

ANNUAL
REPORT

1978

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**NORTHEAST
UTILITIES**

CL&P

THE CONNECTICUT LIGHT AND POWER COMPANY

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DIRECTORS

WILLIAM B. ELLIS
President,
Northeast Utilities

WALTER F. FEE
Executive Vice President,
Northeast Utilities Service Company

WARREN A. GRETEN
Vice President,
Northeast Utilities Service Company

LEON E. MAGLATHLIN, JR.
Vice President and Chief Administrative Officer,
Western Massachusetts Electric Company

HERBERT W. SEARS
Vice President,
Northeast Utilities Service Company

LELAN F. SILLIN, JR.
Chairman and Chief Executive Officer

DONALD C. SWITZER
Vice Chairman

WILLIAM B. ELLIS
President

WALTER F. FEE
Executive Vice President

ANTHONY E. WALLACE
Executive Vice President

PHILIP T. ASHTON
Vice President

ALBERT G. BAER
Vice President

WARREN F. BRECHT
Vice President

ROBERT S. BROMAGE
Vice President

WILLIAM G. COUNSIL
Vice President

RAYMOND E. DONOVAN
Vice President

WARREN A. GRETEN
Vice President

FRANCIS L. KINNEY
Vice President

JACK R. McCLENDON
Vice President and General Manager—Gas

LELAN F. SILLIN, JR.
Chairman of the Board and Chief Executive Officer,
Northeast Utilities

PETER M. STERN
Vice President,
Northeast Utilities Service Company

DONALD C. SWITZER
Vice Chairman,
Northeast Utilities

WALTER F. TORRANCE, JR.
Vice President, General Counsel & Assistant Secretary,
Northeast Utilities Service Company

ANTHONY E. WALLACE
Executive Vice President,
Northeast Utilities Service Company

OFFICERS

LEONARD A. O'CONNOR
Vice President and Treasurer

HERBERT W. SEARS
Vice President

PETER M. STERN
Vice President

WALTER F. TORRANCE, JR.
Vice President, General Counsel &
Assistant Secretary

CHARLES S. BEACH
Regional Vice President—Western

W. LINDSEY BOOTH
Regional Vice President—Eastern

THOMAS F. BRENNAN
Regional Vice President—Central

EMIL B. GROSS
Regional Vice President—Southern

ALBERT E. MAGEE
Regional Vice President—Northern

WARREN A. HUNT
Controller

ROBERT W. BISHOP
Secretary

ROY M. SEGER
Assistant Secretary

ROBERT C. ARONSON
Assistant Treasurer

DONALD G. PARDUS
Assistant Treasurer

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The Connecticut Light and Power Company

March 5, 1979

To The Shareholders:

The Annual Report of Northeast Utilities, which provides coverage of the entire Northeast Utilities system, including The Connecticut Light and Power Company, has been mailed to all CL&P preferred shareholders. This report is brief for that reason.

The financial statements and statistical data included in this report show the results of operations of the Company in 1978.

On October 3, 1978, the Connecticut Supreme Court released its decision on the appeals taken by The Connecticut Public Utilities Control Authority (PUCA) and others from the Connecticut Court of Common Pleas decision regarding the Company's 1977 rate decision. The Supreme Court held that the lower court had erred in ordering the PUCA to reconsider the Company's request for an attrition allowance. In all other respects the lower court's decision was sustained.

As a result of the Supreme Court's upholding of the lower court's decision regarding certain operating expenses, the Company filed a proposal with the PUCA to levy a surcharge that would recover about \$6.6 million in such expenses. Hearings were held on this proposal in January 1979 and the PUCA granted the Company permission to recover the \$6.6 million through a surcharge to be added to customers' bills over a five month period commencing February 1979.

The Company filed an application with the PUCA in February 1979 for increased electric and gas rates totaling approximately \$87.6 million. Hearings on this application are expected to commence in early April and a decision is expected by late July 1979.

In July, the Company filed with the Federal Energy Regulatory Commission (FERC) new increased wholesale rates aggregating approximately \$2.5 million. FERC suspended the effectiveness of these rates until February 1, 1979. The Company is now billing these rates subject to possible refund pending FERC's decision.

The Company sold in March 1978 \$40 million of 9-1/4% First Mortgage Bonds due in 2008 at a cost of 9.30%. The proceeds from this sale were used to retire short-term debt which had been incurred to finance the Company's continuing construction program.

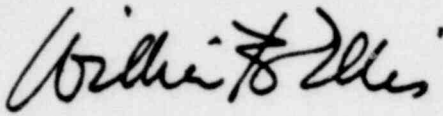
Several organizational changes were made to unify the Boards of Directors and Offices of all operating companies of the Northeast Utilities system.

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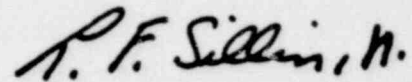
Donald C. Switzer was elected Vice Chairman and William B. Ellis was elected President of the Company. Other changes included the elections of Herbert W. Sears as a Director, Walter F. Torrance, Jr. as a Director and Vice President, Walter F. Fee as Executive Vice President, Philip T. Ashton, William G. Counsil, Raymond E. Donovan, Jack R. McClendon and Peter M. Stern as Vice Presidents and Robert W. Bishop as Secretary.

Four retirements were noted in 1978. Retiring as Directors were Paul H. Mehrten after 36 years of system service and Joseph R. Maher after 31 years of system service. Retiring as Vice Presidents were John B. Madigan after 38 years of system service and Robert H. Pearson after 31 years of system service.

Sincerely,



President



Chairman

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AUDITORS' REPORT

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

We have examined the balance sheets of The Connecticut Light and Power Company (a Connecticut corporation and a wholly owned subsidiary of Northeast Utilities) as of December 31, 1978 and 1977, and the related statements of income, retained earnings and sources of funds for gross property additions for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of The Connecticut Light and Power Company as of December 31, 1978 and 1977, and the results of its operations and the sources of funds for gross property additions for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Hartford, Connecticut,
February 14, 1979.

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The Connecticut Light and Power Company

STATEMENTS OF INCOME

For the Years Ended December 31,	1978	1977
	(Thousands of Dollars)	
Operations Excluding Gas Operations To Be Sold		
Operating Revenues	\$431,465	\$403,500
Operating Expenses:		
Operation —		
Fuel	114,422	113,464
Other	90,661	83,463
Maintenance	34,186	28,197
Depreciation	46,999	46,512
Federal and state income taxes (Note 3)	14,175	8,747
Taxes other than income taxes	39,321	37,675
Total operating expenses	339,764	318,058
Operating Income	91,701	85,442
Other Income:		
Allowance for equity funds used during construction	10,406	9,266
Equity in earnings of regional nuclear generating companies	2,097	1,991
Other, net	56	(46)
Income taxes applicable to other income-credit (Note 3)	374	328
Net other income	12,933	11,539
Income before interest charges	104,634	96,981
Interest Charges:		
Interest on long-term debt	51,794	47,864
Other interest	4,369	2,392
Allowance for borrowed funds used during construction	(10,586)	(8,554)
Total interest charges	45,577	41,702
Net Income From Continuing Operations	59,057	55,279
Net Income From Gas Operations To Be Sold (Note 4)	2,418	2,280
Net Income	\$ 61,475	\$ 57,559

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31,	1978	1977
	(Thousands of Dollars)	
Balance at beginning of period	\$158,747	\$154,414
Net income	61,475	57,559
Cash dividends on preferred stock	(14,644)	(14,644)
Cash dividends on common stock	(34,630)	(38,582)
Balance at end of period (a)	\$170,948	\$158,747

(a) At December 31, 1978, retained earnings of \$56,900,000 were available for payment of cash dividends on common stock.

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

The Connecticut Light and Power Company
STATEMENTS OF SOURCES OF FUNDS
FOR GROSS PROPERTY ADDITIONS

<i>For the Years Ended December 31,</i>	1978	1977
	<i>(Thousands of Dollars)</i>	
Funds Generated From Operations		
From continuing operations:		
Income from continuing operations	\$ 59,057	\$ 55,279
Principal noncash items —		
Depreciation	46,999	46,512
Deferred income taxes, net	10,520	6,111
Amortization of deferred charges and other noncash items	3,289	5,203
Amortization of deferred fuel costs	253	3,822
Allowance for funds used during construction	(20,992)	(17,820)
Total from continuing operations	99,126	99,107
From gas operations to be sold	5,574	5,626
Total funds from operations	104,700	104,733
Less — Cash dividends paid on:		
Common stock	34,630	38,582
Preferred stock	14,644	14,644
Net funds generated from operations	55,426	51,507
Funds Obtained From Financing		
Proceeds from issuance of long-term debt	39,755	56,308
Increase in short-term debt	1,105	2,845
Repayment of long-term debt	(16,031)	(31)
Net funds from financing	24,829	59,122
Other Sources (Uses) Of Funds		
Decrease (increase) in net current assets (excluding short-term debt and long-term debt due within one year):		
Cash and special deposits	3,573	(2,123)
Receivables and accrued utility revenues	(7,071)	979
Fuel, materials and supplies	(3,200)	(6,700)
Accounts payable	(3,421)	9,679
Accrued taxes	2,352	(20,264)
Revenues to be refunded to customers (Note 2)	10,022	4,699
Other, net	6,194	78
Net change	8,449	(13,652)
Sales of utility plant (Note 9)	11,732	21,801
Deferred fuel costs	306	(1,463)
Other, net	(1,074)	2,928
Net other sources (uses) of funds	19,413	9,614
Total Funds For Construction From Above Sources	99,668	120,243
Allowance For Funds Used During Construction (electric and gas)	21,127	18,069
GROSS PROPERTY ADDITIONS	<u>\$120,795</u>	<u>\$138,312</u>
Composition Of Gross Property Additions:		
Electric utility plant	\$114,796	\$127,860
Gas utility plant	3,790	6,442
Nuclear fuel	2,209	4,010
Total	<u>\$120,795</u>	<u>\$138,312</u>

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

The Connecticut Light and Power Company
BALANCE SHEETS

At December 31,	1978	1977
	(Thousands of Dollars)	
ASSETS		
Utility Plant:		
Electric plant in service, at original cost	\$1,386,490	\$1,324,285
Less: Accumulated provision for depreciation	<u>341,569</u>	<u>304,636</u>
	1,044,921	1,019,649
Construction work in progress (Note 9)	288,796	262,607
Nuclear fuel, in process	<u>7,288</u>	<u>5,202</u>
Net utility plant (for continuing operations)	<u>1,341,005</u>	<u>1,287,458</u>
Gas plant (to be sold), at original cost (including construction work in progress of \$1,325,000 in 1978 and \$2,410,000 in 1977) (Note 4)		
	121,971	118,786
Less: Accumulated provision for depreciation	<u>20,646</u>	<u>18,178</u>
Net gas plant (to be sold)	<u>101,325</u>	<u>100,608</u>
Total net utility plant	<u>1,442,330</u>	<u>1,388,066</u>
Other Property and Investments:		
Investments in regional nuclear generating companies, at equity	23,643	23,570
Investments in subsidiary companies, at equity	5,743	5,887
Other, at cost	<u>5,816</u>	<u>5,808</u>
	<u>35,202</u>	<u>35,265</u>
Current Assets:		
Cash and special deposits (Note 5)	5,061	8,634
Receivables, less accumulated provision for uncollectible accounts of \$1,899,000 in 1978 and \$1,716,000 in 1977	44,944	47,902
Due from affiliated companies	15,935	9,561
Accrued utility revenues	24,982	21,328
Fuel, materials and supplies, at average cost	35,005	31,805
Prepayments and other	<u>847</u>	<u>648</u>
	<u>126,774</u>	<u>119,878</u>
Deferred Charges:		
Unamortized debt expense	1,938	1,907
Deferred fuel costs	4,157	5,876
Other	<u>9,190</u>	<u>5,801</u>
	<u>15,285</u>	<u>13,584</u>
Total Assets	<u>\$1,619,591</u>	<u>\$1,556,793</u>

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The accompanying notes are an integral part of these balance sheets.

At December 31,

1978

1977

(Thousands of Dollars)

CAPITALIZATION AND LIABILITIES

Capitalization:

Common stock — \$10 par value. Authorized 20,000,000 shares; outstanding 8,931,014 shares	\$ 89,310	\$ 89,310
Capital surplus, paid in (no change during years)	208,614	208,614
Retained earnings	170,948	158,747
Total common stockholder's equity	<u>468,872</u>	<u>456,671</u>
Preferred stock (cumulative) — \$50 par value. Authorized 6,000,000 shares; outstanding 3,900,000 shares (Note 6)	195,000	195,000
Long-term debt, net (Note 7)	<u>771,541</u>	<u>731,565</u>
Total capitalization	<u>1,435,413</u>	<u>1,383,236</u>

Current Liabilities:

Notes payable to banks (Note 5)	5,500	—
Commercial paper (Note 5)	42,700	47,095
Long-term debt due within one year	31	16,031
Accounts payable	10,528	13,578
Due to affiliated companies	22,118	21,864
Accrued taxes	23,579	21,227
Accrued interest	19,974	17,458
Revenues to be refunded to customers (Note 2)	14,720	4,699
Other	8,074	4,197
	<u>147,224</u>	<u>146,149</u>

Deferred Credits:

Accumulated deferred income taxes	7,490	8,142
Accumulated deferred investment tax credits	22,456	12,871
Other	7,008	6,395
	<u>36,954</u>	<u>27,408</u>

Commitments and Contingencies (Notes 2, 4 and 9)

Total Capitalization and Liabilities

\$1,619,591\$1,556,793

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The Connecticut Light and Power Company

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: The Company, The Hartford Electric Light Company (HELCO), Western Massachusetts Electric Company (WMECO) and Holyoke Water Power Company are the principal operating subsidiaries comprising the Northeast Utilities system (system) and are wholly owned by Northeast Utilities, a registered holding company under the Public Utility Holding Company Act of 1935. Other wholly owned subsidiaries of Northeast Utilities providing substantial support services to the system operating companies include Northeast Utilities Service Company (NUSCO) (a system service company supplying centralized administrative, accounting, engineering, financial, legal, operations, planning, purchasing and other services to the system companies), Northeast Nuclear Energy Company (NNECO) (agent for the system companies in construction and operation of nuclear generating facilities and the financing of nuclear fuel for such facilities) and The Rocky River Realty Company and The Quinnehtuk Company (each a real estate company which rents administrative facilities to the system companies). All transactions among affiliated companies are on a recovery of cost basis and are subject to approval of various federal and state regulatory commissions having jurisdiction.

The Company is part of a New England bulk power system which provides for purchases and sales of electric energy through a regional dispatch control agency. Arrangements among the Company and 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) or the Securities and Exchange Commission (SEC). The Company is subject to further regulation by FERC and the Connecticut Public Utilities Control Authority (PUCA) and follows the accounting policies prescribed by the respective commissions.

The Company is a part owner with other system and New England electric utilities of the stock of four regional nuclear generating companies. These companies, with the Company's ownership interest shown parenthetically are: Connecticut Yankee Atomic Power Company (25 percent), Yankee Atomic Electric Company (15 percent), Maine Yankee Atomic Power Company (8 percent) and Vermont Yankee Nuclear Power Corporation (6 percent). The Company's investment in these companies is accounted for on an 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 which are approved by FERC.

Revenues: Revenues are based on authorized rates applied to customer consumption of utility services. Rates may not be increased without a formal proceeding before the appropriate regulatory commission. The Company accrues an estimate for energy delivered but unbilled at the end of accounting periods.

Nuclear Fuel: The Company, HELCO and WMECO own the Millstone Unit Nos. 1 and 2 as tenants in common and NNECO owns the nuclear fuel for such units. The cost of NNECO's nuclear fuel, based on a net salvage value of zero, is amortized on a unit-of-production method at rates based on estimated kilowatt-hours of energy to be provided and is billed to the companies based on their percentage ownership in the units. The amount of nuclear fuel expense charged to the Company, based on its 53 percent ownership, aggregated \$10,404,000 and \$10,869,000 in 1978 and 1977, respectively. The Company has requested the PUCA to allow the amortization of estimated spent fuel disposal costs on its 53 percent share of Millstone Unit Nos. 1 and 2 as part of its nuclear fuel costs. It is estimated that the Company's portion of the future disposal costs of Millstone Unit Nos. 1 and 2 spent fuel, excluding prior period disposal costs, could approximate \$2 - \$3 million per year. If the prior period disposal costs are amortized over ten years as requested of the PUCA, such amortization would amount to an additional \$1.5 - \$2.0 million per year during such ten-year period. Storage for spent fuel at the Millstone nuclear station, including the facilities currently under construction at Millstone Unit No. 3, will be sufficient until at least the mid-1990's.

Depreciation: The provision for depreciation is computed using the straight-line method at approved rates which are based on the estimated service lives of depreciable utility plant in service and estimated removal costs less expected salvage. The depreciation rates for the several classes of electric plant, which are equivalent to a composite rate of 3.66 percent in 1978 and 3.77 percent in 1977, are applied to the average plant in service during the year,

other than for major facilities which are depreciated from the time such facilities are placed in service. At the time depreciable property is retired from service, the original cost, plus cost of removal less salvage, of such property is charged to the accumulated provision for depreciation.

A study completed in 1976 estimated decommissioning costs for the two nuclear units owned by the system at approximately \$70 million. This study contemplated a decommissioning method with an indefinitely long period of time between retirement and completion of the removal process. Preliminary results of a 1979 study indicate increased costs for three alternative methods of decommissioning. The complete removal of the facilities at the time of retirement method, with an estimated cost of \$127 million, is the most viable and economic method of decommissioning these units. Depreciation rates recognized for regulatory rate setting for the Company include an element based on the recovery of a portion of the Company's share of the \$70 million. The increased costs indicated by the 1979 study are not currently included in the Company's rates. It is estimated that, at such time as allowed by the PUCA, the Company's share of the depreciation expense for decommissioning will increase from approximately \$1.2 million per year to approximately \$2.8 million per year.

Maintenance: The cost of maintenance, repairs and replacements of minor items of property is charged to maintenance expense. Replacements and renewals of items considered to be units of property are charged to the utility plant accounts.

Federal 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 as prescribed by and in accordance with the rate-making treatment of the applicable regulatory commissions. The Company follows the flow-through method except for FERC jurisdictional operations and the additional investment tax credits received as a result of the Tax Reduction Act of 1975, which requires normalization of such additional credits. It is expected that deferred taxes not provided for currently will be collected in customers' rates when such taxes become payable. See Note 3 for the detail of income tax expense.

Allowance for Funds Used During Construction: The allowance for funds used during construction (AFUDC) represents the estimated cost of capital funds used to finance the Company's construction program. The costs of construction are not recognized as part of the rate base for rate-making purposes until facilities are brought into service and, as permitted by applicable regulatory commissions, the Company charges AFUDC to the construction cost of utility plant. The AFUDC rate applied to construction work in progress for 1978 and 1977 was 9 percent. The Company has not recorded the effect of compounding such rate.

Retirement Plan: The Company participates in a uniform noncontributory retirement plan covering all regular employees. It is the policy of the Company to provide for and fund the actuarial liability, which includes the current cost and the amortization of prior service cost over a period of 40 years. Total pension cost, part of which was charged to utility plant, approximated \$6,800,000 in 1978 and \$7,200,000 in 1977. At December 31, 1978, the pension fund assets exceeded the actuarially computed value of the vested benefits. The unfunded actuarial liability of the plan was approximately \$45,100,000 at December 31, 1978.

Deferred Fuel Costs: The Company defers the changes in fuel costs which have not been billed under its fuel adjustment clauses.

(2) RATE MATTERS

The \$14,720,000 of revenues to be refunded to customers results from FERC approved settlements between gas distribution companies and their gas suppliers which required refunds of certain amounts related to quantities of gas which were delivered to the Company in recent years. The refunds, which have been received from gas suppliers, will be passed on to the Company's customers by reducing their gas bills in February 1979. Refunds received in 1977 and originally included in other deferred credits have been reclassified consistent with the 1978 presentation.

The Company has collected certain revenues subject to possible refund under wholesale rate cases filed with FERC. Based on management's and its counsel's evaluations of the facts in these cases, it is the opinion of management that, if refunds are required in excess of provisions which have been recorded, any additional amounts would not have a material effect on the Company's results of operations.

On January 19, 1979, the PUCA approved the recovery of an aggregate of \$6,588,000 by the Company from its electric and gas customers. This amount represents previously unrecovered costs which were found by the court to have been improperly disallowed by the PUCA in its 1977 rate case decision. The recovery of these costs will be recorded in revenues, as collected, during the first half of 1979.

(3) INCOME TAX EXPENSE

The detail of the federal and state income tax provisions charged to continuing operations is set forth below:

	Year Ended December 31,	
	1978	1977
	(Thousands of Dollars)	
Current income taxes:		
Federal	\$ 110	\$ 469
State	3,171	1,839
Total current	<u>3,281</u>	<u>2,308</u>
Deferred income taxes, net:		
Investment tax credits	10,225	7,455
Federal	279	(878)
State	16	(466)
Total deferred	<u>10,520</u>	<u>6,111</u>
Total income taxes	<u>\$13,801</u>	<u>\$ 8,419</u>
Such provision (credit) is included in the accompanying statements of income as follows:		
Operating expenses	\$14,175	\$ 8,747
Other income	(374)	(328)
Total income taxes	<u>\$13,801</u>	<u>\$ 8,419</u>
Deferred income taxes are comprised of the tax effects of timing differences as follows:		
Investment tax credits	\$10,225	\$ 7,455
Liberalized depreciation	849	659
Unbilled revenues	(348)	(489)
Deferred fuel costs	34	(784)
Unusual operating expenses deferred	—	(487)
Other	(240)	(243)
Deferred income taxes, net	<u>\$10,520</u>	<u>\$ 6,111</u>
The principal reasons for the difference between total tax expense and the amount calculated by applying the federal income tax rate to pretax income from continuing operations are as follows:		
Expected tax, at 48% of pretax income from continuing operations	\$34,972	\$30,576
Tax effect of differences:		
Additional depreciation for tax purposes	(7,889)	(8,171)
Allowance for funds used during construction — not recognized as income for tax purposes	(10,077)	(8,554)
Overhead costs of construction — expensed for tax purposes	(1,884)	(2,103)
Investment tax credits	(1,890)	(2,135)
Allocated affiliated companies' losses	(1,291)	(1,533)
Cost of removal — expensed for tax purposes	(557)	(561)
State tax, net of federal benefit	1,657	714
Other, net	760	186
Total income taxes	<u>\$13,801</u>	<u>\$ 8,419</u>
Effective income tax rate	<u>19%</u>	<u>13%</u>

At December 31, 1978, the Company had unused and unrecorded investment tax credits amounting to approximately \$7,500,000, which are available to offset federal income tax provisions for years through 1985.

(4) GAS OPERATIONS TO BE SOLD

In 1974, the Company entered into an agreement to sell its gas properties. In June 1977, the PUCA gave conditional approval of the sale but withheld final approval until a number of conditions, such as adequate financing and savings to customers, are met by the purchaser. Certain conditions have not been met at year-end and the parties have agreed to extend the purchase agreement until September 1, 1979. In the event the sale is not consummated, the Company will be required, under certain circumstances, to refund the deposit received in 1974, of \$3,214,000, currently recorded in other deferred credits. Under the proposal, had the sale been completed on December 31, 1978, the Company would have been paid \$128,900,000. At December 31, 1978, the gas properties had an aggregate net book value of \$104,080,000.

In segregating the results of gas operations to be sold, the Company allocates certain indirect expenses common to both electric and gas operations. The methods of allocation have been accepted by regulatory commissions for use in establishing rates to be charged to electric and gas service customers. Common operation and maintenance expenses are primarily allocated based on the relationship of electric and gas operating revenues to total operating revenues; interest charges and preferred stock dividends are primarily allocated based on the relationship of beginning of year utility plant in-service balances.

Summarized results of operations of the Company's gas properties are as follows:

	Year Ended December 31,	
	1978	1977
	(Thousands of Dollars)	
Operating Revenues	<u>\$74,373</u>	<u>\$70,566</u>
Operating Expenses:		
Operation —		
Purchased and produced gas	46,975	45,229
Other	9,875	9,651
Maintenance	2,838	2,875
Depreciation	2,907	2,794
Federal and state income taxes	(870)	(1,474)
Taxes other than income taxes	<u>5,788</u>	<u>5,460</u>
Total operating expenses	<u>67,513</u>	<u>64,535</u>
Operating Income	6,860	6,031
Other Income, Net	<u>403</u>	<u>374</u>
Income before interest charges	7,263	6,405
Interest Charges, Net	<u>4,845</u>	<u>4,125</u>
Net Income From Gas Operations To Be Sold	<u>\$ 2,418</u>	<u>\$ 2,280</u>

(5) SHORT-TERM DEBT

The Company utilizes bank loans and commercial paper to finance temporarily its continuing construction program. The system companies have joint bank credit lines with terms calling for interest rates equal to the prime rate or the prime rate plus a fraction thereof, at the time of borrowing. The credit lines expire at various times in 1979 and, although these lines are generally renewable, the continuing availability of the unused lines of credit is subject to review by the banks involved. At December 31, 1978, the amount of unused available borrowing capacity under the credit lines available to the Company was \$165,735,000; however, substantially all of these joint credit lines are also available to other system companies. The maximum amount of short-term borrowings as currently authorized by the SEC is \$150,000,000.

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Essentially all of the cash of the Company represents compensating balances in support of the system's lines of credit; however, the compensating balances are not subject to contractual restrictions on withdrawal.

Additional information with respect to short-term debt is as follows:

	<u>1978</u>	<u>1977</u>
Weighted average interest rate for borrowings outstanding at end of period (excluding effect of compensating balances)	<u>11.2%</u>	<u>7.2%</u>
Maximum amount of borrowings outstanding at any month-end	<u>\$59,900,000</u>	<u>\$56,075,000</u>
Average daily borrowings during period	<u>\$39,189,000</u>	<u>\$32,546,000</u>
Weighted average interest rate during the period (based on the daily amounts outstanding and excluding effect of compensating balances)	<u>8.6%</u>	<u>6.1%</u>
Range of maturities at December 31 (in days)	<u>2-47</u>	<u>4-60</u>

(6) **PREFERRED STOCK**

Details of preferred stock outstanding at December 31, 1978 and 1977 are as follows:

<u>Description</u>	<u>Current Redemption Price</u>	<u>Shares Outstanding</u>	<u>Par Value</u> (Thousands of Dollars)
\$2.00 Series of 1947	\$54.00	336,088	\$ 16,804
\$1.90 Series of 1947	52.50	163,912	8,196
\$2.20 Series of 1949	52.50	200,000	10,000
\$2.04 Series of 1949	52.00	100,000	5,000
\$2.06 Series E of 1954	51.00	200,000	10,000
\$2.09 Series F of 1955	51.00	100,000	5,000
\$3.24 Series G of 1968	52.65*	300,000	15,000
\$4.48 Series H of 1970	54.45*	300,000	15,000
\$4.48 Series I of 1970	54.56*	400,000	20,000
\$3.80 Series J of 1971	54.00*	400,000	20,000
\$4.56 Series K of 1974	55.50*	1,000,000	50,000
\$5.52 Series L of 1975	55.52*	400,000	20,000
		<u>3,900,000</u>	<u>\$195,000</u>

*Redemption price reduces in future years.

All or any part of each outstanding series of preferred stock may be redeemed by the Company at any time at established redemption prices plus accrued dividends to the date of redemption, except that certain Series are, during their respective initial five-year redemption periods, subject to certain refunding limitations. The Series L preferred stock requires a sinking fund sufficient to retire a minimum of 20,000 shares at \$50 per share each year commencing September 1, 1980.

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(7) LONG-TERM DEBT

Details of long-term debt outstanding are as follows:

			December 31,	
			1978	1977
			(Thousands of Dollars)	
First Mortgage Bonds:				
3 %	Series J,	due 1978	\$ —	\$ 16,000
3 %	Series K,	due 1980	15,000	15,000
2 3/4 %	Series L,	due 1984	10,000	10,000
3 1/4 %	Series M,	due 1982	35,000	35,000
3 1/4 %	Series N,	due 1985	20,000	20,000
3 7/8 %	Series O,	due 1988	30,000	30,000
4 7/8 %	Series P,	due 1990	25,000	25,000
4 1/2 %	Series Q,	due 1986	9,600	9,600
4 3/8 %	Series R,	due 1993	25,000	25,000
6 %	Series S,	due 1997	30,000	30,000
6 1/2 %	Series T,	due 1998	20,000	20,000
6 7/8 %	Series U,	due 1998	40,000	40,000
8 3/4 %	Series V,	due 2000	40,000	40,000
8 7/8 %	Series W,	due 2000	40,000	40,000
7 3/8 %	Series X,	due 2001	30,000	30,000
7 5/8 %	Series Y,	due 2002	50,000	50,000
7 5/8 %	Series Z,	due 2003	50,000	50,000
8 3/4 %	Series AA,	due 2004	65,000	65,000
9 %	Series BB,	due 1982	85,000	85,000
11 %	Series CC,	due 2000	50,000	50,000
8 7/8 %	Series DD,	due 2007	45,000	45,000
9 1/4 %	Series EE,	due 2008	40,000	—
Total First Mortgage Bonds			754,600	730,600
Less due within one year			—	16,000
Total First Mortgage Bonds, net			754,600	714,600
Pollution Control Notes:				
5.90 %		due 1998	6,175	6,175
6.50 %		due 2007	11,870	11,870
Other			248	280
Less due within one year			31	31
Unamortized premium and discount, net			(1,321)	(1,329)
Long-term debt, net			<u>\$771,541</u>	<u>\$731,565</u>

Long-term debt maturities and cash sinking fund requirements on debt outstanding at December 31, 1978, are as follows: 1979, \$31,000; 1980, \$15,031,000; 1981, \$2,531,000; 1982, \$122,531,000 and 1983, \$2,531,000. In addition, there is an annual 1% sinking and improvement fund requirement, which amounts to \$5,850,000 for 1979. Such sinking and improvement fund requirement may be satisfied by the deposit of cash or bonds, or by certification of property additions.

All or any part of each outstanding series of first mortgage bonds may be redeemed by the Company at any time at established redemption prices plus accrued interest to the date of redemption, except certain series which are subject to certain refunding limitations during their respective initial five-year redemption periods. The Series CC bonds require a sinking fund sufficient to retire a minimum of \$2,500,000 in principal amount each year commencing September 1, 1981.

Essentially all utility plant is subject to the lien of the mortgage indenture.

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(8) LEASES

The Company has entered into lease agreements for the use of substation equipment, data processing and office equipment, vehicles and office space. Since lease rentals are charged to expense for rate-making purposes, capitalization of these leases is not required. Had the Company capitalized the leased property at the beginning of the lease terms, the effect on assets, liabilities, expenses or net income would not be material.

Rental payments charged to electric and gas operations, including rental payments on capitalizable leases, amounted to \$5,329,000 for 1978 and \$4,342,000 for 1977.

Future minimum rental payments, excluding executory costs such as real estate taxes, state use taxes, insurance and maintenance, under long-term noncancellable leases are approximately as follows: 1979, \$5,200,000; 1980, \$5,400,000; 1981, \$5,000,000; 1982, \$4,800,000; 1983, \$4,900,000; and for years subsequent to 1983 an aggregate of \$69,200,000.

(9) CONSTRUCTION PROGRAM, FINANCING AND CONTINGENCIES

The Company is engaged in a continuous construction program and currently forecasts construction expenditures, including nuclear fuel, to be approximately \$107 million in 1979 and \$680 million for the years 1980-1984.

The construction program is subject to periodic review and revision, and actual construction expenditures may vary from such estimates due to various factors such as revised load estimates, inflation, the availability and cost of capital and the granting of timely and adequate rate relief by regulatory commissions. It is expected that compliance with present and developing regulations established by various authorities in the areas of nuclear plant licensing and safety, land use, water and air quality and other environmental matters will require additional capital expenditures and increased operating costs not now determinable in amount. In addition, uncertainties related to the reprocessing or permanent storage of nuclear fuel may require revisions in future nuclear fuel costs.

At December 31, 1978, construction work in progress included an investment of \$263,000,000 in jointly owned nuclear generating facilities, as follows: a 34.5 percent interest in Millstone Unit No. 3 of \$184,800,000, an 11.5 percent interest in the Seabrook nuclear plant of \$64,700,000, and a 39.8 percent interest in the proposed Montague nuclear plant of \$13,500,000. All the companies owning undivided interests in these jointly owned facilities are required to provide their own financing in order to support their portion of construction costs.

In October 1977, the PUCA granted 37 percent of the Company's requested rate increase. Subsequently, the system announced certain reductions in its construction program and deferred the planned in-service date of Millstone Unit No. 3 from 1982 to 1986. The current estimated cost of Millstone Unit No. 3 is \$2 billion when placed in service in 1986. In 1978, primarily because of regulatory delays, the system suspended its early site review effort for the Montague Units, but continues to perform meteorological and aquatic studies of the site and is continuing to capitalize AFUDC.

In 1979, the Company's construction program is expected to be financed from internal sources and short-term debt. Future earnings and the Company's ability to meet earnings coverage requirements for long-term financing will be affected by a number of factors including timely and adequate rate relief, growth in sales, performance of nuclear generating units, inflation, interest and preferred stock dividend rates and other factors, the nature and effect of which cannot be determined in advance. As part of its effort to finance its construction program and to reduce construction expenditures, the Company has entered into contracts to sell its current 11.5 percent interest in the Seabrook nuclear plant. In December 1978, the Company sold for \$2,886,000 approximately .5 percent of its original 12 percent interest in Seabrook. On February 8, 1979, the Company sold for \$43,433,000 an additional 7 percent of its interest. The Company expects to sell its remaining 4.5 percent interest in the first half of 1979, and therefore, the forecasted construction expenditures above do not include any amounts for Seabrook. In 1977, the Company sold a 3.7 percent interest in Millstone Unit No. 3.

The U.S. Department of Energy has issued Prohibition Orders against burning oil in two of the Company's oil-fired generating units and requested a compliance schedule for conversion to coal. The Company is resisting the orders for both financial and environmental reasons. If the conversion requirements are made final, an expenditure of approximately \$146 million will be required in addition to currently forecasted construction expenditures.

An antitrust lawsuit was instituted against the Company, Northeast Utilities, HELCO and NUSCO in 1973 by six Connecticut municipal-owned electric utilities for \$64 million in treble damages and is still pending. In August 1978, the U.S. District Court issued a ruling denying the companies' motion for summary judgement. The action must now proceed to a hearing. In the opinion of counsel for the system, based upon all the facts now known to them, the system companies will not be held liable for the antitrust offenses claimed in the plaintiffs' complaint.

(10) GENERAL IMPACT OF INCREASED COSTS (UNAUDITED)

Substantial increases in recent years in fossil fuel prices have generally been recovered directly by increased revenues under fossil fuel and purchased gas clauses. To recover increases in other operating expenses, frequent requests for general rate increases have been required. The increases in recent years in construction costs of utility plant have exceeded general rates of inflation and the estimated replacement cost of such assets are significantly greater than the historical cost which forms the basis for revenue determination by the regulatory authorities. The Company's ability to replace its productive capacity in the future will be contingent upon its ability to finance such replacement. This, in turn, will depend on the Company's ability to obtain adequate and timely rate relief. In compliance with the reporting requirements of the SEC, additional information with respect to replacement cost of productive capacity will be included in Annual Report Form 10-K filed with the SEC for the year 1978.

(11) QUARTERLY FINANCIAL DATA (UNAUDITED) (a)

Summarized quarterly financial data for 1978 and 1977 are as follows:

		Quarter Ended		
	March 31	June 30	September 30	December 31
		(Thousands of Dollars)		
<u>1978</u>				
Operating Revenues	<u>\$117,408</u>	<u>\$100,417</u>	<u>\$106,572</u>	<u>\$107,068</u>
Operating Income	<u>\$ 18,777</u>	<u>\$ 20,527</u>	<u>\$ 25,511</u>	<u>\$ 26,841</u>
Net Income From				
Continuing Operations	\$ 11,040	\$ 12,495	\$ 17,372	\$ 18,150
Net Income (Loss)				
From Gas Operations				
To Be Sold	<u>2,613</u>	<u>(1,206)</u>	<u>(1,004)</u>	<u>2,015</u>
Net Income	<u>\$ 13,653</u>	<u>\$ 11,289</u>	<u>\$ 16,368</u>	<u>\$ 20,165</u>
<u>1977</u>				
Operating Revenues	<u>\$107,664</u>	<u>\$ 92,413</u>	<u>\$102,350</u>	<u>\$101,073</u>
Operating Income	<u>\$ 27,297</u>	<u>\$ 20,395</u>	<u>\$ 21,743</u>	<u>\$ 16,007</u>
Net Income From				
Continuing Operations	\$ 20,194	\$ 12,677	\$ 13,834	\$ 8,574
Net Income (Loss)				
From Gas Operations				
To Be Sold	<u>1,946</u>	<u>(742)</u>	<u>(884)</u>	<u>1,960</u>
Net Income	<u>\$ 22,140</u>	<u>\$ 11,935</u>	<u>\$ 12,950</u>	<u>\$ 10,534</u>

(a) Fluctuations between quarters within a year and as compared to the previous year are primarily due to seasonal variations and the impact of nuclear performance.

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The Connecticut Light and Power Company
SUMMARY OF OPERATIONS

<i>For the Years Ended December 31,</i>	1978	1977
Operations Excluding Gas Operations To Be Sold		
Operating Revenues	<u>\$431,465</u>	<u>\$403,500</u>
Operating Expenses:		
Operation and maintenance	239,269	225,124
Depreciation	46,999	46,512
Federal and state income taxes	14,175	8,747
Taxes other than income taxes	39,321	37,675
Total operating expenses	<u>339,764</u>	<u>318,058</u>
Operating Income	91,701	85,442
Other Income, Net	12,933	11,539
Income Before Interest Charges	<u>104,634</u>	<u>96,981</u>
Interest Charges, Net	<u>45,577</u>	<u>41,702</u>
Net Income From Continuing Operations		
(before cumulative effect of accounting changes)	59,057	55,279
Net Income From Gas Operations To Be Sold		
(before cumulative effect of accounting changes)	<u>2,418</u>	<u>2,280</u>
Net Income (before cumulative effect of accounting changes)	61,475	57,559
Cumulative effect prior to January 1, 1974 of accounting changes, relating to deferred fuel costs and unbilled revenues, net of applicable income taxes of \$5,672,000:		
Continuing operations	—	—
Gas operations to be sold	—	—
Net Income	<u>\$ 61,475</u>	<u>\$ 57,559</u>
Pro Forma Net Income (assuming the 1974 accounting changes above were applied retroactively)		

(a) The pro forma change for 1968 is estimated to be immaterial and, therefore, has not been computed.

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1976	1975	1974	1973	1968
(Thousands of Dollars)				
<u>\$381,614</u>	<u>\$363,210</u>	<u>\$338,257</u>	<u>\$248,743</u>	<u>\$127,757</u>
207,831	231,800	203,039	136,787	63,472
36,456	27,052	25,655	24,278	11,696
8,729	(1,259)	1,841	1,546	8,168
<u>37,299</u>	<u>32,792</u>	<u>30,933</u>	<u>25,675</u>	<u>13,430</u>
<u>290,315</u>	<u>290,385</u>	<u>261,468</u>	<u>188,286</u>	<u>96,766</u>
91,299	72,825	76,789	60,457	30,991
9,131	11,893	10,820	9,588	277
<u>100,430</u>	<u>84,718</u>	<u>87,609</u>	<u>70,045</u>	<u>31,268</u>
<u>40,599</u>	<u>31,841</u>	<u>32,860</u>	<u>25,992</u>	<u>7,354</u>
59,831	52,877	54,749	44,053	23,914
<u>5,170</u>	<u>3,710</u>	<u>5,395</u>	<u>2,647</u>	<u>2,018</u>
65,001	56,587	60,144	46,700	25,932
—	—	11,362	—	—
—	—	2,013	—	—
<u>\$ 65,001</u>	<u>\$ 56,587</u>	<u>\$ 73,519</u>	<u>\$ 46,700</u>	<u>\$ 25,932</u>
		<u>\$ 60,144</u>	<u>\$ 49,704</u>	(a)

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The Connecticut Light & Power Company
MANAGEMENT DISCUSSION AND ANALYSIS
OF SUMMARY OF OPERATIONS

Comparison of the Year 1978 with the Year 1977

Operating revenues increased \$28.0 million (6.9%) in 1978 over 1977, primarily due to a rate increase which was received in late 1977 and higher kilowatt-hour sales. The increase in revenues was partially offset by a decrease in fuel cost recoveries, reflected in billings through lower fossil fuel clause charges on customers' bills.

The increase in operating revenues was accompanied by an increase in operating expenses of \$21.7 million (6.8%). The most significant portion of this increase resulted from a \$14.1 million (6.3%) increase in operation and maintenance expenses. This increase was due primarily to the operation and maintenance expenses associated with the Millstone Unit Nos. 1 and 2 outages for refueling and maintenance and the continuing impact of inflation. Federal and state income taxes increased due to higher taxable income and increased normalization of investment tax credits.

The increase in allowance for equity funds used during construction caused the increase in other income and reflects the growth in construction work in progress. Most of this growth in construction work in progress relates to the Company's share of Millstone Unit No. 3 and the Seabrook nuclear plant.

Interest charges increased due to the additional interest on a new bond issue in March 1978 and to an increase in short-term borrowings at higher interest rates. The increases were partially offset by an increase in the allowance for borrowed funds used during construction, which reflects growth in construction work in progress.

Income from gas operations to be sold increased due to a rate increase granted in late 1977.

Comparison of the Year 1977 with the Year 1976

Operating revenues increased \$21.9 million (5.7%) in 1977 over 1976. This increase resulted primarily from higher fuel costs recovered through billings to customers and higher kilowatt-hour sales.

Although revenues increased in 1977, they were more than offset by an increase in operating expenses of \$27.7 million (9.6%). This increase was due to escalating fuel costs and higher sales. In addition, the increase reflects the impact of inflation on salaries, wages, materials and services. Depreciation increased in 1977 due to additions to utility plant and higher depreciation rates allowed by the PUCA. Federal and state income taxes increased in 1977 as a result of increased taxable income after the utilization of net operating losses and the increased normalization of investment tax credits.

The increase in allowance for equity funds used during construction caused the increase in other income and reflects growth in construction work in progress, most of which relates to the Company's share of Millstone Unit No. 3.

Income from gas operations to be sold decreased in 1977, primarily due to lower sales resulting from warmer weather coupled with higher operation and maintenance expenses which reflect the impact of inflation. Also contributing to the decrease was higher produced gas costs not recoverable through the purchased gas adjustment clause until a new clause was approved for implementation in September 1977.

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The Connecticut Light and Power Company
STATISTICS

	Utility Plant December 31, (Thousands)(a)	Operating Revenues		
		Electric	(Thousands) Gas	Total
1968	\$ 636,109	\$127,757	\$23,995	\$151,752
1973	1,222,295	248,743	38,110	286,853
1974	1,338,057	338,257	48,732	386,989
1975	1,482,884	363,210	56,151	419,361
1976	1,605,256	381,614	68,647	450,261
1977	1,710,880	403,500	70,566	474,066
1978	1,804,545	431,465	74,373	505,838

(a) Includes gas utility plant to be sold.

	Kwh Sales (Millions)	Average Annual Residential Kwh Use	Cubic Feet of Gas Sales (Millions)	Average Annual Residential Cubic Feet of Gas Used	Electric Customers (Average)	Gas Customers (Average)	Employees (December 31)
1968	6,457	5,905	16,085	74,765	462,747	112,253	3,212
1973	9,415	8,013	18,396	77,487	526,539	113,574	3,550
1974	9,358	7,774	18,965	80,736	538,526	113,563	3,456
1975	9,175	7,694	17,564	75,622	546,407	113,356	3,263
1976	9,802	8,057	19,246	82,084	555,319	113,187	3,105
1977	10,221	8,079	18,420	78,458	565,224	113,374	3,540(b)
1978	10,560	8,077	18,720	79,358	574,438	113,621	3,936(b)

(b) Increases are due to the consolidation of the Company's and HELCO's operations.

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Investor Relations Department
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Hartford, Connecticut 06101
Tel. (203) 666-6911

General Office
Selden Street, Berlin, Connecticut

First and Refunding Mortgage Bonds
Trustee and Interest Paying Agent
Bankers Trust Company, Corporate Trust Operations
P.O. Box 318, Church Street Station, New York, New York 10008

First and Refunding Mortgage Bonds
Co-Transfer Agent
The Connecticut Bank and Trust Company, Hartford, Connecticut 06115

Preferred Stock
Transfer and Dividend Disbursing Agent
The Connecticut Bank and Trust Company, Stock Transfer Department
One Constitution Plaza, Hartford, Connecticut 06115

Preferred Stock
Registrar
Hartford National Bank and Trust Company, Hartford, Connecticut 06115

Preferred Stock
Dividend Payment Dates
\$3.24, \$4.48 H and \$4.48 I Series — January 1, April 1,
July 1 and October 1
\$1.90, \$2.00, \$2.04, \$2.06, \$2.09 and \$2.20 Series —
February 1, May 1, August 1 and November 1
\$3.80, \$4.56 and \$5.52 Series — March 1, June 1,
September 1 and December 1

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NORTHEAST UTILITIES



THE CONNECTICUT LIGHT AND POWER COMPANY
THE HARTFORD ELECTRIC LIGHT COMPANY
WESTERN MASSACHUSETTS ELECTRIC COMPANY
HOLYOKE WATER POWER COMPANY
NORTHEAST UTILITIES SERVICE COMPANY
NORTHEAST NUCLEAR ENERGY COMPANY