've been sensitive to the needs of customers and regulators alike, and we fully intend to maintain these commitments.

After some seven-plus years of outstanding performance with minimal rate increases, we do believe that the DPUC will recognize that present circumstances justify our request for increased revenues.

Our current filing in Massachusetts is made necessary by the same external factors that prevail in Connecticut–minimal sales growth, tax impacts, and inflation. For instance, exhaustion of the excess federal taxes collected from ratepayers and increased state sales taxes account for one-quarter of the total requested increase. WMECO's financial condition is below the industry average, and the rate request is designed solely to recover increased operating costs and to correct this financial situation. The needs are obvious and straightforward, and they are compelling.



Customer and Community Service

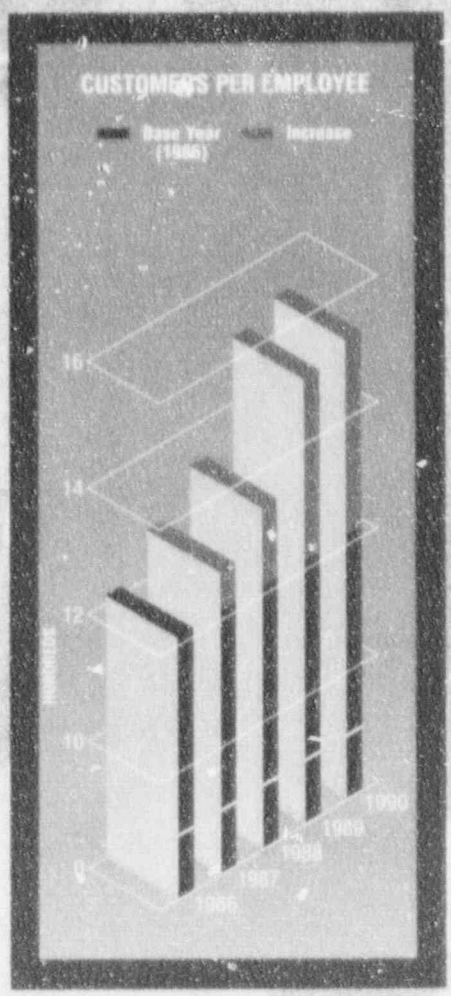
Northeast Utilities (NU) is making a concerted effort to understand better the key factors that our customers consider when they purchase energy services. This is an essential part of our response to increasing competition in our marketplace. It assures that we provide the services our customers need, when they need them. This concept is at the heart of our new marketing approach. This marketing aspect of our core business mission is the identification and satisfaction of our customers' electric service needs. Our demonstrated ability to provide these services is the key to a stronger, more profitable company.

CUSTOMER SERVICE

Implicit in our business mission is the need to become more and more sensitive and responsive to the diverse and changing needs of our customers. That, in turn, requires that "customer service" becomes a philosophy of business rather than a discrete support function. Prompt and efficient responses to customer inquiries and service requirements have always been, and will continue to be, a vital part of the services we provide. We do very well in this regard. Customer satisfaction levels continue to improve, and we are well above the national average. Reacting to customer-initiated needs, however, is not enough. We must become the initiator, actively communicating with customers to identify their needs and expectations and working with them to develop and implement solutions that are mutually beneficial. Two 1990 initiatives (Marketing Strategy and Customer Service Operations) illustrate our philosophy of, and our approach to, truly effective customer service.

Marketing Strategy

For several years now, senior NU officers have been in personal contact with major customers to learn how we can best meet their energy needs. The knowledge gained was supplemented by an extensive study of our customer base. As a result of this work, NU has developed an innovative marketing strategy that will be useful in serving all customers. Quite simply, if we are to remain competitive, our customers must perceive that our service is of greater value to them than the service provided by our competitors; and, if we are to provide that service profitably, our price must exceed the cost we incur. We are very optimistic that regulators will be supportive of this strategy, since its thrust is to provide customers with service options that are tailored to their needs and that are properly priced. We believe the program will significantly increase the competitiveness of our core business and reinforce our customers' perception that NU provides greater value than alternative energy sources.



Customer Service Operations

At NU, customer service has become a driving force that cuts across all functions. This expanded view is perhaps best illustrated by the merging of the two organizations that were responsible for all field operations. The consolidation of the Customer Service and Transmission and Distribution Engineering and Operations groups into the new Customer Service Operations (CSO) organization was an important early step in the overall plan to increase the scope and efficiency of the diverse services NU provides to its customers. Contacts with NU will be more convenient and streamlined. Our ability to react quickly to customer requests will improve, as will the cost-effectiveness of services required. Finally, the unification of all customer-related activities in the new CSO organization will maximize the mutual benefits of the NU marketing strategy. In effect, the emergence of the CSO group and the implementation of the marketing strategy will take NU to a new level of customer service—in concept and in practice.

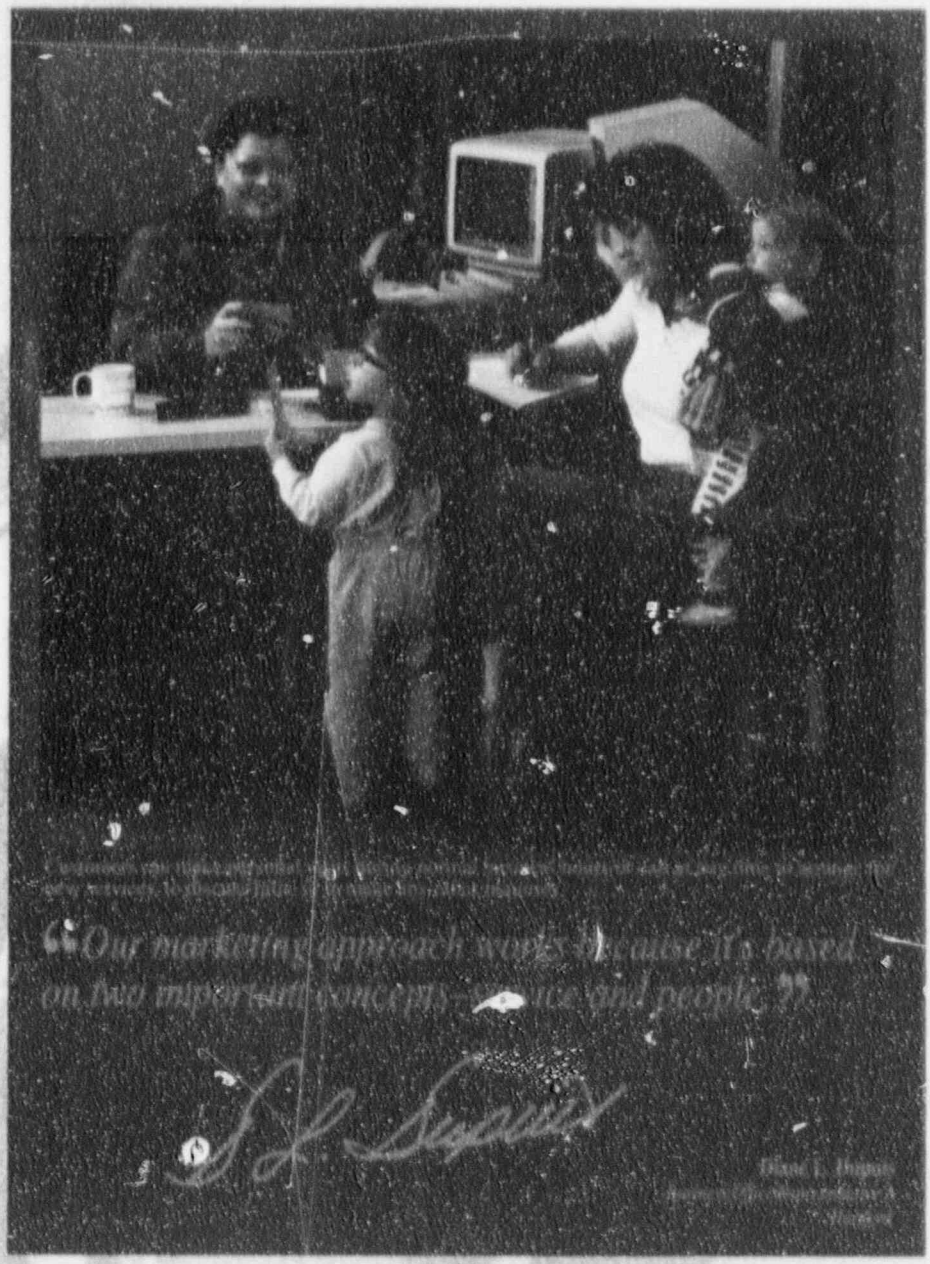
COMMUNITY SERVICE

NU has a proud heritage of positive contributions to the economic vitality and quality of life of the region. It complements our vision of sound, responsible business practice. We know that the socioeconomic health of the region is a critical factor in our financial well-being. Our commitment to community service is diverse and far-ranging, and our strategic approach is to invest financial resources and to encourage employee volunteer involvement in this area.

NU has also consistently demonstrated its commitment to sound environmental practices. As the environmental sciences increased the world's understanding of causes, effects, and remedies, NU's initiatives became more diverse and

complex. Practices once considered benign now require remedial action, and the anticipation of future needs becomes more compelling. As part of our response to these changing requirements, NU established, in 1990, an Executive Environmental Committee. Comprised of officer-level members, the committee oversees and coordinates activities to assure that prudent steps are taken and that NU follows the spirit as well as the letter of all environmental laws.

In 1990, NU was presented with the prestigious National Land Management Award by the Edison Electric Institute for outstanding achievement at our Northfield Mountain nature and recreational facility in western Massachusetts. This is the latest of a long list of public, governmental, and industry commendations for NU's energy, environmental, and conservation initiatives in both Connecticut and western Massachusetts. NU also opened a new nature trail at Millstone Point in Connecticut as part of the comprehensive recreational, ecological, and educational facilities at our hydroelectric and nuclear generating sites.



While justifiably pleased with the recognition NU has achieved for its pioneering efforts in conservation and environmental work, we take even greater pride in our efforts on behalf of the disadvantaged and special-needs individuals and groups. We have a particularly strong commitment to help meet the growing needs of our lower income customers. Our new SPECTRUM™ Conservation Services Program expands the services designed for these special customers. New Home Energy Action Team (HEAT) workshops help customers to set goals for conservation actions they can carry out.

NU supports a broad range of charitable endeavors through a combination of direct financial aid and donation of in-kind services. Community Service Involvement grants supported employee and retiree participation in 855 projects or activities during 1990. The company also supports and encourages customer contributions to energy fuel funds–Connecticut's Operation Fuel and Massachusetts' Good Neighbor Energy Fund. This joint effort provided more than $400,000 in needed assistance in 1990. Since these programs began in 1983, contributions have amounted to some $2.3 million.

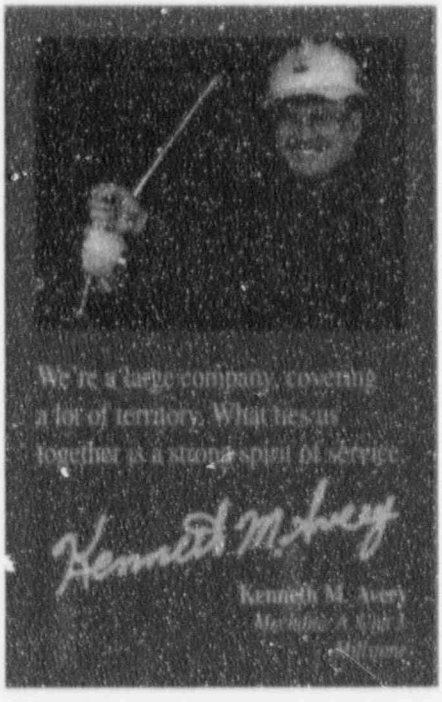
Our commitment to community service has always been matched by the dedication of our employees, who have an admirable heritage of contributing most generously of their time and money. For example, this year's Employee Campaign on behalf of the United Way and Combined Health Appeals set records for participation and per capita donations. Even though we have fewer employees than last year, they gave more–a grand total of almost $940,000. Together, the NU family is making a difference in the community and will continue to do so.

Heritage and Commitment

When Northeast Utilities (NU) was formed, it gained the immediate benefit of an experienced and skilled work force. More than that, it inherited an enviable set of employee values and performance standards that helped define the new utility, gave it character, and reaffirmed the tradition of service established by the predecessor companies. For 25 years, this heritage has played an essential role in the many successes achieved by NU.

The NU family currently has 8,225 active members. These men and women average 13 years of service, and 1,216 of them have observed their silver anniversary of employment with NU and its predecessor companies. Employees have responded admirably to the new demands and challenges of recent years. Their willingness and ability to adapt goes a long way toward explaining NU's position as one of the leading utilities in the country. It's this unbroken heritage of exceptional commitment and dedication that really distinguishes the company and generates the respect we get from the customers and communities we serve.

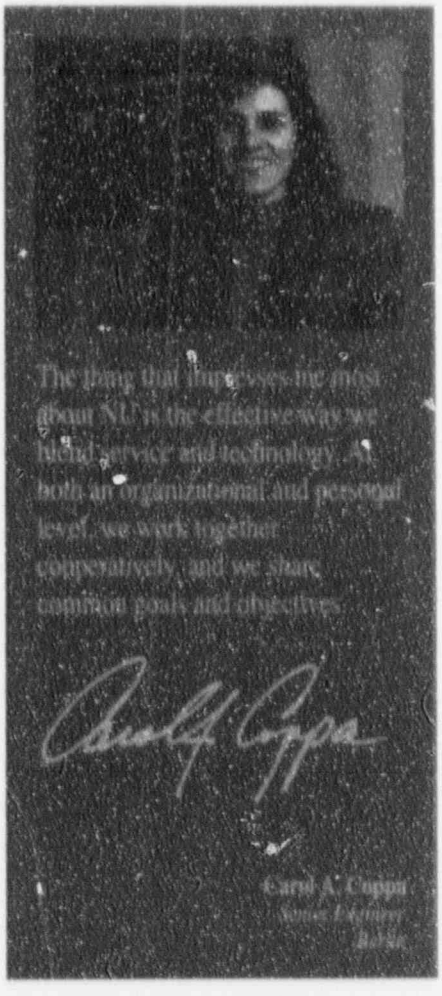
This section of the annual report serves two purposes. First, it expresses our appreciation to every member of the NU family. Second, it conveys the spirit of our employees and their commitment to the values that nurtured the company during its first 25 years and will continue to be a major strength of the company.



We're a large company, covering a lot of territory. What ties us together is a strong spirit of service.

Kenneth M. Avery

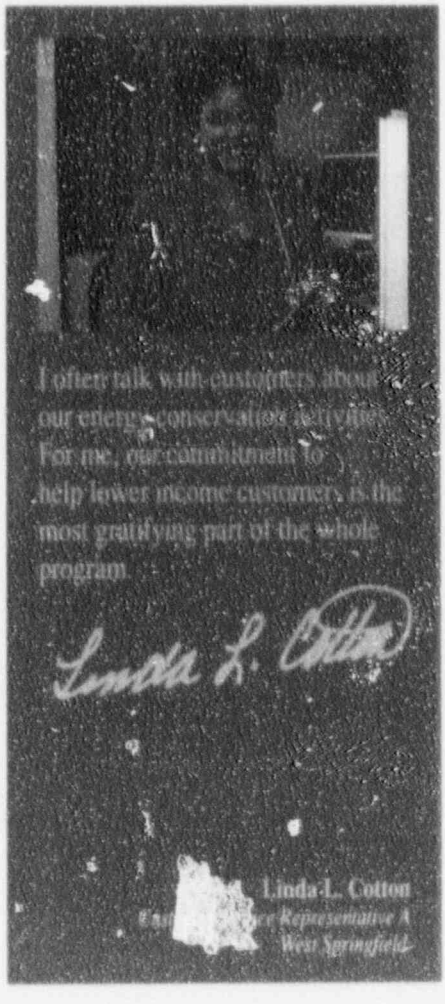
Kenneth M. Avery
Machinist A, Unit 1
Millstone



The thing that impresses me most about NU is the effective way we blend service and technology. At both an organizational and personal level, we work together cooperatively, and we share common goals and objectives.

Carol A. Coppa

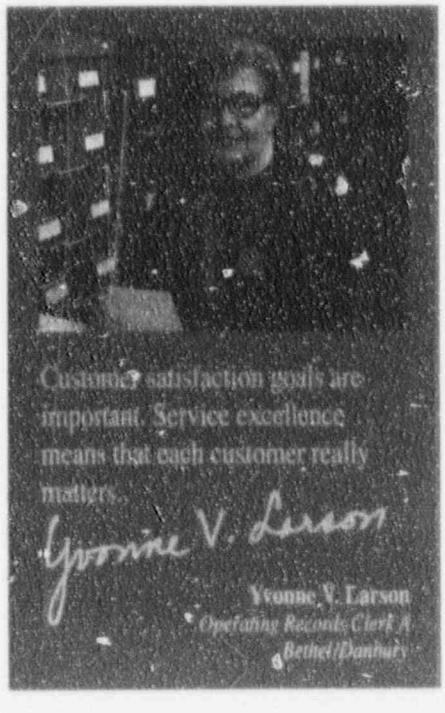
Carol A. Coppa
Senior Engineer
Hartford



I often talk with customers about our energy conservation activities. For me, our commitment to help lower income customers is the most gratifying part of the whole program.

Linda L. Cotton

Linda L. Cotton
[illegible] Representative A
West Springfield



Customer satisfaction goals are important. Service excellence means that each customer really matters.

Yvonne V. Larson

Yvonne V. Larson
Operating Records Clerk A
Bethel/Danbury

I haven't been with NU very long, but it's easy to see that everyone here knows what service really means.

Linda A. Lavallee
Building Attendant
Middletown Station

We're concerned about the environment, and we're committed to protecting it. I'm proud of the way we operate—we serve our customers well, and we respect nature. We back our commitment with results, so everyone gains.

Joseph F. Naida
Assistant Maintenance Supervisor-Hydro
Cabot-Northfield

We can't become complacent. Too many people depend on us. I think everyone at NU shares this attitude.

Carl P. Potenza
Meter Service Mechanic
Southern

Our new Customer Service Operations is a good example of how engineering and marketing can work even more closely together. The spirit of teamwork has always been important at NU, but now we're taking it to another level.

Richard J. Rinaldi
Area Operations Analyst
Waterbury

Sound purchasing policies and practices help keep costs down, but we won't compromise on quality.

Elba R. Cortez
Purchasing Clerk A (Order Entry)
Rocky Hill

After a storm outage, customers want action, not explanations. That's what reliability means to them. We work hard to keep improving the entire system, but outages are still a fact of life. When they occur, it's our job to act, and act fast.

Howard E. Booker, Jr.
Crew Supervisor, Lines
Hadley

To perform our jobs effectively, we have to work together. We depend on each other, and we know that every person has the training and experience to do his or her part. We set high standards, and we achieve them through teamwork.

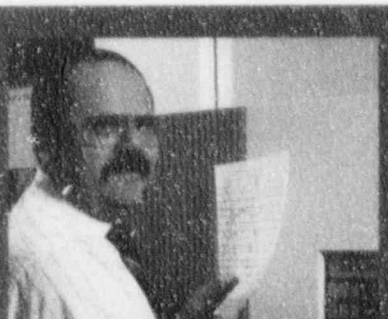
Diane H. Brown
Shift Supervisor
Waterbury

Customers almost take NU for granted. I guess that's as good a definition of service as any.

Mario DelValle
Water Resources
Norwalk

For years now, we've demonstrated that nuclear power is safe, dependable, and economical. Our customers and the general public expect us to perform to exacting standards, and we're proud of that trust and our outstanding record.

David E. Haynes
Quality Assurance Auditor
Generation Services Division



We use computers extensively and intelligently. Thus, we're more productive and responsive to changing needs.

Jose F. Pacheco
Computer Analyst
Wethersfield

I've seen a lot of changes over the years, but the bottom line is still the same. People depend on us, and it's our job to come through for them. It's really as simple as that, and it shows in our work.

John H. Senn
Area Supervisor
Substation and Equipment
Madison

NU spends a lot of money and effort on conservation. Customers participating see benefits monthly.

Bruce A. Ekenbarger
Supervisor, Customer
Billing and Accounting
Tolland

Financial and Statistical Section

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This section contains management's assessment of Northeast Utilities' (the company or NU) financial condition and the principal factors with an impact on the results of operations. This discussion should be read in conjunction with the company's consolidated financial statements and footnotes.

Financial Condition

Overview

The company's earnings per share increased to $1.94 in 1990 from $1.92 in 1989. This increase is primarily attributable to lower interest charges and additional cost-containment measures which mitigated increases in operating expenses in 1990. This earnings increase is partially offset by the loss of earnings resulting from the 1989 divestiture of gas assets, higher preferred stock dividends in 1990, and the general impact of inflation on most expenses in 1990. Sales for 1990 were at approximately the same level as 1989 resulting from a downturn in the region's economy and unusually moderate weather throughout 1990.

The quality of earnings continues to improve since the company's principal utility subsidiaries, The Connecticut Light and Power Company (CL&P) and Western Massachusetts Electric Company (WMECO), have phased into rate base 80 percent and 100 percent of their respective allowed Millstone 3 investments. The percentage of cash earnings has increased slightly from 66.1 percent for the year ending December 31, 1989 to 67.2 percent for the year ending December 31, 1990.

Although the market price of the company's common shares remained consistently above book value throughout 1990, the market-to-book ratio decreased from 1.4 at December 31, 1989 to 1.2 at December 31, 1990. The closing price of the company's common shares at year-end 1990 was $20 per share compared to $22½ per share in 1989. Common dividends paid in 1990 and 1989 were $1.76 per share. In January 1991, the company's Board of Trustees decided to maintain the current quarterly dividend level at $0.44 per share. After considering the current high dividend payout ratio (1990 dividends were equal to 90.7 percent of earnings), a 1991 projection of continued modest earnings, and the potential dividend requirements on new common share issues that will be needed to finance the acquisition of Public Service Company of New Hampshire (PSNH), the Board concluded that a dividend increase at this time is not appropriate. Projected 1991 earnings are also subject to continued uncertainty about when the PSNH acquisition will occur, a weak regional economy, the situation in the Persian Gulf, and the outcome of pending CL&P and WMECO retail rate increase requests.

Despite the slight improvement in the quality of earnings, other factors continue to affect the financial health of the company. The rapid decline in New England's economy has adversely affected the company by contributing to an end to the strong sales growth that helped hold electric rates nearly flat for the last seven years. Sales in 1991 are projected to grow only about 1.7 percent over 1990 sales and more than half of that projected growth assumes that weather conditions will be normal for the year. Also, tax benefits resulting from the 1986 reduction in corporate income tax rates expired in 1990, and the company continues to encounter increasing operating costs.

Because of the difficult economic climate forecast for 1991, the company's financial objectives for the year are quite modest. Foremost among them is to maintain its financial ratios and earnings at their current levels. If the current financial performance is maintained in this difficult economic environment, the stage would be set for future improvements that should, in time, allow the company to improve its dividend payout ratio, retained earnings, equity ratio, cash flow, and earnings coverages.

In an effort to meet these financial objectives, CL&P filed an application on January 7, 1991 with the Connecticut Department of Public Utility Control (DPUC) requesting an increase in annual revenues of $228 million or 11.5 percent. CL&P also requested a return on equity (ROE) of 13.7 percent as compared to the 12.9 percent ROE currently allowed in rates. In its filing, CL&P requested the DPUC to issue an initial decision approving $96 million of the overall increase as a surcharge which would provide for increases in expenses resulting from the exhaustion of an excess deferred tax balance arising from tax law changes and recognition of certain Seabrook 1, Millstone 3, and Hydro-Quebec costs. The surcharge would remain in effect until the effective date of the rates approved in the DPUC's final decision in the proceeding and would be subject to refund. The balance of the proposed request is needed to recover escalating operation and maintenance costs, nuclear and fossil outage expenses, and decommissioning expenses.

In response to CL&P's filing, the DPUC developed a hearing schedule that would result in a decision on the first phase of the proposed increase in mid-March 1991. At the request of the DPUC, CL&P granted a 45-day waiver of the normal 180-day deadline for rate case decisions, so the final decision on the balance of CL&P's application is now expected in mid-August 1991.

On December 14, 1990, WMECO filed an application with the Massachusetts Department of Public Utilities (DPU) requesting an increase in annual revenues of $43.3 million or 11.9 percent. State tax increases and the impact of federal tax law changes result in one-quarter of the request. The

balance of the request is needed to recover costs that are increasing despite successful cost-containment efforts. As part of the application, but separate from the revenue increase, WMECO is also asking to collect through base rates about $11.6 million of annual revenues that support expanding conservation programs and its investment in a new high-voltage transmission line that brings hydroelectric power from the Hydro-Quebec system to New England. Those revenues are now primarily collected through a separate fuel charge. The change will not affect WMECO's total revenues.

Management is continuing to look aggressively at new ways to control expenditures. In late 1990, the company instituted additional measures that included restrictions on employee levels, travel, overtime, outside hiring, and equipment purchases. However, without the additional requested rate relief and this aggressive management action, NU's earnings are projected to plummet to their lowest level in more than a decade. By the end of 1991, if no action is taken, earnings could continue to decline and the ROE could reach the single digits. However, if the necessary rate relief is provided and management succeeds in further reducing costs, the company will be in a better position to meet its ongoing responsibility of providing quality energy services to its customers while building a base upon which progress can be made toward achieving the company's long-term financial objective of providing a fair return to investors and allowing access to capital markets on reasonable terms. Steps taken to improve financial stability will increase the assurance that the company can maintain and improve the reliability and competitiveness of its core business.

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

PSNH

In December 1989, Northeast Utilities Service Company (NUSCO) filed with the United States Bankruptcy Court for the District of New Hampshire an amended Joint Plan of Reorganization, under which NUSCO's parent, NU, would acquire PSNH. Because it is taking longer than expected to obtain the necessary regulatory approvals and to dispose of appeals of favorable regulatory decisions, the reorganization of PSNH has been delayed. NU, however, is continuing its efforts to reorganize PSNH and complete the acquisition as expeditiously as possible.

The acquisition of PSNH provides an opportunity to achieve an overall reduction in costs for current and future ratepayers of the NU system, while providing real benefits for its shareholders. Specific areas for expected cost savings include a reduction in the operation and maintenance costs for Seabrook 1, the improved availability of PSNH's fossil steam generating facilities, the joint operation of the combined NU and PSNH systems, capacity cost benefits resulting from the diversity of peak loads between PSNH and the NU system, and a reduction in PSNH's purchasing, administrative, and general costs. By reducing costs, NU will be better able to maintain affordable electric service and also reduce the threat that its largest electric customers will leave the system and turn to self-generation.

Despite the numerous expected future benefits resulting from the PSNH acquisition, NU has incurred significant costs in the past two years in its effort to acquire PSNH. In accordance with the merger agreement, PSNH, with certain exceptions, will reimburse NU for these costs, up to a maximum of $45 million. However, NU would not be entitled to such reimbursement if the merger terminates under certain conditions.

In addition, if the merger agreement is terminated by PSNH as a result of certain actions taken by its Board of Directors, including acceptance of another offer to acquire or merge with PSNH, PSNH would be required to pay NU a termination fee of $25 million. If, however, the termination is a result of a breach of the merger agreement by NU, or its subsidiaries, then NU would be required to pay PSNH a termination fee of $25 million.

For additional information regarding PSNH, see the "Notes to Consolidated Financial Statements."

Seabrook Project

On June 30, 1990, the Seabrook project released Seabrook 1 to the New England Power Exchange to be dispatched as part of the New England electric bulk power system. Also on June 30, 1990, CL&P and PSNH each declared the Seabrook 1 station to be in commercial operation. Since it began full power operations, the plant has become a reliable source of electricity for New England customers with a capacity factor of 82.4 percent through the end of 1990.

In November 1990, the DPUC approved a September 1990 Settlement Agreement filed by CL&P, the Prosecutorial Division of the DPUC, the Connecticut Office of Consumer Counsel, and the Attorney General of Connecticut regarding CL&P's investment in the Seabrook project. The principal element of the Settlement Agreement, which resolves all issues with respect to the prudence of CL&P's investment in the Seabrook project, is the eventual inclusion into retail rates of $167 million of CL&P's initial investment in Seabrook 1.

For additional information regarding the Seabrook project, see the "Notes to Consolidated Financial Statements."

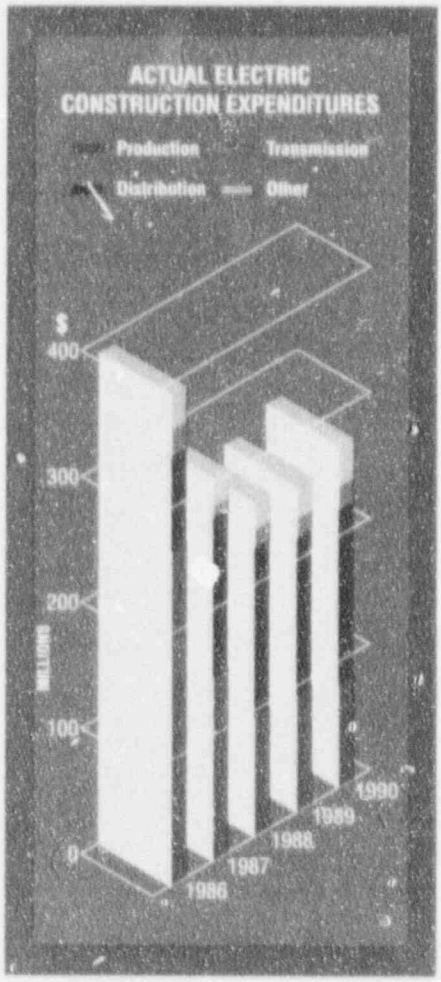
Construction Program

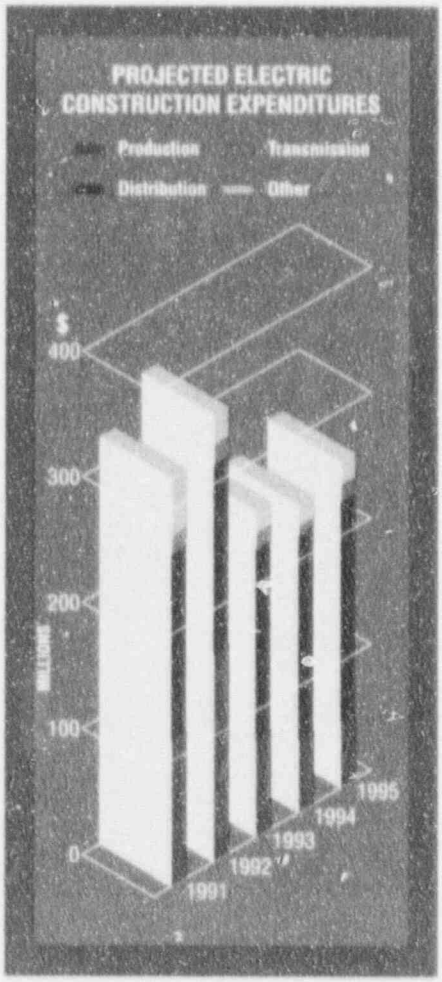
The system's 1990 electric construction expenditures of $292.9 million were among the lowest in the past ten years. Following the completion of Millstone 3

in 1986, the construction program's focus changed to expenditures for improvements to existing transmission, distribution, and generating facilities. In a continuing effort to complement an already strong base of generation reliability, the company budgeted more than $125 million over the next six years to improve the reliability of its transmission and distribution systems. The company does not foresee the need to build a major new generating facility until after the year 2000, primarily because of the company's comprehensive conservation programs resulting in significant energy savings, power provided by cogeneration and small-power producers, and firm long-term purchase commitments for Canadian hydropower.

The charts on this page show the overall level of electric construction expenditures for the period 1991 through 1995, compared with the period 1986 through 1990, and the change in the nature of the expenditures.

The steam generators for Millstone 2 have experienced corrosion, pitting, and denting problems similar to those found at other comparable nuclear units. The company currently plans to replace the Millstone 2 steam generators in 1992. This would involve a five-month outage at an estimated total cost of approximately $200 million. That amount includes allowance for funds used during construction but does not include the cost of replacement power. By arranging for the procurement of items with long lead times, and advance planning, management is attempting to minimize the length of the outage.





Financing

Cash requirements in excess of internally generated funds generally are financed through short-, intermediate-, and long-term borrowings, nuclear fuel trust financing, leasing agreements, and the sale of preferred stock. In addition to construction and nuclear fuel requirements, the system companies are obligated to meet maturities and cash sinking-fund requirements for long-term debt and preferred stock totaling $661.6 million for the years 1991 through 1995, without giving effect to any financings associated with the acquisition of PSNH. External financing will continue to be necessary to meet total cash requirements, although not at the levels of past years, since projected construction expenditures are substantially reduced.

During 1990, the system companies issued $35.0 million of first mortgage bonds and $15.3 million of pollution control bonds. Beginning with the dividends paid in June 1990, NU's Dividend Reinvestment Plan (DRP) was amended to authorize the dividends of participating shareholders to be reinvested either in NU shares purchased directly from NU or in the open market. The company received approximately $18 million of new common shareholders' equity in 1990 from the reinvestment of dividends and voluntary cash investments. This is the first issuance of new NU shares under the DRP since the third quarter of 1986. In 1990, external funding requirements were the lowest since the pre-Millstone 3 construction period. These funds were used to finance the capital program, to refinance high-cost securities, and to reduce short-term debt.

CL&P and WMECO continue to utilize a nuclear fuel trust to finance their nuclear fuel requirements for Millstone 1, 2, and 3. As of December 31, 1990, the trust's investment in nuclear fuel, net of the fourth quarter 1990 lease payment made on January 31, 1991, was $247.0 million. Nuclear fuel requirements for Millstone 1, 2, and 3 of $306.0 million for the years 1991 to 1995 are expected to be financed by the trust.

The chart on this page illustrates the relative percentages of all major sources of funds for the five-year period 1986 to 1990.

In 1991 the NU system companies expect to finance $279 million, or approximately 49 percent, externally. This amount includes $145 million for nuclear fuel requirements that are expected to be financed by the Niantic Bay Fuel Trust and excludes the financings necessary for the PSNH acquisition. The system companies continue to pursue opportunities to refinance high-cost securities. Elimination of higher cost debt, or replacement with lower cost capital, provides opportunities for short-term improvement in earnings and a long-term reduction in revenue requirements.

NU expects to finance its proposed acquisition of PSNH by initially making an equity investment of approximately $500 million in PSNH and a separate new NU subsidiary, North Atlantic Energy Corporation (North Atlantic), which would sell Seabrook's output to the reorganized PSNH. NU projects that it would issue from 25 to 30 million new NU common shares to raise up to $630 million over a three-year period. Approximately $500 million would finance the equity investments in PSNH and North Atlantic and the remainder would finance interest on acquisition loans and NU dividends before PSNH and North Atlantic begin paying dividends to NU. All other financing would be accomplished by PSNH through its issuance of preferred stock, bonds, and unsecured debt, and by North Atlantic through its issuance of bonds and unsecured debt.

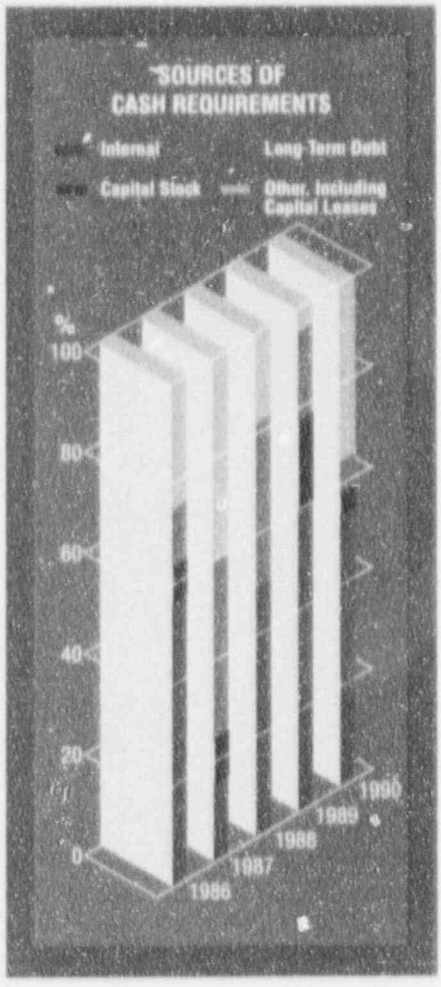
At the time of acquisition, it is currently contemplated that a portion of the $500 million NU equity investment in PSNH and North Atlantic will be provided from the issuance of additional NU common shares to realize the proceeds of between $150 and $230 million. Although management projects that NU could experience modest, short-term dilution of its earnings as a result of issuing new NU common shares, the company expects that, over the long-term, shareholders will experience greater growth in earnings and more opportunity for improved dividends than would be the case without PSNH. The remaining financing will be accomplished with term borrowings from various banks.

The PSNH financing plan has been structured so that NU will rely entirely on common stock issues and on PSNH and North Atlantic to meet those obligations and will not be dependent on dividends from any current NU operating company either to pay interest or principal on its term loan facility or to pay dividends on NU's new common shares.

Accounting Standards

The Financial Accounting Standards Board (FASB) has amended a previously issued income tax accounting standard. The accounting standard requires, among other things, that regulated utilities reflect, on their balance sheets, the taxes related to the cumulative amount of income tax timing differences for which deferred taxes have not been provided. The company expects that when the new standard is adopted in 1992, it will increase assets and liabilities by approximately $1.0 billion but will not have a material effect on net income.

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (SFAS 106). This new standard, which will become effective in 1993, requires that the expected cost of these benefits be charged to expense during the years that employees render service. This is a significant change from the company's current policy of recognizing these costs as incurred. CL&P and WMECO expect



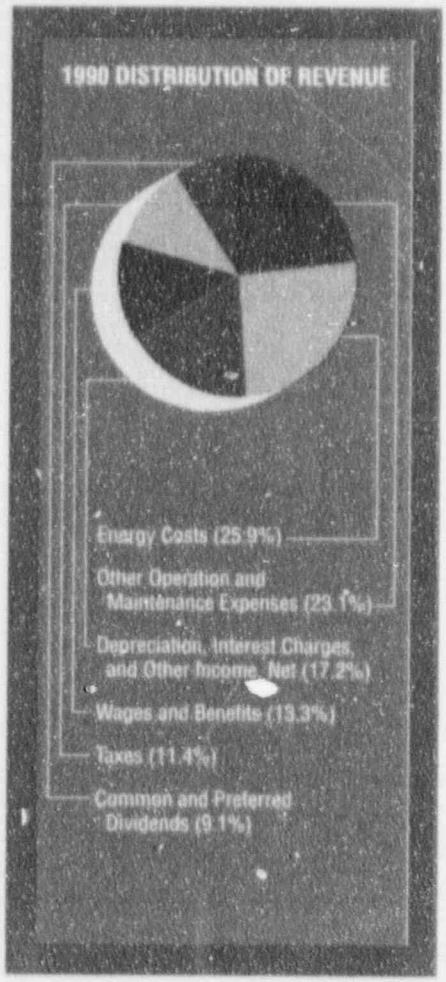
to petition their regulators to recover these costs in future rate proceedings. While CL&P and WMECO expect to recover these costs, should the timing of recovery differ from the accrual of such costs, the companies would expect to record a regulatory asset for the difference.

Results of Operations

The relative magnitude of the various expenditures incurred by the system's continuing operations is illustrated in the chart on the next page.

Operating Revenues

Operating revenues increased $142.7 million from 1989 to 1990 and increased $205.0 million from 1988 to 1989. The components of the change in operating revenues for the past two years are provided in the table on the next page.



Fuel cost recov. s increased in 1990, as compared to 1989, primarily because of higher energy costs. Revenues related to regulatory decisions increased primarily because of the effects of the June 1989 and June 1990 DPU retail rate decisions. Sales and other revenues increased primarily as a result of an increase in bulk power sales.

The DPU's 1990 decision granted WMECO a $20.1 million increase in annual reven. compared with the $32.5 million WMECO had requested. In its decision, the DPU permitted WMECO the fifth and final installment of its rate base investment in Millstone 3. The DPU lowered WMECO's allowed ROE from 13.0 percent to 12.5 percent.

Fuel cost recoveries increased in 1989, as compared to 1988, primarily because of higher sales and higher energy costs. Revenues related to regulatory decisions increased primarily because of the effects of the June 1988 and June 1989 DPU retail rate decisions and a December 1988 DPUC retail rate decision. The rate moderation fund decrease in 1989 reflects one aspect of a February 1988 DPUC decision (the February 1988 Decision) which authorized CL&P to recognize in revenues, over the 12-month period beginning January 1, 1988, a portion of revenues reserved prior to January 1, 1988. The revenue reserve represented a level of revenues in excess of that required to earn a specified ROE. Sales and other revenues increased in 1989, as compared to 1988, primarily as a result of an increase in bulk power sales and a 3.7 percent increase in electric sales, including sales associated with energy delivered but not billed. This increase was primarily the result of the continued economic growth in the region in 1989, partially offset by the effect of more moderate weather in 1989.

Electric Energy Expenses

Electric energy expenses, which include fuel and purchased and net interchange power increased $55.4 million in 1990, as compared to 1989, primarily because of a greater level of higher priced cogeneration purchases, partially offset by a greater utilization of lower cost nuclear generation.

Electric energy expenses increased $90.8 million in 1989, as compared to 1988, primarily because of higher kilowatt-hour requirements and higher cost purchases from cogenerators and other utilities throughout the region, partially offset by the matching of revenues and expenses under the provisions of the company's energy adjustment clauses.

Other Operation and Maintenance Expenses

Other operation and maintenance expenses increased $61.6 million in 1990, as compared to 1989, primarily because of higher costs associated with conservation and load-management programs, refueling and maintenance activities at nuclear electric production facilities, including the amortization of prior-period outage costs, legal and regulatory activities associated with NU's efforts to acquire PSNH, and the general impact of inflation on most expenses, partially offset by management's cost-containment efforts in 1990.

Other operation and maintenance expenses increased $103.2 million in 1989, as compared to 1988, primarily because of higher costs associated with refueling and maintenance activities at fossil and nuclear electric production facilities, higher transmission and distribution costs associated with storms, and the general impact of inflation on most expenses.

Depreciation Expenses

Depreciation expenses increased $14.6 million in 1990, as compared to 1989, primarily because of greater plant investment and higher depreciation rates.

Depreciation expenses decreased $9.1 million in 1989, as compared to

Change in Operating Revenues

	Increase/(Decrease)	
	1990 vs. 1989	1989 vs. 1988
	(Millions of Dollars)	
Fuel cost recoveries	$ 79.9	$ 95.8
Regulatory decisions	39.0	43.8
Rate moderation fund	—	(58.6)
Sales and other revenues	23.8	124.0
Total revenue change	$142.7	$205.0

1988, primarily because of regulatory decisions. These decisions required CL&P and WMECO to reflect excess deferred taxes implicit in net-of-tax allowance for borrowed funds used during construction as a reduction to depreciation expenses. The excess deferred taxes resulted from a decrease in the federal statutory tax rate. This decrease was partially offset by greater plant investment and higher decommissioning levels in 1989.

Amortization of Deferred Millstone 3 Return

The amortization of deferred Millstone 3 return increased $5.4 million in 1990, as compared to 1989, primarily because of the annual recognition of an additional increment of the return on Millstone 3 investment not phased into rate base.

The amortization of deferred Millstone 3 return decreased $17.1 million in 1989, as compared to 1988, primarily because the February 1988 Decision allowed CL&P to accelerate, in 1988 only, the amortization of deferred phase-in costs, effective January 1, 1988. This decrease was partially offset by the effect of a June 1989 DPUC Supplemental Decision requiring CL&P to increase its amortization of deferred Millstone 3 return balance by an amount equal to 50 percent of those earnings in excess of its allowed ROE of 12.9 percent.

Taxes

Federal and state income taxes decreased $6.4 million in 1990, as compared to 1989, primarily because of tax benefits associated with the 1990 write-off of a portion of CL&P's initial investment in Seabrook 1 resulting from the Settlement Agreement approved by the DPUC in November 1990. Taxes other than income taxes increased $7.2 million in 1990, as compared to 1989, primarily because of higher property taxes.

Federal and state income taxes decreased $20.2 million in 1989, as compared to 1988, primarily because of lower taxable income. Taxes other than income taxes increased $8.3 million, primarily because of higher Connecticut gross earnings taxes resulting from a higher level of revenues in 1989 and additional Connecticut sales taxes.

Deferred Nuclear Plant Return

The deferred nuclear plant return decreased $3.5 million in 1990, as compared to 1989, primarily because WMECO phased into rate base the final portion of its recoverable Millstone 3 investment.

The deferred nuclear plant return decreased $49.8 million in 1989, as compared to 1988, primarily because CL&P and WMECO had additional portions of their recoverable Millstone 3 investments phased into rate base.

Interest Charges

Interest charges decreased $13.3 million in 1990, as compared to 1989, primarily because of lower long-term debt levels, partially offset by higher short-term debt levels.

Interest charges increased $18.9 million in 1989, as compared to 1988, primarily because of higher average interest rates throughout 1989 and interest accrued on spent nuclear fuel disposal costs.

Company Report

The consolidated financial statements of Northeast Utilities and subsidiaries and other sections of this Annual Report were prepared by the company. These financial statements, which were audited by Arthur Andersen & Co., were prepared in accordance with generally accepted accounting principles using estimates and judgment, where required, and giving consideration to materiality.

The company has endeavored to establish a control environment that encourages the maintenance of high standards of conduct in all of its business activities. The company maintains a system of internal accounting controls that is supported by an organization of trained management personnel, policies and procedures, and a comprehensive program of internal audits. Through established programs, the company regularly communicates to its management employees their internal control responsibilities and policies prohibiting conflicts of interest.

The Audit Committee of the Board of Trustees is composed entirely of outside trustees. This committee meets periodically with management, the internal auditors, and the independent auditors to review the activities of each and to discuss audit matters, financial reporting, and the adequacy of internal controls.

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. The company believes, however, that its system of internal accounting controls and control environment provide reasonable assurance that its assets are safeguarded from loss or unauthorized use and that its financial records, which are the basis for the preparation of all financial statements, are reliable.

Report of Independent Public Accountants

To the Board of Trustees and Shareholders of Northeast Utilities:

We have audited the consolidated balance sheets and consolidated statements of capitalization of Northeast Utilities (a Massachusetts trust) and subsidiaries as of December 31, 1990 and 1989, and the related consolidated statements of income, common shareholders' equity, cash flows, and income taxes for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Utilities and subsidiaries as of December 31, 1990 and 1989, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.

Hartford, Connecticut
February 15, 1991

Consolidated Statements of Income

For the Years Ended December 31,	1990	1989	1988
	(Thousands of Dollars, except share information)		
Operations Excluding Discontinued Gas Operations:			
Operating Revenues (Note 1)	$ 2,616,319	$ 2,473,571	$ 2,268,607
Operating Expenses:			
Operation–			
Fuel	370,028	406,075	416,092
Purchased and net interchange power (Note 1)	308,229	216,739	115,919
Other (Note 1)	713,671	649,774	595,857
Maintenance	238,323	240,587	191,271
Depreciation	212,212	197,630	206,769
Amortization of deferred Millstone 3 return	57,194	51,780	68,894
Federal and state income taxes (See Consolidated Statements of Income Taxes)	154,412	151,401	176,372
Taxes other than income taxes	181,688	174,480	166,174
Total operating expenses	2,235,757	2,088,466	1,937,348
Operating Income	380,562	385,105	331,259
Other Income:			
Allowance for other funds used during construction	3,444	2,713	2,537
Deferred Millstone 3 return–other funds	38,992	42,407	75,004
Equity in earnings of regional nuclear generating companies	10,339	9,572	10,088
Write-off of plant costs	(19,388)	(9,010)	(9,717)
Other, net	16,780	10,548	6,661
Income taxes–credit	37,790	27,797	39,015
Other income, net	87,957	84,027	123,588
Income before interest charges	468,519	469,132	454,847
Interest Charges:			
Interest on long-term debt	218,858	230,212	219,793
Other interest	20,558	22,538	14,078
Allowance for borrowed funds used during construction	(7,191)	(5,876)	(5,527)
Deferred nuclear plants return–borrowed funds, net of income taxes	(19,678)	(19,770)	(36,923)
Interest charges, net	212,547	227,104	191,421
Income after interest charges	255,972	242,028	263,426
Preferred Dividends of Subsidiaries	44,965	38,803	38,582
Income from Continuing Operations	211,007	203,225	224,844
Income from Discontinued Gas Operations	—	5,858	9,078
Net Income	$ 211,007	$ 209,083	$ 233,922
Earnings Per Common Share:			
Continuing operations	$ 1.94	$ 1.87	$ 2.07
Discontinued gas operations	—	.05	.08
Net Income	$ 1.94	$ 1.92	$ 2.15
Common Shares Outstanding (average)	109,003,818	108,669,106	108,669,106

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

Consolidated Statements of Cash Flows

For the Years Ended December 31,	1990	1989	1988
		(Thousands of Dollars)	
Cash Flows From Operations:			
Income before preferred dividends	$ 255,972	$ 247,038	$ 263,426
Adjusted for the following:			
Depreciation and amortization of leased property	325,354	334,724	326,051
Deferred income taxes and investment tax credits, net	33,066	17,506	40,722
Deferred nuclear plants return	(58,670)	(62,177)	(111,927)
Amortization of deferred Millstone 3 return	57,194	51,780	68,894
Rate moderation fund	—	—	(77,694)
Amortization of deferred charges and other noncash items	29,501	56,065	37,781
Changes in working capital:			
Receivables and accrued utility revenues	24,602	(41,898)	(61,131)
Fuel, materials, and supplies	(18,967)	(24,767)	(3,183)
Accounts payable	(24,750)	38,967	(3,370)
Accrued taxes	19,227	10,360	78,971
Other working capital (excludes cash)	(21,608)	(22,727)	10,083
Net cash flows from continuing operations	620,921	589,861	568,623
Net cash flows from discontinued gas operations	—	15,716	23,794
Net cash flows from operations	620,921	605,577	592,417
Cash Flows From Financing Activities:			
Common shares	17,888	—	—
Preferred stock	—	125,000	53,500
Long-term debt	50,300	170,121	313,000
Increase in obligations under capital leases	88,982	32,515	87,006
Net increase (decrease) in short-term debt	77,959	(25,000)	(56,500)
Reacquisitions and retirements of long-term debt and preferred stock	(99,523)	(390,168)	(247,462)
Premium on reacquisitions and financing expenses	(2,330)	(3,538)	(12,979)
Repayment of capital lease obligations	(108,314)	(103,283)	(108,516)
Cash dividends on preferred stock	(44,965)	(39,779)	(40,510)
Cash dividends on common shares	(191,851)	(191,258)	(191,257)
Special dividend–discontinuance of gas operations	—	(101,012)	—
Net cash flows from financing activities	(211,854)	(526,402)	(203,718)
Investment Activities:			
Investment in plant (including capital leases):			
Electric and other utility plant	(292,902)	(259,430)	(265,560)
Gas utility plant	—	(11,159)	(26,379)
Nuclear fuel	(86,375)	(22,636)	(86,976)
Less: Allowance for other funds used during construction	(3,444)	(2,713)	(2,537)
Net cash flows used for investments in plant	(375,833)	(290,512)	(376,378)
Discontinuance of gas operations	—	244,980	—
Other investment activities, net	(25,466)	(38,987)	(18,215)
Net cash flows used for investments	(401,299)	(84,519)	(394,593)
Net Increase (Decrease) In Cash For The Period	7,768	(5,344)	(5,894)
Cash beginning of period	8,534	13,878	19,772
Cash end of period	$ 16,302	$ 8,534	$ 13,878
Supplemental Cash Flow Information:			
Cash paid during the year for:			
Interest, net of amounts capitalized during construction	$ 214,233	$ 244,239	$ 224,187
Income taxes	$ 61,642	$ 90,479	$ 30,509

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

Consolidated Statements of Income Taxes

For the Years Ended December 31,	1990	1989	1988
	(Thousands of Dollars, except percentages)		
The components of the federal and state income tax provisions charged to continuing operations are:			
Current income taxes:			
Federal	$ 55,581	$ 60,796	$ 70,607
State	27,975	25,302	26,027
Total current	83,556	86,098	96,634
Deferred income taxes, net:			
Federal	43,776	44,275	50,895
State	7,792	8,002	5,305
Total deferred	51,568	52,277	56,200
Investment tax credits, net	(17,414)	(14,305)	(8,557)
Total income tax expense	$ 117,710	$ 124,070	$ 144,277
The components of total income tax expense are classified as follows:			
Income taxes charged to operating expenses	$ 154,412	$ 151,401	$ 176,372
Income taxes associated with the amortization of deferred Millstone 3 return–borrowed funds	(13,454)	(13,942)	(18,805)
Income taxes associated with the allowance for funds used during construction (AFUDC) and deferred nuclear plants return–borrowed funds	14,542	14,408	25,725
Other income taxes–credit	(37,790)	(27,797)	(39,015)
Total income tax expense	$ 117,710	$ 124,070	$ 144,277
Deferred income taxes are comprised of the tax effects of timing differences as follows:			
Depreciation, excluding leased nuclear fuel	$ 53,439	$ 51,857	$ 63,387
Construction overheads	(11,156)	(10,473)	(1,360)
Depreciation on leased nuclear fuel, settlement credits, and disposal costs	2,369	7,068	(8,172)
Decommissioning costs	(1,245)	942	(2,680)
Energy adjustment clauses	2,398	(4,825)	(21,395)
AFUDC and deferred nuclear plants return, net	1,088	465	6,920
Rate moderation fund	—	—	32,218
Pension accrual	5,408	7,587	(5,130)
Other	(733)	(344)	(7,588)
Deferred income taxes, net	$ 51,568	$ 52,277	$ 56,200
The effective income tax rate is computed by dividing total income tax expense by the sum of such taxes and income after interest charges. The differences between the effective rate and the federal statutory income tax rate are:			
Federal statutory income tax rate	34.00%	34.00%	34.00%
Tax effect of differences:			
Depreciation differences	1.26	1.25	3.10
Deferred Millstone 3 return–other funds	(3.55)	(3.94)	(6.25)
Amortization of deferred Millstone 3 return–other funds	3.77	3.50	4.25
Construction overheads	(3.09)	(3.14)	(1.07)
Investment tax credit amortization	(4.66)	(2.62)	(2.10)
State income taxes, net of federal benefit	6.37	6.08	5.18
Other, net	(2.60)	(1.24)	(1.72)
Effective income tax rate	31.50%	33.89%	35.39%

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

Consolidated Balance Sheets

At December 31,	1990	1989
	(Thousands of Dollars)	
Assets		
Utility Plant, at original cost:		
Electric	$6,753,512	$6,396,326
Other	100,852	89,999
	6,854,364	6,486,325
Less: Accumulated provision for depreciation	2,033,568	1,855,520
	4,820,796	4,630,805
Construction work in progress	184,551	329,409
Nuclear fuel, net	259,821	277,591
Total net utility plant	5,265,168	5,237,805
Other Property and Investments:		
Nuclear decommissioning trusts, at cost (Note 3)	100,196	76,413
Investments in regional nuclear generating companies, at equity	67,489	66,264
Investments in transmission companies, at equity	28,551	24,738
Other, at cost	32,023	26,071
	228,259	193,486
Current Assets:		
Cash and special deposits	16,302	8,534
Receivables, less accumulated provision for uncollectible accounts of $10,588,000 in 1990 and $8,452,000 in 1989	264,939	283,690
Accrued utility revenues	106,154	106,005
Fuel, materials, and supplies, at average cost	179,944	160,977
Prepayments and other	41,559	25,676
	602,898	584,882
Deferred Charges:		
Unamortized debt expense	14,461	13,327
Energy adjustment clauses, net	21,265	25,005
Unrecovered spent nuclear fuel disposal costs	29,866	27,879
Deferred costs–nuclear plants	275,267	279,368
Amortizable property investments	75,582	88,638
Other	88,605	72,812
	505,046	507,029
Total Assets	$6,601,371	$6,523,202

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

At December 31,	1990	1989
	(Thousands of Dollars)	
Capitalization and Liabilities		
Capitalization: (See Consolidated Statements of Capitalization)		
Common shareholders' equity:		
Common shares, $5 par value–authorized 225,000,000 shares; outstanding 109,615,926 shares in 1990 and 108,669,106 shares in 1989	$ 548,080	$ 543,346
Capital surplus, paid in	469,647	455,174
Retained earnings	773,031	753,875
Total common shareholders' equity	1,790,758	1,752,395
Preferred stock not subject to mandatory redemption	394,695	394,695
Preferred stock subject to mandatory redemption	174,392	179,392
Long-term debt	2,491,047	2,546,716
Total capitalization	4,850,892	4,873,198
Obligations Under Capital Leases	221,833	225,313
Current Liabilities:		
Notes payable to banks	116,344	15,000
Commercial paper	82,615	106,000
Long-term debt and preferred stock–current portion	104,123	80,885
Obligations under capital leases–current portion	97,715	115,933
Accounts payable	144,394	169,144
Accrued taxes	166,983	147,756
Accrued interest	49,005	51,491
Other	55,552	49,968
	816,731	736,177
Deferred Credits:		
Accumulated deferred income taxes	462,122	409,553
Accumulated deferred investment tax credits	210,356	228,020
Other	39,437	50,941
	711,915	688,514
Commitments and Contingencies (Note 7)		
Total Capitalization and Liabilities	$6,601,371	$6,523,202

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

Consolidated Statements of Capitalization

At December 31,			1990	1989
			(Thousands of Dollars)	
Common Shareholders' Equity (See Consolidated Balance Sheets)			$ 1,790,758	$ 1,752,395
Cumulative Preferred Stock of Subsidiaries:				
$25 par value–authorized 11,600,000 shares at December 31, 1990 and 1989; outstanding 10,340,000 shares in 1990 and 1989				
$50 par value–authorized 9,000,000 shares at December 31, 1990 and 1989; outstanding 5,561,745 shares in 1990 and 5,661,745 shares in 1989				
$100 par value–authorized 1,000,000 shares at December 31, 1990 and 1989; outstanding 350,000 shares in 1990 and 1989				
	Dividend Rates	Current Redemption Prices(a)	Current Shares Outstanding	
Not Subject to Mandatory Redemption:				
$25 par value–Adjustable Rate		$ 25.00	4,140,000	103,500	103,500
$50 par value–$1.90 to $4.80		$ 50.50 to $ 54.00	5,123,895	256,195	256,195
$100 par value–$7.72 to $9.60		$103.51 to $103.99	350,000	35,000	35,000
Total Preferred Stock Not Subject to Mandatory Redemption				394,695	394,695
Subject to Mandatory Redemption:(b)					
$25 par value–$1.90 to $2.275		$ 26.82 to $ 27.10	6,200,000	155,000	155,000
$50 par value–$5.24 to $5.76		$ 51.38 to $ 52.62	437,850	21,892	26,892
Total Preferred Stock Subject to Mandatory Redemption				176,892	181,892
Less: Preferred Stock to be redeemed within one year				2,500	2,500
Preferred Stock Subject to Mandatory Redemption, Net				174,392	179,392
Long-Term Debt:(c)					
First Mortgage Bonds–					
	Maturity	Interest Rates			
	1990	5% to 13.35%		—	2,500
	1992	4-3/8%		8,000	8,000
	1993	4-1/4% to 8-1/2%		140,000	140,000
	1994	4-1/2% to 9-3/4%		107,000	107,000
	1995	9-1/4% to 10%		175,000	140,000
	1996-2000	5-5/8% to 9-3/8%		490,000	490,000
	2001-2004	7-3/8% to 9-1/4%		385,000	385,000
	2006-2008	8-7/8% to 9-3/8%		155,000	155,000
	2015	11-7/8%		—	15,586
	2016-2019	7-3/8% to 10-1/8%		304,650	304,650
Total First Mortgage Bonds				1,764,650	1,747,736
Other Long-Term Debt–					
Pollution Control Notes–					
	1998-2007	5.90% to 6.50%		25,250	26,020
	2003-2020	Adjustable Rate		430,800	415,500
Notes–					
	1990-1992	8.25% to 9.23%		85,000	155,000
Fees and interest due for spent fuel disposal costs				148,281	137,153
Other				144,816	150,483
Total Other Long-Term Debt				834,147	884,156
Unamortized premium and discount, net				(6,127)	(6,791)
Total Long-Term Debt				2,592,670	2,625,101
Less amounts due within one year				101,623	78,385
Long-Term Debt, Net				2,491,047	2,546,716
Total Capitalization				$ 4,850,892	$ 4,873,198

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

(a) Each of these series is subject to certain refunding limitations for each of the first five years after they were issued. Redemption prices reduce in future years.

(b) Changes in Preferred Stock Subject to Mandatory Redemption:

	(Thousands of Dollars)
Balance at January 1, 1988	$205,832
Reacquisitions and Retirements	(94,000)
Balance at December 31, 1988	111,832
Issues	75,000
Reacquisitions and Retirements	(4,940)
Balance at December 31, 1989	181,892
Reacquisitions and Retirements	(5,000)
Balance at December 31, 1990	$176,892

The minimum sinking-fund provisions of the series subject to mandatory redemption aggregate $2,500,000 in 1991, $4,000,000 in 1992, $6,500,000 in 1993, $6,392,500 in 1994, and $8,750,000 in 1995. In case of default on sinking-fund payments, no payments may be made on any junior stock by way of dividends or otherwise (other than in shares of junior stock) so long as the default continues. If a subsidiary is in arrears in the payment of dividends on any outstanding shares of preferred stock, the subsidiary would be prohibited from redemption or purchase of less than all of the preferred stock outstanding.

(c) Long-term debt maturities and cash sinking-fund requirements on debt outstanding at December 31, 1990 for the years 1991 through 1995 are approximately $101,541,000, $80,380,000, $148,726,000, $116,807,000, and $185,974,000, respectively. In addition, there are annual 1 percent sinking- and improvement-fund requirements of approximately $17,380,000 for 1991 and 1992, $17,300,000 for 1993, $16,050,000 for 1994, and $15,100,000 for 1995. Such sinking- and improvement-fund requirements may be satisfied by the deposit of cash or bonds or by certification of property additions.

Essentially all utility plant of The Connecticut Light and Power Company (CL&P) and Western Massachusetts Electric Company (WMECO), wholly owned subsidiaries of Northeast Utilities, is subject to the liens of their respective first mortgage bond indentures. In addition, CL&P and WMECO have secured $346,100,000 of pollution control notes with second mortgage liens on Millstone 1, junior to the liens of their respective first mortgage bond indentures.

In connection with the July 1, 1989 divestiture of its gas business, CL&P extinguished its obligations with respect to $25,000,000 principal amount of its Series P First and Refunding Mortgage Bonds and $25,000,000 principal amount of its Series R First and Refunding Mortgage Bonds. CL&P extinguished its obligations with respect to these two series by depositing funds into irrevocable trusts on June 29, 1989. Series P came due, and was retired, on February 1, 1990. The interest income and principal from the trust's investments in United States Treasury issues will be used to meet the interest and principal payments of the Series R obligation as it comes due. At December 31, 1990, $25,000,000 principal amount of the Series R Bonds remains outstanding but is considered extinguished for financial reporting purposes.

Consolidated Statements of Common Shareholders' Equity

	Common Shares	Capital Surplus, Paid In	Retained Earnings(a)	Total
		(Thousands of Dollars)		
Balance at January 1, 1988	$ 543,346	$ 458,550	$ 794,397	$ 1,796,293
Net income for 1988			233,922	233,922
Cash dividends on common shares–$1.76 per share			(191,257)	(191,257)
Preferred stock expenses, net		(1,924)		(1,924)
Balance at December 31, 1988	543,346	456,626	837,062	1,837,034
Net income for 1989			209,083	209,083
Cash dividends on common shares–$1.76 per share			(191,258)	(191,258)
Preferred stock expenses, net		(1,452)		(1,452)
Special dividend–discontinuance of gas operations			(101,012)	(101,012)
Balance at December 31, 1989	543,346	455,174	753,875	1,752,395
Net income for 1990			211,007	211,007
Cash dividends on common shares–$1.76 per share			(191,851)	(191,851)
Issuance of 946,820 common shares, $5 par value	4,734	13,154		17,888
Preferred stock expenses, net		1,319		1,319
Balance at December 31, 1990	$ 548,080	$ 469,647	$ 773,031	$ 1,790,758

(a) Certain consolidated subsidiaries have dividend restrictions imposed by their long-term debt agreements. At December 31, 1990, these restrictions, which also limit the amount of retained earnings available for NU common dividends, totaled approximately $588.4 million.

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

1. Summary of Significant Accounting Policies

Principles of Consolidation
Northeast Utilities (NU or the company) is the parent company of the Northeast Utilities system (the system). The consolidated financial statements of the company include the accounts of all wholly owned subsidiaries. Significant intercompany transactions have been eliminated in consolidation.

Public Utility Regulation
NU is registered with the Securities and Exchange Commission (SEC) as a holding company under the Public Utility Holding Company Act of 1935 (1935 Act), and it and its subsidiaries are subject to the provisions of the 1935 Act. Arrangements among the system companies, outside agencies, and other utilities covering interconnections, interchange of electric power, and sales of utility property are subject to regulation by the Federal Energy Regulatory Commission (FERC) and/or the SEC. The operating subsidiaries are subject to further regulation for rates and other matters by the FERC and/or applicable state regulatory commissions and follow the accounting policies prescribed by the respective commissions.

Revenues
Pursuant to a 1990 FERC order, bulk power sales have been reclassified from operating expenses to operating revenues for all periods presented. The reclassification had no effect on net income.

Utility revenues are based on authorized rates applied to each customer's use of electricity. Rates can be increased only through a formal proceeding before the appropriate regulatory commission. At the end of each accounting period, The Connecticut Light and Power Company (CL&P) and Western Massachusetts Electric Company (WMECO), wholly owned subsidiaries of NU, accrue an estimate for the amount of energy delivered but unbilled.

Spent Nuclear Fuel Disposal Costs
Under the Nuclear Waste Policy Act of 1982, CL&P and WMECO must pay the United States Department of Energy (DOE) for the disposal of spent nuclear fuel and high-level radioactive waste. For nuclear fuel used to generate electricity prior to April 7, 1983 (prior period fuel), payment may be made anytime prior to the first delivery of spent fuel to the DOE. At December 31, 1990, fees due to the DOE for the disposal of prior period fuel were approximately $148.3 million, including interest costs of $66.2 million. As of December 31, 1990, approximately $118.4 million had been collected through rates.

Fees for nuclear fuel burned after April 7, 1983 are paid to the DOE on a quarterly basis.

Investments and Jointly Owned Electric Utility Plant
Regional Nuclear Generating Companies: CL&P and WMECO own common stock of four regional nuclear generating companies. These companies, with the system's ownership interests, are:

Connecticut Yankee Atomic Power Company (CY)	44.0%
Yankee Atomic Electric Company	31.5
Maine Yankee Atomic Power Company (MY)	15.0
Vermont Yankee Nuclear Power Corporation (VY)	12.0

The system's investments in these companies are accounted for on the equity basis. The electricity produced from these facilities is committed to the participants based on their ownership interests and is billed pursuant to contractual agreements.

Millstone 3: CL&P and WMECO have a 65.17 percent joint-ownership interest in Millstone 3, a 1,146-megawatt (MW) nuclear generating unit. As of December 31, 1990, plant-in-service and the accumulated provision for depreciation included approximately $2.27 billion and $276.5 million, respectively, for the system's share of Millstone 3. The system's share of Millstone 3 expenses is included in the corresponding operating expenses on the accompanying Consolidated Statements of Income.

Seabrook: CL&P has a 4.06 percent joint-ownership interest in Seabrook 1 and 2 (Seabrook project). Seabrook 1 is a 1,150-MW nuclear generating unit that was declared to be in commercial operation on June 30, 1990. On November 30, 1990, the Connecticut Department of Public Utility Control (DPUC) approved a settlement agreement resolving all issues with respect to the prudence of CL&P's investment in the Seabrook project. The settlement agreement, which was effective June 30, 1990, permits CL&P to eventually include $167 million, or approximately 60 percent, of its initial Seabrook 1 investment in retail rate base. As a result of previous write-offs reflecting the construction cost "cap"

imposed by a Connecticut statute and the tax benefits associated with the settlement agreement, the additional net write-off resulting from the settlement agreement had no material effect on net income.

As of December 31, 1990, plant-in-service and the accumulated provision for depreciation included approximately $170.0 million and $2.5 million, respectively, for CL&P's share of Seabrook 1. As part of a pending rate case, the DPUC will determine when CL&P's allowed investment in Seabrook 1 will be included in electric rates. Seabrook 2 has been canceled by the joint owners. The settlement agreement also provides for the continued amortization of CL&P's investment in Seabrook 2 until the full retail investment is recovered, without a return on the unamortized balance.

Hydro-Quebec: Along with other New England utilities, CL&P, WMECO, and Holyoke Water Power (HWP), all wholly owned operating companies of the NU system, entered into agreements to finance and construct transmission and terminal facilities to import electricity from the Hydro-Quebec system in Canada. The project was constructed in two phases. Phase I, which entered into commercial operation in 1986, provides 690 MW of transfer capacity. On November 1, 1990, Phase II entered into commercial operation at a reduced level. Phase II is expected to begin final testing in the spring of 1991 in anticipation of operation at full-facilities ratings beginning in July 1991. When operating at full-facilities ratings, Phase II will increase the capability of the Hydro-Quebec interconnection from 690 MW to 2,000 MW. CL&P, WMECO, and HWP, in the aggregate, are obligated to pay, over a 30-year period, their proportionate share of the annual operation, maintenance, and capital costs of these facilities, which are currently forecast to be $116.4 million for the years 1991-1995, including $23.6 million for 1991.

NU has a 22.66 percent equity ownership interest, approximating $28.6 million, in the two companies that constructed and operate the Phase II facilities. Under the terms of the Phase II equity agreement, the equity sponsors guarantee the obligations of other participants that have below-investment-grade credit ratings and receive compensation for such guarantees.

Depreciation
The provision for depreciation is calculated using the straight-line method based on estimated remaining useful lives of depreciable utility plant-in-service, adjusted for salvage value and removal costs as approved by the appropriate regulatory agency. Except for major facilities, depreciation factors are applied to the average plant-in-service during the period. Major facilities are depreciated from the time they are placed in service. When plant is retired from service, the original cost of plant, including costs of removal, less salvage, is charged to the accumulated provision for depreciation. For nuclear production plants, the costs of removal, less salvage, that have been funded through external decommissioning trusts will be charged to those trusts. See Note 2, "Nuclear Decommissioning" for additional information.

The depreciation rates for the several classes of electric plant-in-service are equivalent to a composite rate of 3.6 percent in 1990, 3.4 percent in 1989, and 3.5 percent in 1988.

Income Taxes
The tax effect of timing differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of income subject to tax) is accounted for in accordance with the ratemaking treatment of the applicable regulatory commissions. See Consolidated Statements of Income Taxes, on page 27, for the components of income tax expense.

The company has not provided deferred income taxes for certain timing differences during periods when applicable regulatory authorities did not permit the recovery of such income taxes through rates charged to customers. The cumulative net amount of income tax timing differences for which deferred taxes have not been provided was approximately $645 million at December 31, 1990. As allowed under current regulatory practices, deferred taxes not previously provided are being collected in customers' rates as such taxes become payable.

In December 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 96, *Accounting for Income Taxes* (SFAS 96). SFAS 96, as amended, supersedes previously issued income tax accounting standards and will be effective in 1992. The company expects that when SFAS 96 is adopted, it will increase assets and liabilities by approximately $1.0 billion but will not have a material effect on net income.

Allowance for Funds Used During Construction (AFUDC)
AFUDC, a noncash cost calculated in accordance with FERC guidelines, represents the estimated cost of capital funds used

to finance the system's construction program. These costs, which are one component of the total capitalized cost of construction, are not recognized as part of the rate base for ratemaking purposes until facilities are placed in service. The effective AFUDC rates under the gross-of-income tax method for 1990, 1989, and 1988 were 9.7 percent, 10.1 percent, and 9.1 percent, respectively.

Energy Adjustment Clauses

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

The DPUC continues to disallow deferred fossil-fuel accounting. The DPUC permits CL&P to recover prior deferred fossil-fuel balances, which at December 31, 1990 amounted to $46.1 million, over a remaining period of five and a half years, without earning a return on the outstanding balance.

Beginning in 1979, the DPUC approved the use of a generation utilization adjustment clause which levels the effect on fuel costs caused by variations from a specified composite nuclear generation capacity factor (70 percent effective January 1, 1990). At the end of a 12-month period ending July 31 of each year, these net variations from the amounts included in base-rate cost levels are refunded to, or collected from, customers over the subsequent 11-month period beginning in September. Should the annual nuclear capacity factor fall below 55 percent, CL&P would have to apply to the DPUC for permission to recover the additional fuel expense. During the period from August 1, 1989 to July 31, 1990, the composite nuclear generation factor for the seven operating New England nuclear units in which CL&P has an ownership interest was 74.8 percent, resulting in an additional net fuel cost savings of approximately $18.4 million, which is being refunded to ratepayers.

WMECO: As permitted by the Massachusetts Department of Public Utilities (DPU), WMECO defers the difference between forecasted and actual fuel costs until it is recovered or refunded quarterly under a retail fuel adjustment clause. Massachusetts law requires the establishment of an annual performance program related to fuel procurement and use. The program establishes performance standards for plants owned and operated by WMECO or plants in which WMECO has a life-of-unit contract. Therefore, revenues collected under the WMECO retail fuel adjustment clause are subject to refund pending review by the DPU. To date, there have been no significant adjustments as a result of this program.

Phase-in Plans

As discussed below, both CL&P and WMECO are phasing into rates the recoverable parts of their respective Millstone 3 investments. These plans are in compliance with Statement of Financial Accounting Standards No. 92, *Regulated Enterprises–Accounting for Phase-in Plans*.

CL&P: As allowed by the DPUC, CL&P is phasing into rate base its allowed investment in Millstone 3. The DPUC has provided for full deferred earnings and carrying charges on the portion of CL&P's allowed investment in Millstone 3 not included in rate base. Through December 31, 1990, CL&P had placed into rate base $1.4 billion, or 80 percent, of its allowed investment in Millstone 3. The remaining $351.3 million, or 20 percent, of CL&P's allowed investment in Millstone 3 is to be phased into rate base in four 5-percent steps beginning in 1992. The amortization and recovery of deferrals through rates began January 1, 1988 and will end no later than December 31, 1995. As of December 31, 1990, $159.4 million of the deferred return, including carrying charges, has been recovered.

WMECO: Under the terms of the original Millstone 3 phase-in rate order, WMECO was required to apply to the DPU for revenue increases sufficient to recover the Millstone 3 installments as they were to be phased in. On June 29, 1990, the DPU allowed the fifth of five equal annual installments of the "used and useful" portion of WMECO's investment in Millstone 3 to be added to WMECO's rate base. At December 31, 1990, $353.2 million of WMECO's investment in Millstone 3 was in rate base.

Beginning in 1986, the DPU has permitted WMECO to recover the portion of its Millstone 3 investment representing the amount currently determined to be "unuseful" by the DPU ($51.8 million at December 31, 1990), excluding the applicable equity AFUDC, over a ten-year period, without earning a return. On June 30, 1987, WMECO also began recovering the deferred return, including carrying charges, on the recoverable but not yet phased-in portion of its investment in Millstone 3. This recovery is taking place over a nine-year

period. As of December 31, 1990, $28.9 million of the deferred return, including carrying charges, has been recovered.

2. Leases

CL&P and WMECO have entered into a capital lease agreement to finance up to $530 million of nuclear fuel for Millstone 1 and 2 and their share of the nuclear fuel for Millstone 3. CL&P and WMECO make quarterly lease payments for the cost of nuclear fuel consumed in the reactors (based on a units-of-production method at rates which reflect estimated kilowatt-hours of energy provided) plus financing costs associated with the fuel in the reactors. Upon permanent discharge from the reactors, ownership of the nuclear fuel transfers to CL&P and WMECO.

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

Year	Capital Leases	Operating Leases
1990	$133,318,000	$24,526,000
1989	127,602,000	29,274,000
1988	138,065,000	27,298,000

Interest included in capital lease rental payments was $25,889,000 in 1990, $31,177,000 in 1989, and $29,5[illegible]00 in 1988.

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

Future minimum rental payments, excluding annual nuclear fuel lease payments and executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable leases, as of December 31, 1990, are approximately:

Year	Capital Leases	Operating Leases
	(Thousands of Dollars)	
1991	$ 8,000	$ 24,800
1992	8,000	19,700
1993	8,000	13,000
1994	6,000	8,600
1995	6,000	7,100
After 1995	36,500	49,200
Future minimum lease payments	72,500	$122,400
Less amount representing interest	27,800	
Present value of future minimum lease payments for other than nuclear fuel	44,700	
Present value of future nuclear fuel lease payments	274,800	
Total	$319,500	

3. Nuclear Decommissioning

A 1989 decommissioning study concludes that complete and immediate dismantlement at retirement continues to be the most viable and economic method of decommissioning the three Millstone units. The estimated cost of decommissioning the system's ownership share of these units is $722.7 million in year-end 1990 dollars. A 1987 Seabrook decommissioning study also confirms that complete and immediate dismantlement at retirement is the most viable and economic method of decommissioning Seabrook 1. The estimated cost of decommissioning CL&P's ownership share of Seabrook 1 is $11.3 million in year-end 1990 dollars. Decommissioning studies are reviewed and updated periodically to reflect changes in decommissioning requirements, technology, and inflation.

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

As of December 31, 1990, CL&P and WMECO have collected, through rates, $112.4 million towards the future decommissioning costs of the Millstone units, of which $85.3 million has been transferred to external decommissioning trusts. As of December 31, 1990, CL&P has paid $96 thousand

it Seabrook 1's decommissioning financing fund. The decommissioning trusts are disclosed on the Consolidated Balance Sheet at cost, which approximates market.

Although a substantial portion of the current estimated total decommissioning costs has been approved by regulatory agencies and is reflected in the depreciation expense of CL&P and WMECO, management believes that decommissioning recoveries must be increased in order to collect the full projected costs of decommissioning.

4. Postretirement Benefits

The company's subsidiaries participate in a uniform noncontributory defined benefit retirement plan covering all regular system employees. Benefits are based on years of service and employees' compensation during the last five years of employment. Total pension cost, part of which was charged to utility plant, approximated $11,275,000 in 1990, $14,537,000 in 1989, and $17,214,000 in 1988.

It is the policy of the subsidiaries to fund annually an amount at least equal to that which will satisfy the requirements of the Employee Retirement Income Security Act and the Internal Revenue Code. Pension costs are determined using market-related values of pension assets. Pension assets are invested primarily in equity securities, bonds, and insurance contracts.

The components of net pension cost are:

For the Years Ended December 31,	1990	1989	1988
		(Thousands of Dollars)	
Service cost	$30,459	$31,020	$31,893
Interest cost	64,352	61,415	59,715
Return on plan assets	10,498	(160,750)	(84,825)
Net amortization	(94,034)	82,852	10,431
Net pension cost	$11,275	$14,537	$17,214

For calculating pension cost, the following assumptions were used:

For the Years Ended December 31,	1990	1989	1988
Discount rate	9.0%	9.5%	9.5%
Expected long-term rate of return	9.7	9.7	9.7
Compensation/progression rate	7.5	8.5	8.5

The following table represents the plan's funded status reconciled to the Consolidated Balance Sheet:

At December 31,	1990	1989
	(Thousands of Dollars)	
Accumulated benefit obligation, including $489,398,000 of vested benefits at December 31, 1990 and $439,804,000 of vested benefits at December 31, 1989	$525,056	$471,387
Projected benefit obligation	$792,818	$720,994
Less: Market value of plan assets	865,497	874,792
Market value in excess of projected benefit obligation	72,679	153,798
Unrecognized transition amount	(28,897)	(30,837)
Unrecognized prior service costs	7,768	—
Unrecognized net gain	(42,573)	(140,607)
Accrued pension asset (liability)	$ 8,977	$(17,646)

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

At December 31,	1990	1989
Discount rate	9.0%	9.0%
Compensation/progression rate	7.5	7.5

In addition to pension benefits, the company's subsidiaries provide certain health care and life insurance benefits to retired employees. The cost of providing those benefits was approximately $11,133,000 in 1990, $9,618,000 in 1989, and $7,333,000 in 1988. The company presently recognizes health care benefits primarily as incurred and provides for life insurance benefits through premiums paid to an insurance company.

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS 106). This new standard requires that the expected cost of these benefits must be charged to expense during the years that employees render service. This is a significant change from the company's current policy of recognizing these costs as incurred. SFAS 106 will become effective in 1993. CL&P and WMECO expect to petition their regulators for recovery of these costs in future rate proceedings. While CL&P and WMECO expect to recover these costs, should the timing of recovery differ from the accrual of such costs, the companies would expect to record a regulatory asset for the difference.

5. Short-Term Debt

The system companies have various credit lines totaling $400 million. Of this amount, $350 million is available to NU, CL&P, and WMECO through a revolving-credit agreement with a group of 11 banks. The maximum borrowing limit of CL&P under the agreement is $350 million less amounts borrowed by WMECO (not to exceed $105 million) and by NU (not to exceed $100 million). NU, CL&P, and WMECO may borrow funds on a short-term revolving basis using either fixed-rate loans or standby loans. Fixed rates are set using competitive bidding. Standby loan rates are based upon several alternative variable rates. NU, CL&P, and WMECO are obligated to pay a facility fee of .1875 percent per annum on their proportionate share of the commitment. At December 31, 1990, there were no borrowings under this agreement.

The remaining $50 million is available to the NU system companies through a revolving-credit agreement with a group of seven banks. Under this agreement, the NU system companies can borrow in the aggregate an amount not to exceed $50 million. Loans under this agreement are on a short-term revolving basis in the form of either Eurodollar Loans based on the London Interbank Offered Rate, plus 3/8 of 1 percent, or as Alternative Base Rate Loans at the greater of the prime rate or 1/2 of 1 percent over the Federal Funds Effective Rate. This agreement will expire on August 25, 1993 unless extended, on an annual basis, for a maximum of four years beyond the expiration of the initial three-year term. At December 31, 1990, there were no borrowings under this agreement.

The amount of short-term borrowings that may be incurred by the NU system companies are subject to periodic approval by the SEC under the 1935 Act. In addition, the charters of CL&P and WMECO contain provisions restricting the amount of short-term borrowings. Under these restrictions, as of January 1, 1991, NU, CL&P, and WMECO were authorized to incur short-term borrowings up to a maximum of $135 million, $300 million, and $93 million, respectively.

6. Public Service Company of New Hampshire (PSNH)

PSNH, the largest utility in New Hampshire, supplies electricity to approximately three-quarters of the state's population. For the 12 months ended December 31, 1990, PSNH operating revenues were approximately $632.8 million. At December 31, 1990, PSNH had total assets of approximately $2.5 billion, most of which is utility plant, including a 35.6 percent ownership interest in the Seabrook project.

The Plan of Reorganization

After an unsuccessful effort to restructure its finances in 1987, on January 28, 1988, PSNH filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code. In late 1989, NU reached agreement with the official committees representing PSNH's unsecured creditors and equity security holders, and the holders of the majority of PSNH's third mortgage bonds on a jointly sponsored plan (Plan) for NU to acquire PSNH. On April 20, 1990, the Bankruptcy Court confirmed the Plan. On April 30, 1990, the incumbent PSNH directors were replaced and an NU subsidiary, Northeast Utilities Service Company, began overseeing the operations of PSNH under the terms of a management services agreement.

Under the two-step approach contemplated by the Plan, PSNH will emerge from bankruptcy in Step 1 as a free-standing, independent company subject to a contractual obligation to be acquired by NU (the second step of the Plan). Step 2 takes place when regulatory approvals and all other conditions are satisfied. In connection with Step 2, PSNH will become a wholly owned subsidiary of NU. PSNH's 35.6 percent ownership in Seabrook 1 will be transferred to North Atlantic Energy Corporation (North Atlantic), a newly formed company that will be a wholly owned subsidiary of NU.

The Rate Agreement

The rate agreement, which provides the financial basis for the Plan, was approved by the New Hampshire Public Utilities Commission (NHPUC) on July 20, 1990. Two appeals of the NHPUC's decision have been filed with the New Hampshire Supreme Court and a decision is expected in March 1991.

The rate agreement provides, among other things, for seven successive annual rate increases of 5.5 percent per year. The first rate increase, which went into effect on January 1, 1990, is being held in escrow. Part of the first rate increase will be released at Step 1, with the remainder being released at Step 2. As a result of delays in the reorganization of PSNH, the second 5.5 percent rate increase, originally scheduled for January 1, 1991, will be delayed until PSNH is reorganized. In addition, the rate agreement contemplates that after the merger and the transfer of Seabrook 1 to North Atlantic, PSNH and

North Atlantic will enter into the Seabrook Power Contract (Contract). Under that Contract, PSNH will be required to purchase the capacity and output of Seabrook 1 for the full term of Seabrook 1's operating license and to pay North Atlantic's cost of service.

Regulatory Approval
On December 20, 1990, an administrative law judge (ALJ) of the FERC issued a decision recommending approval of NU's acquisition of PSNH, subject to several conditions. The principal conditions involve transmission issues. The transmission arrangements as outlined in the ALJ's decision do not differ significantly from NU's original FERC application. NU expects a final FERC decision to be issued in the spring of 1991.

On December 20, 1990, the SEC approved NU's acquisition of PSNH. The SEC found that the acquisition satisfied applicable standards of the 1935 Act and that the issues before the SEC would not be further developed in a hearing. Accordingly, the SEC denied intervenors' requests for a hearing. Two intervenors have petitioned the SEC for a rehearing and the SEC decision has been appealed to the United States Court of Appeals. The SEC has reserved jurisdiction over various financings for which the record was incomplete.

On November 13, 1990, New Hampshire Yankee (NHY), the division of PSNH responsible for managing the Seabrook project, filed applications with the Nuclear Regulatory Commission (NRC) regarding amendments to the plant's operating license. These amendments will permit North Atlantic to purchase PSNH's interest in Seabrook 1 and authorize North Atlantic Energy Service Corporation, a newly formed company that will be a wholly owned subsidiary of NU, to replace NHY as agent for the Seabrook joint owners in the management and operation of the Seabrook project. In addition, the replacement of NHY as manager/operator of the Seabrook project is subject to SEC approval under the 1935 Act. An application was filed with the SEC during January 1991.

NU has presented extensive information about the benefits of the PSNH acquisition in its filings with regulators. However, a number of parties, including other New England utilities and governmental agencies, have challenged the acquisition. In addition, other conditions related to the acquisition have yet to be resolved. Management is projecting, for planning purposes, that PSNH will be reorganized in April 1991 and the acquisition completed by the end of the third quarter of 1991. While management remains optimistic about the ultimate success of the acquisition, financing arrangements have not been complete and regulatory approvals are not assured.

Reimbursement of Costs and Termination of the Merger
In accordance with the merger agreement, PSNH, with certain exceptions, will reimburse NU for its reasonable out-of-pocket costs, up to a maximum of $45 million, incurred in connection with the PSNH bankruptcy and merger. However, NU would not be entitled to such reimbursement if the merger terminates under certain conditions. Through December 31, 1990, NU has expensed approximately $32.8 million of costs associated with the acquisition of PSNH.

In addition, if the merger agreement is terminated by PSNH, PSNH must pay NU a termination fee of $25 million in certain circumstances. If termination is a result of NU's breach of the merger agreement, then NU must pay PSNH a termination fee of $25 million.

7. Commitments and Contingencies

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

The system companies currently forecast construction expenditures (including AFUDC) of $1.44 billion for the years 1991-1995, including $322.2 million for 1991. In addition, the system companies estimate that nuclear fuel requirements will be $311.7 million for the years 1991-1995, including $21.0 million for 1991.

Millstone 2
Millstone 2 is an 862-MW nuclear generating unit completed in 1975 and wholly owned by the NU system.

Corrosion, pitting, and denting of tubes within steam generator assemblies have been problems found at numerous nuclear units. These problems were first identified at Millstone 2 in a 1977 outage. Since then, the unit's steam

generator system has been the subject of regular inspections and extensive repairs. In light of the continuing repairs and concerns about future performance, the NU system currently plans to replace Millstone 2's steam generators in 1992. This would involve a five-month outage at a total cost of approximately $200 million. That amount includes AFUDC but does not include the cost of replacement power. Commitments have been made to procure spare steam generator subassemblies, and plans are being developed to prepare the site for replacement.

Environmental Matters

The NU system is subject to regulation by federal, state, and local authorities with respect to air and water quality and the disposal of toxic substances and hazardous and solid wastes. The cumulative long-term economic cost impact of increasingly stringent environmental requirements cannot be estimated. However, to comply with such requirements, the system may incur significant additional costs in connection with the generation and transmission of electricity and the storage, transportation, and disposal of by-products and wastes. The system may also encounter significantly increased costs to remedy the environmental effects of prior disposal practices. These changing environmental requirements could hinder the construction of new fossil-fuel generating units and could require extensive and costly modifications to the system's existing hydro, nuclear, and fossil-fuel generating units. The system may also face significantly increased costs for work centers and other facilities as a result of environmental regulations.

The extent of additional future environmental cleanup costs is not estimable due to factors such as the unknown magnitude of possible contamination, the possible effects of future legislation and regulation, the possible effects of technological changes related to future cleanup, and the difficulty of determining future liability, if any, for the cleanup of sites at which the system has or may be designated a potential responsible party by the United States Environmental Protection Agency, the Connecticut Department of Environmental Protection, or the Massachusetts Department of Environmental Protection. In addition, the system cannot estimate the potential liability for future claims that may be brought against it by private parties. However, considering known facts, existing laws, and possible insurance and/or rate treatment, management does not believe such matters will have a material adverse effect on the system's financial position.

Nuclear Insurance Contingencies

The Price-Anderson Act currently limits public liability from a single incident at a nuclear power plant to $7.8 billion. The first $200 million of liability would be provided by purchasing the maximum amount of commercially available insurance. Additional coverage of up to a total of $7.2 billion would be provided by an assessment of $63 million per incident, levied on each of the 115 nuclear units currently licensed to operate in the United States, subject to a maximum assessment of $10 million per incident per nuclear unit in any year. In addition, if the sum of all public liability claims and legal costs arising from any nuclear incident exceeds the maximum amount of financial protection, each reactor operator can be assessed an additional 5 percent, up to $3.2 million or $362.3 million in total, for all 115 nuclear units. The maximum assessment is to be adjusted at least every five years to reflect inflationary changes. Based on CL&P's and WMECO's ownership interests in the three Millstone units, and CL&P's ownership interest in Seabrook 1, the NU system's maximum liability would be $178.1 million per incident. In addition, through CL&P's and WMECO's power purchase contracts with the four Yankee regional nuclear generating companies, the NU system would be responsible for up to an additional $67.8 million per incident. Payments for the NU system's ownership interest in nuclear generating facilities would be limited to a maximum of $37.2 million per incident per year.

Insurance has been purchased from Nuclear Electric Insurance Limited (NEIL) to cover: (i) certain extra costs incurred in obtaining replacement power during a prolonged accidental outage with respect to CL&P's and WMECO's ownership interests in Millstone 1, 2, and 3, and CY, and (ii) the cost of repair, replacement, or decontamination or premature decommissioning of utility property resulting from insured occurrences at Millstone 1, 2, and 3, Seabrook 1, CY, MY, and VY. All companies insured with NEIL are subject to retroactive assessments if losses exceed the accumulated funds available to NEIL. The maximum potential assessments against CL&P and WMECO with respect to losses arising during current policy years are approximately $14.6 million under the replacement power policies and $11.7 million under the property damage, decontamination and decommissioning policies. Although CL&P and WMECO have purchased the limits of coverage currently available from the conventional nuclear insurance pools, the cost of a nuclear incident could exceed available insurance proceeds.

In addition, insurance has been purchased from American Nuclear Insurers/Mutual Atomic Energy Liability Underwriters, aggregating $200 million on an industry basis, for coverage of worker claims. All companies insured under this coverage are subject to retrospective assessments of $3.19 million per reactor. The maximum potential assessments against CL&P and WMECO with respect to losses arising during the current policy period are approximately $11.8 million.

Financing Arrangements for the Regional Nuclear Generating Companies

The owners of CY, including CL&P and WMECO, have guaranteed their pro rata shares of $14.7 million 17 percent Series A Debentures. The guarantees of CL&P and WMECO aggregate $6.8 million.

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

Selected Consolidated Financial Data

	1990	1989	1988	1987
	(Thousands of Dollars, except percentages and share data)			
Balance Sheet Data:				
Net Utility Plant–				
Continuing Operations	$5,265,168	$5,237,805	$5,267,629	$5,229,242
Discontinued Gas Plant	—	—	254,587	237,903
Total Assets	6,601,371	6,523,202	6,764,608	6,663,794
Total Capitalization (a)	4,955,015	4,954,083	5,123,504	4,956,080
Obligations Under Capital Leases (a)	319,548	341,246	410,352	432,714
Income Data:				
Continuing Operations:				
Operating Revenues (b)	$2,616,319	$2,473,571	$2,268,607	$2,038,554
Net Income	211,007	203,225	224,844	214,529
Earnings per Common Share	$ 1.94	$ 1.87	$ 2.07	$ 1.97
Discontinued Gas Operations:				
Operating Revenues	$ —	$124,229	$200,243	$202,816
Net Income	—	5,858	9,078	14,616
Earnings per Common Share	$ —	$ 0.05	$ 0.08	$ 0.14
Common Share Data:				
Earnings per Share	$ 1.94	$ 1.92	$ 2.15	$ 2.11
Dividends per Share	$ 1.76	$ 1.76	$ 1.76	$ 1.76
Payout Ratio (%)	90.7	91.7	81.9	83.4
Number of Shares Outstanding–Average	109,003,818	108,669,106	108,669,106	108,669,106
Market Price–High	$22⅝	$23	$23⅛	$28
Market Price–Low	$17⅞	$18½	$18¼	$18
Market Price–Closing Price (end of year)	$20	$22½	$19⅞	$20¼
Book Value per Share (end of year)	$16.34	$16.13	$16.90	$16.53
Rate of Return Earned on Average Common Equity (%)	12.0	11.8	13.0	12.8
Dividend Yield (end of year) (%)	8.8	7.8	8.9	8.7
Market-to-Book Ratio (end of year)	1.2	1.4	1.2	1.2
Price-Earnings Ratio (end of year)	10.	11.7	9.2	9.6
Capitalization: (a)				
Common Shareholders' Equity	$1,790,758	$1,752,395	$1,837,034	$1,796,293
Preferred Stock Not Subject to Mandatory Redemption	394,695	394,695	344,695	291,195
Preferred Stock Subject to Mandatory Redemption	176,892	181,892	111,832	205,832
Long-Term Debt	2,592,670	2,625,101	2,829,943	2,662,760
Total Capitalization	$4,955,015	$4,954,083	$5,123,504	$4,956,080

(a) Includes portions due within one year.

(b) The reported amounts reflect the reclassification of bulk power sales transactions from operating expenses to operating revenues. See Note 1 of Notes to Consolidated Financial Statements.

1986	1985	1984	1983	1982	1981
		(Thousands of Dollars, except percentages and share data)			
$5,120,812	$5,204,687	$4,650,428	$4,122,692	$3,570,710	$3,175,641
224,581	214,115	204,187	192,861	183,322	166,959
6,299,755	6,147,720	5,507,040	4,957,927	4,309,368	3,940,144
4,743,914	4,681,995	4,319,404	3,954,569	3,465,395	3,189,493
441,183	440,587	392,593	337,636	286,603	14,563
$2,006,842	$1,969,225	$2,030,557	$1,746,425	$1,641,308	$1,554,081
171,234	277,768	276,615	209,905	143,040	86,503
$ 1.58	$ 2.62	$ 2.73	$ 2.24	$ 1.67	$ 1.17
$203,814	$220,010	$224,430	$238,999	$224,447	$181,268
10,705	10,773	12,323	11,643	8,202	8,615
$ 0.10	$ 0.10	$ 0.12	$ 0.13	$ 0.09	$ 0.12
$ 1.68	$ 2.72	$ 2.85	$ 2.37	$ 1.76	$ 1.29
$ 1.68	$ 1.58	$ 1.48	$ 1.38	$ 1.28	$ 1.18
100.0	58.1	51.9	58.2	72.7	91.5
108,352,517	106,221,131	101,398,235	93,497,945	85,777,230	73,783,201
$28 1/4	$18 3/4	$14 3/4	$13 7/8	$12 1/2	$ 9 1/4
$17 3/8	$13 3/4	$10 5/8	$11 3/4	$ 8 7/8	$ 8
$24 1/4	$17 3/4	$14 1/4	$12 1/8	$12 1/8	$ 9 1/8
$16.24	$16.21	$15.07	$13.84	$12.96	$12.83
10.4	17.4	19.8	17.8	13.8	9.9
6.9	8.9	10.4	11.3	10.6	12.9
1.5	1.1	0.9	0.9	0.9	0.7
4.4	6.5	5.0	5.2	6.9	7.1
$1,765,090	$1,738,871	$1,575,705	$1,361,724	$1,159,698	$1,013,205
291,195	291,195	291,195	291,195	291,195	291,200
166,832	185,833	186,978	188,547	104,461	66,601
2,520,797	2,466,096	2,265,526	2,113,103	1,910,041	1,818,487
$4,743,914	$4,681,995	$4,319,404	$3,954,569	$3,465,395	$3,189,493

Consolidated Statements of Quarterly Financial Data (Unaudited)

For the Quarter Ended	March 31	June 30	September 30	December 31
		(Thousands of Dollars, except per share data)		
1990:				
Operating Revenues (a)	$680,522	$603,801	$675,307	$656,689
Operating Income	$109,021	$ 86,962	$105,681	$ 78,898
Net Income	$ 66,109	$ 40,678	$ 65,896	$ 38,324
Earnings Per Common Share	$ 0.61	$ 0.37	$ 0.61	$ 0.35
1989:				
Continuing Operations:				
Operating Revenues (a)	$629,431	$573,797	$618,924	$651,419
Operating Income	$105,087	$ 88,199	$103,646	$ 88,177
Net Income	$ 60,758	$ 40,490	$ 55,918	$ 46,059
Earnings Per Common Share	$ 0.56	$ 0.37	$ 0.51	$ 0.43
Discontinued Gas Operations:				
Operating Revenues	$ 85,780	$ 38,449	$ —	$ —
Operating Income	$ 12,728	$ 41	$ —	$ —
Net Income (Loss)	$ 9,341	$ (3,483)	$ —	$ —
Earnings (Loss) Per Common Share	$ 0.08	$(0.03)	$ —	$ —

(a) The reported amounts reflect the reclassification of bulk power sales transactions from operating expenses to operating revenues. See Note 1 of Notes to Consolidated Financial Statements.

Consolidated General Operating Statistics

	1990	1989	1988	1987	1986
System Capability–MW (a)	5,909.6	5,963.7	5,737.7	5,564.5	5,972.8
System Peak Demand–MW	4,753.9	4,858.0	4,883.3	4,590.5	4,241.5
Nuclear Capacity–MW (a)	2,459.5	2,397.1	2,590.4	2,420.2	2,681.4
Nuclear Capacity Factor (%) (a)	72.2	71.2	79.2	74.9	75.7
Nuclear Contribution to Total Energy Requirements (%) (a)	57.5	56.8	68.5	68.5	67.1

(a) Includes company entitlements in regional nuclear generating companies, net of capacity sales and purchases.

Consolidated Electric Operating Statistics

	1990	1989	1988	1987	1986
Source of Electric Energy: (kWh–millions) (a)					
Nuclear–Steam	17,724	17,119	19,146	18,019	16,624
Fossil–Steam	6,829	8,956	8,805	7,912	9,048
Hydro–Conventional	1,174	956	825	866	895
Hydro–Pumped Storage	1,250	1,194	1,111	973	950
Internal Combustion	11	77	84	39	33
Energy Used for Pumping	(1,688)	(1,629)	(1,509)	(1,322)	(1,293)
Net Generation	25,300	26,673	28,462	26,487	26,257
Purchased and Net Interchange (b)	6,249	5,178	2,456	2,585	3,328
Company Use and Unaccounted For	(1,938)	(2,304)	(2,333)	(2,082)	(2,050)
Net Energy Sold	29,611	29,547	28,585	26,990	27,535
Revenues: (thousands)					
Residential	$ 938,032	$ 898,471	$ 838,011	$ 780,866	$ 741,838
Commercial	788,478	734,709	673,819	630,678	602,924
Industrial	410,125	391,661	366,517	353,394	350,310
Other Utilities (b)	346,087	301,045	227,653	203,642	234,222
Streetlighting and Railroads	37,195	35,499	33,151	32,318	34,741
Miscellaneous	42,882	64,282	82,169	(18,146)	(2,464)
Total Electric	2,562,799	2,425,667	2,221,320	1,982,752	1,961,571
Other	53,520	47,904	47,287	55,802	45,271
Total	$2,616,319	$2,473,571	$2,268,607	$2,038,554	$2,006,842
Sales: (kWh–millions)					
Residential	9,500	9,594	9,412	8,825	8,274
Commercial	8,981	8,757	8,585	8,151	7,676
Industrial	5,448	5,557	5,535	5,449	5,394
Other Utilities (b)	5,394	5,351	4,771	4,284	5,883
Streetlighting and Railroads	288	288	282	281	308
Total	29,611	29,547	28,585	26,990	27,535
Customers: (average)					
Residential	1,145,142	1,134,588	1,117,356	1,091,539	1,063,998
Commercial	102,900	101,301	98,095	94,164	90,924
Industrial	5,114	5,090	5,063	5,084	5,102
Other (b)	3,283	3,277	3,222	3,120	3,096
Total	1,256,439	1,244,256	1,223,736	1,193,907	1,163,120
Average Annual Use Per Residential Customer (kWh)	8,304	8,460	8,418	8,061	7,746
Average Annual Bill Per Residential Customer	$819.94	$792.28	$749.54	$713.24	$694.51
Average Revenue Per kWh:					
Residential	9.87¢	9.36¢	8.90¢	8.85¢	8.97¢
Commercial	8.78	8.39	7.85	7.74	7.85
Industrial	7.53	7.05	6.62	6.49	6.49

(a) Generated in system and regional nuclear generating plants.

(b) The reported amounts reflect the reclassification of bulk power sales transactions from operating expenses to operating revenues. See Note 1 of Notes to Consolidated Financial Statements.

Shareholders
As of January 31, 1991, there were 147,680 common shareholders of record of Northeast Utilities.

Common Share Information
The common shares of Northeast Utilities are listed on the New York Stock Exchange. The ticker symbol is "NU," although it is frequently presented as "Noest Ut" in various financial publications. The high and low sales prices and dividends paid for the past two years by quarters are shown below:

Year	Quarter	High	Low	Quarterly Dividend Per Share
1990	First	$22 5/8	$20 1/8	$0.44
	Second	21 1/4	19	0.44
	Third	20 3/8	17 7/8	0.44
	Fourth	20 7/8	18 1/8	0.44
1989	First	$21	$18 1/2	$0.44
	Second	22 3/8	19 1/2	0.44
	Third	23	20 1/2	0.44
	Fourth	22 3/4	20 3/4	0.44

Dividend Reinvestment Plan
The company has a Dividend Reinvestment Plan under which all common shareholders may use their dividends to purchase additional common shares. The company absorbs all brokerage fees for purchases under the plan.

Northeast Utilities Service Company, Shareholder Services, P.O. Box 5006, Hartford, Connecticut 06102-5006, is the company's dividend-paying agent and administers the company's Dividend Reinvestment Plan.

Annual Meeting
The annual meeting of shareholders of Northeast Utilities will be held on Tuesday, May 21, 1991, at 10 a.m., at La Renaissance, East Windsor, Connecticut, which is located at Exit 44 (East Windsor) of Interstate 91.

Transfer Agents and Registrars
Northeast Utilities Service Company
Shareholders Services
P.O. Box 5006
Hartford, Connecticut 06102-5006

State Street Bank and Trust Company
Corporate Stock Transfer Department
P.O. Box 8200
Boston, Massachusetts 02266-8200

Form 10-K
Northeast Utilities will provide shareholders a copy of its 1990 Annual Report to the Securities and Exchange Commission on Form 10-K, including the financial statements and schedules thereto, without charge, upon receipt of a written request sent to:

Theresa H. Allsop
Assistant Secretary
Northeast Utilities
P.O. Box 270
Hartford, Connecticut 06141-0270

Northeast Utilities Service Company

OFFICERS

Chairman and Chief Executive Officer

William B. Ellis

President and Chief Operating Officer

Bernard M. Fox

Executive Vice President

John F. Opeka
Engineering and Operations

Senior Vice Presidents

Robert E. Busch
Chief Financial Officer

John P. Cagnetta
Corporate Planning and Regulatory Relations

Frank R. Locke
Chief Administrative Officer–New Hampshire

Hugh C. MacKenzie
Customer Service Operations

Edward J. Mroczka
Nuclear Engineering and Operations

Lawrence H. Shay
Administrative Services

Walter F. Torrance, Jr.
Secretary and General Counsel

Vice Presidents

C. Thayer Browne
Treasurer

Eric A. DeBarba
Generation Engineering and Construction

Tod O. Dixon
Information Resources

Albert J. Hajek
Corporate Performance Services and Organizational Control

Barry Ilberman
Human Resources

Francis L. Kinney
Public Affairs

Keith R. Marvin
Purchasing and Materials Management

John W. Noyes
Regulatory Relations

Richard A. Recken
Fossil/Hydro Engineering and Operations

Wayne D. Romberg
Nuclear Operations

Frank P. Sabatino
Marketing

Walter T. Schultheis
Power Supply Planning and Research

C. Frederick Sears
Nuclear and Environmental Engineering

George D. Uhl
Controller

Roger C. Zaklukiewicz
Transmission and Distribution

Regional Vice Presidents

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Western Massachusetts

Richard R. Carella
Eastern

Lesley C. Gerould
Southern

Roy C. J. Normen
Northern

Alfred R. Rogers
Central

Robert W. Zonghetti
Western

Assistant Controllers

Patricia R. McLaughlin
S. James Morneault
Winslow C. Wentworth, Jr.

Assistant Secretaries

Theresa H. Allsop
Douglas R. Teece
Karen G. Valenti

Assistant Treasurers

Robert C. Aronson
Arthur H. Hierl
Eugene G. Vertefeuille

__Executive Changes__–__Frank R. Locke,__ senior vice president, was elected to the position of chief administrative officer–New Hampshire, effective April 30, 1990.

__Hugh C. MacKenzie,__ previously vice president, was elected senior vice president–Customer Service Operations, effective April 30, 1990.

__Roger C. Zaklukiewicz__ was elected vice president–Transmission and Distribution, effective June 6, 1990. __Eric A. DeBarba__ was elected vice president–Generation Engineering and Construction, effective September 1, 1990, and __Frank P. Sabatino__ was elected vice president–Marketing, effective October 1, 1990.

__Retirements__–__Raymond E. Donovan,__ vice president–Marketing and Consumer Services, retired in 1990 after 39 years of service, and __Richard P. Werner,__ vice president–Generation Engineering and Construction, retired in 1990 after 33 years of service.

__Walter T. Schultheis,__ vice president–Power Supply Planning and Research, will retire in March 1991 after 40 years of service.

__In Memoriam__–We note with sadness, the passing, during the year, of __Emil B. Gross,__ retired regional vice president, Southern, and __Robert P. Lee,__ retired CL&P vice president of Public and Employee Relations.

OFFICERS

William B. Ellis
Chairman of the Board and Chief Executive Officer

Bernard M. Fox
President and Chief Operating Officer

Robert E. Busch
Senior Vice President and Chief Financial Officer

Walter F. Torrance, Jr.
Senior Vice President, Secretary, and General Counsel

C. Thayer Browne
Vice President and Treasurer

George D. Uhl
Vice President and Controller

Theresa H. Allsop
Assistant Secretary

Karen G. Valenti
Assistant Secretary

Robert C. Aronson
Assistant Treasurer

Arthur H. Hierl
Assistant Treasurer

Eugene G. Vertefeuille
Assistant Treasurer

* Executive Committee
\+ Finance Committee
\# Audit Committee
† Committee on Organization, Compensation and Board Affairs
° Corporate Responsibility Committee

TRUSTEES

+# Richard L. Creviston
Retired Chairman and a Director
NESB Corp. and its subsidiary banks

George David
Executive Vice President
United Technologies Corporation (provides products, systems, and services to aerospace and defense, construction, and automotive industries)

***† Donald W. Davis**
Chairman of Executive Committee and a Director
The Stanley Works (tools, hardware, and industrial products)

***+# Donald J. Donahue**
Chairman
Magma Copper Company

***+ William B. Ellis**
Chairman of the Board and Chief Executive Officer

***+ Bernard M. Fox**
President and Chief Operating Officer

#° Kathryn S. Fuller
President
World Wildlife Fund and The Conservation Foundation (an international conservation organization)

***†° George B. Harvey**
Chairman of the Board, President, Chief Executive Officer, and a Director
Pitney Bowes Inc. (mailing and office products, business supplies, and financial services)

#†° Eugene D. Jones
Senior Vice President
Greiner Inc. (consulting engineers)

†° Elizabeth T. Kennan
President
Mount Holyoke College

***+† Denham C. Lunt, Jr.**
Chairman and a Director
Lunt Silversmiths

+#° Burke Marshall
Nicholas deB. Katzenbach Professor of Law
Yale Law School

***#†° William J. Pape II**
Publisher
Waterbury Republican-American (newspaper)

+#° Norman C. Rasmussen
Professor of Nuclear Engineering
Massachusetts Institute of Technology

***+#† Albert E. Steiger, Jr.**
Chairman and a Director
Albert Steiger, Inc. (department store chain)

George David *was elected to the NU Board of Trustees on September 25, 1990.*
Kathryn S. Fuller *was elected to the NU Board of Trustees on October 23, 1990.*

As of February 1, 1991

The NU service area stretches from the Connecticut shore to the Berkshires in Massachusetts and covers approximately 5,890 square miles (4,400 in Connecticut and 1,490 in Massachusetts) in 208 communities (149 in Connecticut and 59 in Massachusetts.)

From small rural communities to bustling cities, NU serves 1,260,181 electric customers in two of the most prosperous, changing states in the nation. (CL&P serves 1,068,053 customers in Connecticut. In Massachusetts, WMECO serves 192,140 customers, and HWP services 44 large industries and five wholesale customers.)

* NU is in the process of acquiring the assets and the operating business of Public Service Company of New Hampshire (PSNH). Addition of PSNH to the NU system would stretch the northern reaches of the NU service area to Canada, and add 5,445 square miles in 198 communities in New Hampshire. PSNH serves 386,023 electric customers.

NU Retail Service Area

NU Wholesale Service Area

PSNH Service Area*

NORTHEAST UTILITIES

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(203) 665-5000