Commonwealth Energy System

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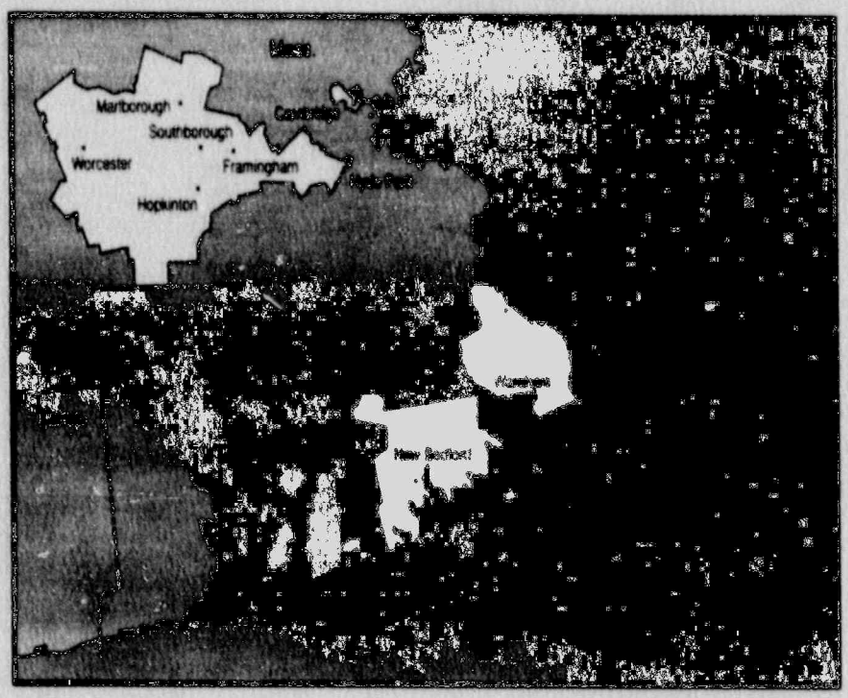
System Profile

Commonwealth Energy System is an exempt public utility holding company with investments in four operating public utility companies located in central and eastern Massachusetts. System electric operations are involved in the production and sale of electricity in 41 communities including New Bedford, Plymouth, Cambridge and the geographic area comprising Cape Cod. Gas operations serve 49 communities including New Bedford, Cambridge, Plymouth and Worcester.

In addition to the utility companies, the system includes a steam distribution company, five real estate trusts and a company engaged in the operation of LNG facilities. The retail electric subsidiaries receive a portion of their capacity and energy requirements from their respective ownership interests in one oil-fired and four nuclear electric generating facilities.

The System is a business trust organized in 1926 under the laws of Massachusetts. Subsidiaries of the System have common executive and financial management and receive technical assistance as well as financial, data processing, accounting, legal and other services from a service company subsidiary.



Gas Service Area
Electric Service Area
Gas and Electric Service Area

Our System Credo

In order to be successful, Commonwealth Energy System and its subsidiaries need the approval and support of our customers, our employees, the communities we serve, and our shareholders. Every decision we make at every level must be made with this consideration in mind. It is the foundation of our operations.

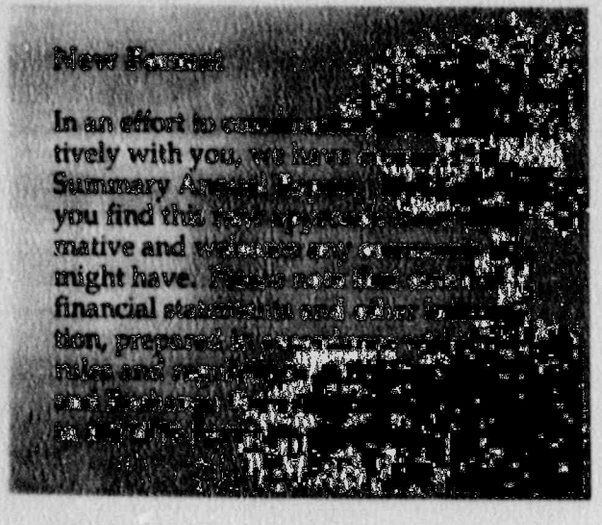
Annual Meeting

All shareholders are invited to attend the next Annual Meeting which will be held on May 3, 1990. A formal notice of the meeting together with a proxy statement, a form of proxy and financial information is enclosed for use by shareholders entitled to vote at the meeting.

Contents

Financial and Statistical Highlights

	1989	1988
Financial Highlights		
Total Operating Revenues	**$ 805,860,000**	$ 688,764,000
Total Operating Expenses	**734,719,000**	639,973,000
Net Income	**41,618,000**	34,959,000
Earnings Applicable to Common Shares	**40,145,000**	33,427,000
Property, Plant and Equipment (including Construction Work in Progress, net)	**1,231,564,000**	1,133,767,000
Construction Expenditures (including Allowance for Funds Used During Construction)	**106,434,000**	117,129,000
Common Share Data		
Earnings Per Common Share	**$4.14**	$3.50
Common Share Dividend Rate at End of Year	**$2.80**	$2.80
Average Common Shares Outstanding	**9,690,277**	9,556,577
Common Shareholders	**18,067**	19,185
Operating Statistics		
Customers Served		
Electric	**342,000**	335,000
Gas	**224,000**	220,000
Unit Sales		
MWH—Retail	**4,684,179**	4,497,572
Wholesale	**2,606,105**	2,750,693
MMCF—Firm	**38,546**	36,226
Interruptible	**3,564**	3,624



1989 was a year of major accomplishments for Commonwealth Energy System, with positive news and significant developments occurring on many fronts.

Earnings per share increased. Key financial ratios improved. Freetown plans moved forward. Energy supplies met demand. Seabrook won a full-power license. And we settled our suit against Boston Edison Company relative to its Pilgrim nuclear power plant.

Earnings

Our earnings momentum continued through 1989, delivering a year of strong financial returns. Earnings per common share rose 64 cents to $4.14, an increase of 18 percent over the prior year.

Net income from operations grew from $35 million to $41.6 million. The increase resulted from favorable rate relief, higher retail electric and firm gas unit sales and continuing improvements in efficiency and productivity.

In 1989 we paid common shareholders quarterly dividends totaling $2.80 per share. This represents a 7.3 percent yield based on the year-end closing market price of our shares. Our quarterly dividends have been paid consecutively for 43 years, without a single decrease in the rate.

Return on common shareholders' equity improved from 11.6 percent in 1988 to 13.3 percent in 1989, a 14.6 percent increase.

R. E. Siegfried
Chairman

G.E. Anderson
President and Chief Executive Officer

Utility operations

Unit sales to firm gas and retail electric customers for 1989 rose 6.4 and 4.1 percent, respectively. These increases were primarily the result of a record-breaking weather pattern in December.

Our core businesses were highlighted by the coldest December in more than 100 years. Natural gas demand for the period was 32 percent above normal, supplies became extremely tight, and gas reserves fell precipitously. Electric demand for the month was up 11.3 percent over the prior year. Although emergency operating procedures were implemented on a few occasions in December, requiring a 5 percent voltage reduction at one point, supplies were adequate because all of New England's major generating units were on line and performed well.

The predominant focus in meeting energy demand centered on natural gas supply operations. In order to locate, secure and transport additional natural gas supplies to meet this unprecedented demand so early in the heating season, employees in our gas supply area worked around the clock. They formulated strategy early on and performed under extraordinary stress with unquestioned competence. The decisions they made and the rapidity with which they were made gave us a clear edge in securing gas supplies.

On the electric side of our business, Canal Electric Company had its most productive year. During 1989 Canal Units One and Two generated 6.8 billion kilowatthours of electricity, the highest amount ever. The system also set a new record for electric production at 7.3 billion kilowatthours. Canal's Unit One was again recognized in a national survey as being the most efficient oil-fired plant in the country.

Rate changes

Our two retail electric utilities filed for and received approval from the Massachusetts Department of Public Utilities to increase base electric rates.

Commonwealth Electric Company received an increase of $18 million, 77 percent of what it had requested. This resulted in an overall increase in rates of 6.7 percent and became effective on January 31, 1989.

New rates for Cambridge Electric Light Company became effective on December 18, 1989. Cambridge Electric originally filed for a $6.1 million increase in rates. Subsequently, all parties involved in the rate case settled on $4.4 million. This increase is 73 percent of the amount requested and represents an overall increase in rates of 5 percent.

A federal regulatory decision early in 1989 allowed Canal Electric to collect half of its 1989 financing costs incurred from its investment in Seabrook Unit 1. This amounted to $10 million on an after-tax basis.

Key milestones reached

The balance of this letter relates to three significant events which actually occurred after December 31, 1989. Each is important in its own right and in each case represents a major milestone in resolving problems or defining future direction.

Because these areas have been worked on diligently during 1989 and in earlier years, we believe it is important that they be covered in this report. The three events follow:

1. Pilgrim contract settlement reached.
2. Freetown Energy Park plans finalized.
3. Seabrook full-power license issued.

Pilgrim contract settlement reached

January 10, 1990—After long, intensive negotiations with Boston Edison Company, an agreement was reached which settled our differences relating to the 32-month outage of the Pilgrim nuclear power plant. Commonwealth Electric has a life-of-the-unit contract to purchase 11 percent (74 MW) of Pilgrim's output. This settlement is conditioned upon receiving approvals from both federal and state regulatory agencies. Among other things, the settlement provides that Boston Edison will pay Commonwealth Electric $11 million for replacement power costs which we incurred during the outage. This amount will be refunded to our ratepayers. Boston Edison will also pay a total of $1,950,000 toward our

conservation and load management programs over the next three years. We will also receive $11 million from Boston Edison to defray a portion of our litigation expense. Equally important, significant contract changes were made to protect both our ratepayers and shareholders against future extended outages of the unit.

The Pilgrim Unit has been back on line and has run at close to full capacity from last October until early March 1990. At that time the generating unit was taken out of service for scheduled maintenance.

Freetown Energy Park plans finalized

February 5, 1990—We announced our final plans for development of an energy park on our 600-acre site in Freetown, Massachusetts. We have reached a preliminary agreement with General Electric and Texaco Syngas, Inc., a subsidiary of Texaco, to develop an integrated coal gasification combined-cycle electric generating unit. This joins two known technologies: coal gasification and combined-cycle power generation. The coal will be first converted to a gas (Texaco's process) which will then be used to fuel a combined-cycle gas turbine (General Electric's turbine).

We selected this project because we believe that it is the most environmentally sound way to convert coal into electricity. Demonstration plants previously built using this process have greatly exceeded the Environmental Protection Agency's air emission performance standards.

Coal was selected as the primary fuel because of its abundant supply in this country; however, the plant will also be capable of burning oil or natural gas. Other factors in our decision to select this type of plant include: (1) a shorter construction period, (2) competitive capital costs with other coal base-load plants, and (3) the ability to match electric demand with incremental additions.

When fully developed, 1,320 MW of generating capacity will be constructed on the site, with the first of three 440-MW units planned to commence operation by late 1994. The electricity generated will be sold at competitive market rates to other electric utilities.

Seabrook full-power license issued

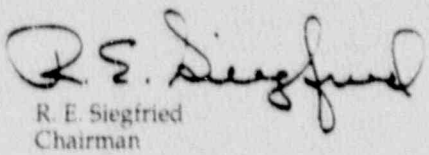
March 15, 1990—The Seabrook nuclear power plant in New Hampshire reached a monumental milestone with the issuance of a full-power license by the Nuclear Regulatory Commission. This is the final regulatory action to occur before commercial operation of the plant. Plant operators are preparing to begin the power ascension test program. This program includes start-up of the plant and a gradual buildup to 100 percent of the plant's capacity. During power ascension the plant will be connected to the New England power grid. It is expected that the unit should be in full commercial operation by early summer.

Finally, after 14 years of licensing and construction delays, the finish line is near. We have a 3.5 percent ownership interest in this 1,150-MW unit, which is vitally needed now to supply the ever-increasing electric energy demands of the New England region.

Our employees

The greatest strength of Commonwealth Energy System is its people—their outstanding performance and high commitment to attain excellence in service to customers. We are grateful to have such a highly skilled, motivated workforce, and we thank them for their support in meeting our objectives. You will have the opportunity to "meet" some of them on the next several pages, where we have focused on seven of our System's more important attributes.

For the Trustees,



R. E. Siegfried
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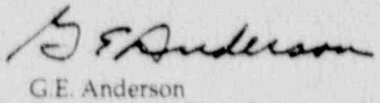


G.E. Anderson
President and Chief Executive Officer

Commonwealth Energy System is many things to many people...

One of our most prominent strengths lies in the diversification of our business operations. This gives us a wide degree of flexibility and presents us with a variety of business opportunities.

As a combination utility system, COM/Gas serves 224,000 customers, and COM/Electric serves 342,000 customers in service areas with diversity in climatic conditions. Diversity is a characteristic shared by both the System and the markets it serves. Both of our retail companies enjoy a varied mix of residential and commercial customers. The types of commercial customers we serve are as varied as the Massachusetts economy itself. We are not dependent on a single customer or industry. In fact, our 20 largest gas and electric industrial customers only account for 6 percent and 5.4 percent of sales, respectively.

Hopkinton LNG Corp. provides additional diversification—liquefying, storing and vaporizing natural gas for subsequent use by COM/Gas during periods of peak energy demand.

Related to our electric utility services, we also generate and sell wholesale electricity to other utilities through Canal Electric Company and to the town of Belmont through Cambridge Electric Light Company.

Through the operation of a non-regulated subsidiary, COM/Energy Steam Company, we provide steam to 26 large customers in the Cambridge-Boston area. After passing through turbine blades, the steam used in the process of generating electricity becomes a marketable commodity whose sales lower electricity costs to customers in Cambridge. This is now commonly referred to as "cogeneration" which we have done in Cambridge for over a half century.

We have achieved a further degree of diversity by moving into such non-regulated activities as real estate—office towers, a planned modern research and development center and a state-of-the-art energy park featuring integrated coal gasification combined-cycle technology for the production of electricity. Our joint ownership in well-planned choice real estate has provided us with above average returns on our investments.

Diversity does not stop with our business operations. Nowhere is diversity more pronounced than in our work force—the men and women who are called to task every day of the year—chemists, linemen, accountants,

"Diversification into the LNG business reinforces service reliability for COM/Gas and, for that matter, all of New England. Looking back to last December, the region was fortunate that we had the equivalent of 3.5 billion cubic feet of natural gas in storage."

Michael A. Nicoloro, Manager
Gas Supply and LNG Operations
COM/Gas

"Freetown is a prime example of diversification working to maximize the value of our assets."

Jeffrey H. Hanson
Senior Mechanical Engineer
COM/Electric

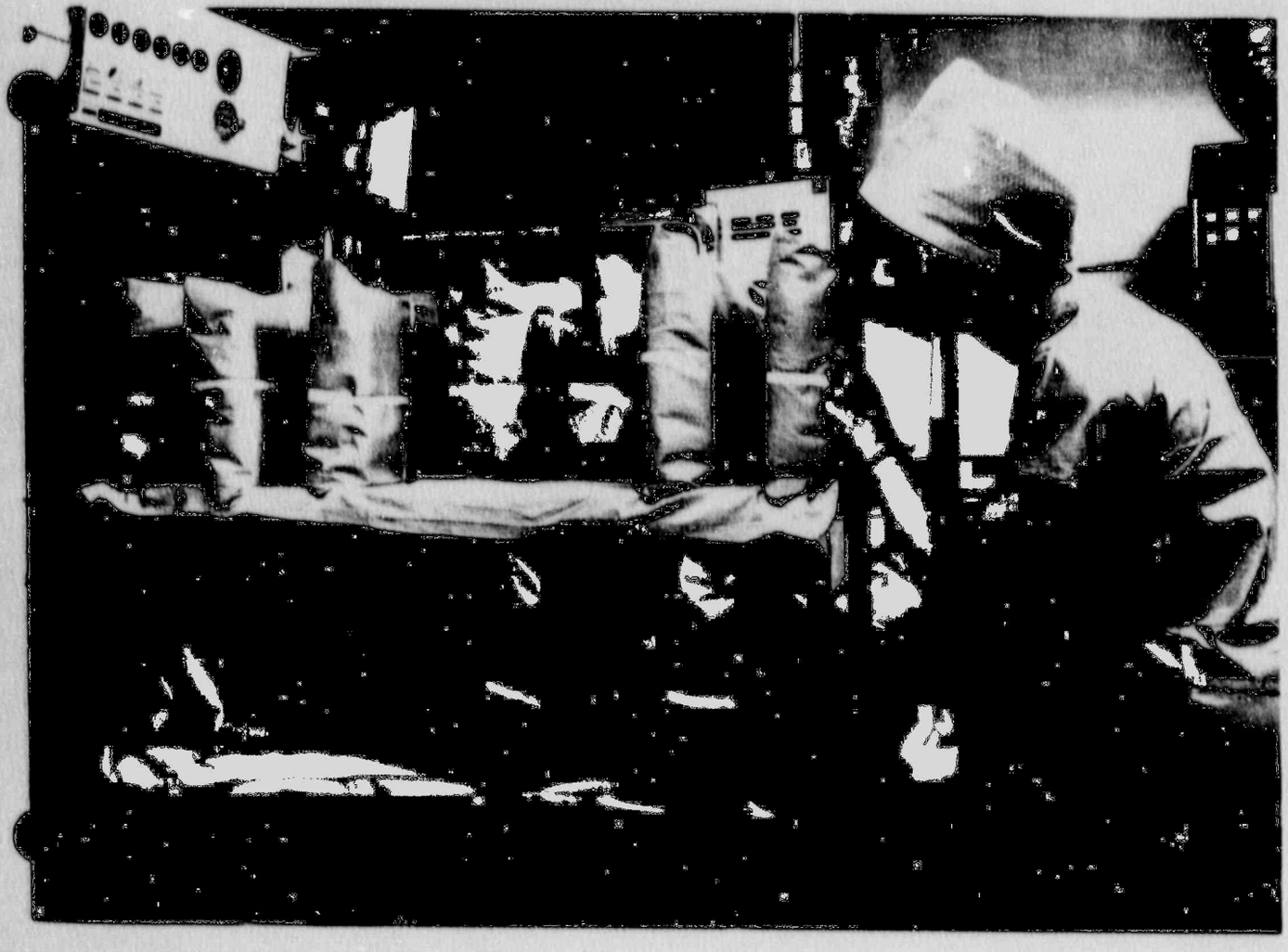
gas streetmen, computer programmers, electricians, customer service representatives, pipe fitters, financial analysts, meter readers, engineers, LNG operators and rate analysts are but a few.

In previous shareholder reports, you have seen examples of exceptional on-the-job performance delivered by this diverse group of employees. But diversity has another dimension in what our employees do off the job...their active participation in boy and girl scouts, youth sports, voluntary service and church groups. They are artisans, athletes and public officials. Our 1990 shareholder quarterly reports will give you the opportunity to share our employees' photographic talents; their work will be published on each of the covers. These four photos were selected from those submitted to a recent photo contest for our active and retired employees.

"Diversity to me means the company is willing to take a chance on something new if the rewards match the risk. Our diversification also provides a tremendous opportunity for personal growth and development."

Bill Zamparelli
Real Estate Specialist
COM/Energy Services

The renowned Massachusetts General Hospital in Boston uses our high-quality steam for its central sterilization facility, shown here, and many other uses such as cooking, space heating, and cancer research.



The essence of stability begins with an enduring sense of purpose. Stability is the return on decades of consistent and predictable financial performance. For nearly a half century Commonwealth Energy System has been both consistent and predictable, producing a solid record of earnings for growth and dividends for investors.

Our stability in the energy business results from long-term orientation. We will continue to manage our operations for the best long-term financial strength of the System. Over the years, our fundamental structure and operating philosophy have remained the same.

The varied mix of our shareholders—18,000 spread through 50 states and a dozen foreign countries—adds to the stability of the System. More than three-fourths of our shareholders are individuals or families, holding 35 percent of the nearly 10 million outstanding shares. Just over half of our shareholders own 200 shares or less, and one in three shareholders resides in Massachusetts.

Stability and financial soundness go hand in hand. Consistent, good financial performance translates into "bottom-line" stability. Our May 1990 dividend to common shareholders will be our 172nd consecutive quarterly dividend. That's a span of 43 years—and without a single decrease in our dividend.

For 1989, earnings per common share rose 18 percent to $4.14. But probably the best measure of how well we are managing a shareholder's investment is our return on equity. We are very proud of our 13.3 percent return on common equity for 1989, up from 11.6 percent for the prior year. Moreover, the market price of our shares enjoys a healthy margin over the book value of the System.

Total dividends of $2.80 per common share and a rise in the market value of our shares during 1989 produced a total return of 30.7 percent.

The dedication of our employees to fulfill our corporate purpose reinforces the System's strength to perform under a variety of circumstances. Their stake in Commonwealth Energy System is more than that of employment. They are equity holders and often customers of the company as well. We value our employees, and they value their company. Ninety-nine percent of our eligible employees participate in a savings plan through which they own nearly 20 percent of our outstanding common shares. Their confidence in the

"Commonwealth Energy System is highly regarded in the banking and financial communities. Our family of companies is synonymous with stability."

Bernard B. Peloquin
Senior Financial Analyst
COM/Energy Services

Our earliest beginnings date back 140 years. When Mal Holman, senior project engineer, joined Cambridge Electric Light Company 53 years ago, nuclear power, computers and calculators were only a vision. He attributes staying power to a strong commitment to purpose. "whether it's a profession or a business operation."

System is our encouragement for the future.

Our primary financial objective is to maintain the financial integrity of the System. Customer satisfaction, employee job fulfillment, good returns to shareholders and our ability to finance future growth depend on our meeting that objective—from this emerges stability.

"Our natural gas lines are like the company's roots in the ground. They run long and deep. You bet we're here for the long term."

Scott Alexander
Streetman B
COM/Gas

"Building assets is only one half of the equation. Protecting and maintaining them is the other half."

Cynthia Blank
Assistant Risk Manager
COM/Energy Services

More than 1.5 million people rely on our services, and we take great pride in our past performance of providing the most dependable utility services.

Commonwealth Energy System's one billion dollars in assets backs up the service behind every light switch or gas burner. When a customer flips a switch or a thermostat calls for heat, our job is to make sure that the electricity or gas is there to do the job.

Reliability is not sitting back waiting to correct problems; it is taking a proactive posture along every step of the service connection. It means solving problems before they occur, minimizing customer inconvenience.

During the past two years, COM/Electric has completed four major construction projects which significantly improve the reliability of its service now and into the next century. These enhancements, which include substations and high-voltage transmission lines, were completed at a cost of $40 million.

We have also initiated a program to replace uncoated distribution wires with a sheathed cable in heavily wooded areas. This cable, while higher in cost, prevents customer outages caused by tree branches falling across wires.

Underground residential distribution systems underwent major changes during the past decade, converting from direct burial of cables to a full-duct system. This, when combined with changes in the cable's insulation, has produced for us an enviable track record of no cable-related faults in these installations in over a decade.

Last year, COM/Gas replaced eight miles of cast-iron pipe, a record amount, and relayed 68 miles of gas mains and service piping to improve service reliability. For 1989, total replacement piping installed and piping into new areas totaled 140 miles.

A long-standing practice at COM/Gas is to maintain close contact with municipalities. Whenever a street is slated for resurfacing, COM/Gas makes a thorough evaluation of its facilities below that street. Replacements or upgrades in facilities, if necessary, are made simultaneously with road construction—increasing reliability while virtually eliminating resurfacing costs.

These ambitious construction projects require accurate and timely inventory information. COM/Electric will soon manage inventory control at seven district warehouses with a new

"Making sure that our people have all the information that they need, when they need it, is paramount. We respond to these information requests 24 hours a day, 365 days a year."

John Semper
Shift Supervisor
COM/Energy Services

"Reliability is having the right parts on the truck at 4:00 a.m. on a bone-chilling morning when a customer's kids are up and his heating system is down."

Chip Breed
Serviceman
COM/Gas

interactive computer system. These strategically located warehouses support activities of construction and repair crews and require up-to-the-minute inventory control during service restorations—especially during storm-related restoration. This system will optimize inventory, facilitate tracking of 6,500 different items with a value of $10 million and provide instantaneous information between users.

COM/Gas takes pride in its reputation to satisfy its customers' needs on the first call. For COM/Gas, a new computerized inventory control program will bring about an even higher level of service, with balanced and adequate stock on hand at all times.

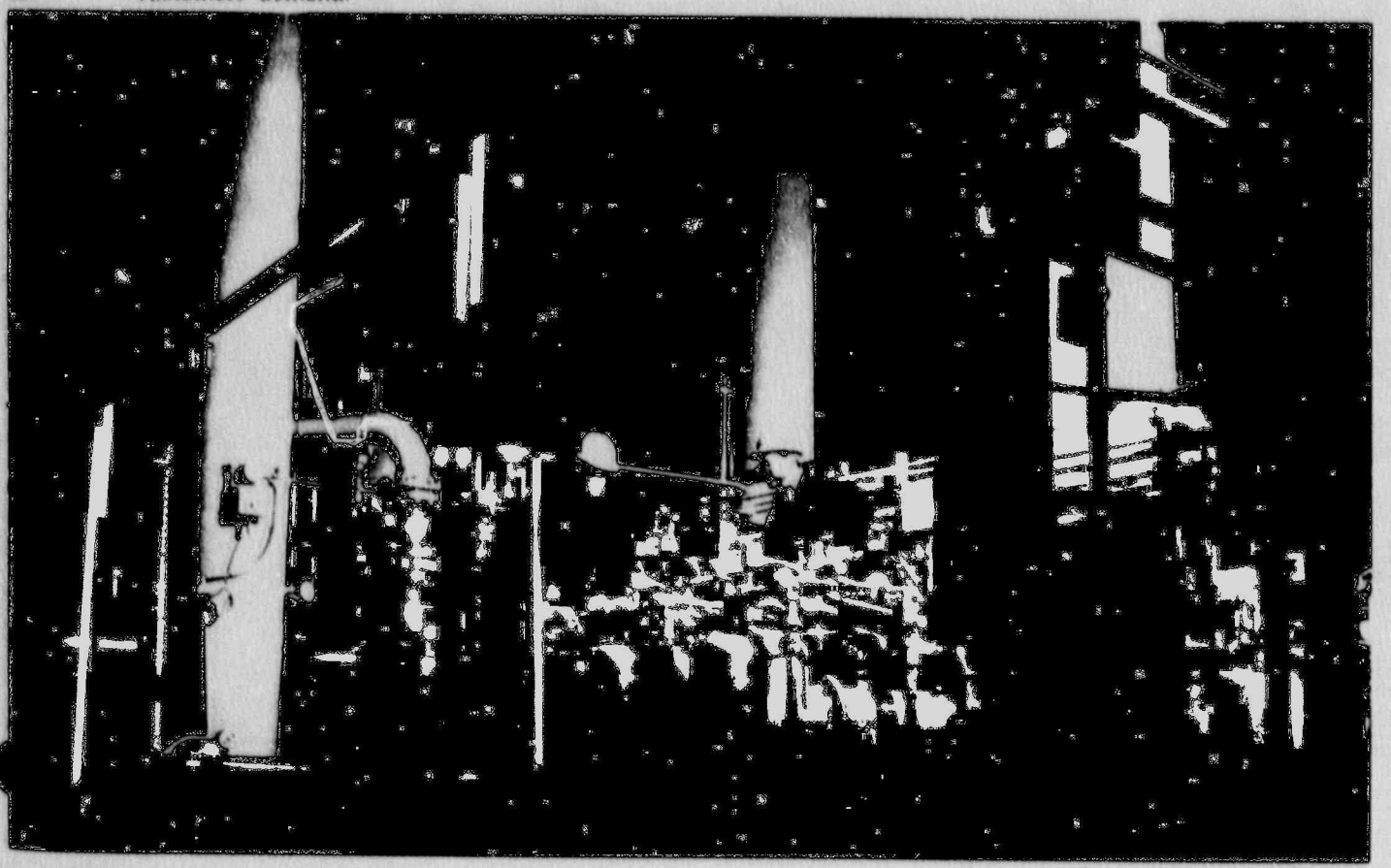
Today's sophisticated gas equipment requires a large inventory of specialized parts. No longer is there a "universal part" because of the technology that supports contemporary appliance features. Capital costs committed to stock will be reduced because of optimum inventory turnover and better tracking of use patterns for more than 2,000 items.

The ultimate nature of reliability centers on reliable people.

"We negotiate in world markets to buy oil to keep our plants running. Last year we bought 11 million barrels of oil to generate electricity for customers."

L. William Duncan
Manager of Fuels
COM/Electric

Called into work at 2:47 a.m. in sub-zero temperatures with biting winds, LNG operators prepare to begin vaporization of liquefied natural gas to meet customers' demand.



Responsiveness is determining customers' needs and working hard to meet those needs.

We are driven by our customers. Their needs, preferences and expectations constantly change. But our fundamental objective remains to satisfy their needs, accommodate their preferences and meet their expectations. In order to meet this objective, we are committed to be consumer-responsive to the degree necessary to rise to the top in a fully competitive marketplace. A dynamic response to all of our customers' needs is the only way that we can out perform competition.

We understand better than anyone else that gas and electric services are not a luxury, but a necessity. This is the driving force behind keeping our costs and rates as low as possible. Even so, not all customers have the same ability to pay for these essential services.

Using the latest managerial and technological concepts, both COM/Electric and COM/Gas developed a consistent, confidential and customer-sensitive approach to credit and collection supported by automation. A careful blend of automation and customer sensitivity has worked to bring about an efficient credit and collection system highly focused on customers' needs.

"Information is power. Our people handling customer inquiries have megabytes of information available at the touch of a finger....I'd call that a powerful response to customer service."

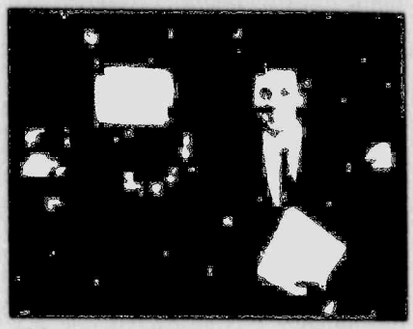
Stacy Mason, Supervisor
Customer Inquiry
COM/Gas

This "intelligent" system monitors accounts daily and takes independent action according to pre-programmed logic that originates messages, letters and, based on specific conditions, inserts accounts into a telephone queue for personal contact. Preset parameters also keep us in compliance with all regulatory requirements.

Early detection through daily monitoring of these accounts allows us to become involved in solutions for the customer. These include, for those who qualify, referral to such programs as fuel assistance, public and private funding, and payment plans to better accommodate a customer's ability to pay.

Moving from economics to ecology, preservation, improvement and protection of the air, water, land and other natural resources in the areas where we live and operate our businesses ranks at the top of the list of our priorities. Through our interest in the development of an energy park in Freetown, Massachusetts, we are active in the fuel and facility selection and development of our 600-acre site to assure that this pristine area of the state remains that way.

Jeanne Carrier, a customer service representative, explains company procedures to a customer.



"If our employees are going to respond appropriately to customers and develop safe work habits, first we must respond to employees' training needs."

Carl Erickson
Director of Management Development and Training
COM/Energy Services

The technology selected—integrated gasification combined-cycle (IGCC)—is the cleanest commercially proven method in the world for using coal for electric power production. Along with reaching emission standards far superior to stringent Environmental Protection Agency requirements, other environmental advantages to the IGCC process include lower demands on area water resources and non-leachable, non-hazardous waste products which can be used in the production of various construction products.

Commonwealth Energy System people will continue to be involved in every phase of this exciting new project which will be the most environmentally sound coal-based plant in the world.

"Paying attention to customers' needs helps us find new ways to strengthen customer relationships."

John Farnham
Manager of Consumer Relations
COM/Electric

An idea has to be more than just novel to be called innovative at Commonwealth Energy System. Before new ideas earn the distinction as innovative, they ultimately must achieve a higher level of satisfaction with customers, employees or shareholders. Letting imaginations run free so people can be the best they can be and fostering a workplace where creativity thrives set the stage for innovation.

A design engineer at COM/Electric made innovation work for him by using a software package to assist in the design of foundations for transmission towers. Using a new foundation analysis and design program, COM/Electric was able to change foundation designs—within minutes and with confidence—to compensate for variations in soil conditions along a 17.5-mile route consisting of 151 transmission towers on Cape Cod. This software, developed by the Electric Power Research Institute, cut engineering time by 30 percent and saved over $150,000.

About six years ago, COM/Electric's concern for the environment prompted it to initiate mechanical vegetation control techniques along transmission line routes in place of chemical methods. Following a short and

Modifying an existing product used in automatic reading of gas meters, COM/Electric's Donald Dassman developed the technology to enable the equipment to read both gas and electric meters.

"Innovation is the ability to shun complacency. At COM/Gas the process of finding a better way is never ending."

Joseph J. Stefanini
Project Manager
COM/Gas

successful pilot program, we were the first electric utility in New England to contract for a five-year mechanical vegetation control program at a cost comparable to chemical methods.

In the natural gas industry, change abounds. Not too long ago gas pipeline companies bought gas from producers and then sold and transported the gas to distribution companies. Local distribution companies typically bought their gas supplies from a single pipeline at a fixed price for a specific period with little or no flexibility.

Since the phase-in of deregulation, distribution companies, along with other gas consumers, can now purchase gas from producers, pipelines, hundreds of sources in the spot market or a combination of any of these. Pipeline companies have become a nationwide highway system for the transportation of natural gas.

This has brought about an increasingly sophisticated marketplace for natural gas. COM/Gas is an active participant in this arena because our energy supply professionals believe that it is a marketplace full of opportunities for those who can recognize and seize them.

Success in this market demands proficient people and suitable tools. When these tools do not exist, it sometimes means creating and developing the tools to get the job done efficiently.

A method of tracking, managing and storing key data relative to the spot market is an important competitive tool—one that does not exist today. From this need surged a sea of creative thinking, and COM/Gas is well on the way to developing a spot market management system—a novel idea that has prompted one computer software vendor to participate in its development.

When operational, this enhancement to gas supply will expedite decision making, improve responsiveness to market conditions and give the company the flexibility it needs to maintain its reputation as a low-cost supplier of quality gas services.

Thanks to our employees, many new ideas are coming into focus. We look to the future with growing optimism, strengthened by the commitment and enthusiasm of our employees. The spirit of innovation at Commonwealth Energy System resides in the energy of our people. As we shift our focus to the 90s, innovation will keep us on the leading edge during a period of intensifying competition.

"Auditing adds up to more than balancing numbers. An auditor is a facilitator of change—one who takes a fresh look at our business practices, searches for solutions and suggests more effective and cost-competitive ways of doing things."

Sheila Curnow
Auditor
COM/Energy Services

"New ideas are worthless unless they measure up to our performance standards, and at COM/Electric we set tougher standards for ourselves than do our customers."

C. Brad Curtis
Design Engineer
COM/Electric

Serving customers efficiently with adequate amounts of reliable energy at the lowest possible cost is our definition of productivity—a statement easy to articulate, but a constant and formidable challenge in practice.

We sell billions of kilowatthours of electricity and billions of cubic feet of natural gas, but the most important energy that we harness in the course of any day is that of our 2,600 employees. Productivity increased significantly throughout Commonwealth Energy System during the 80s, the result of management's strong commitment to automation, continued containment of controllable costs and "work smarter" programs.

Over the next decade, we expect to reap the full benefit of investments made in automation during the 80s. Today, virtually every information system is automated. We have made moves into dynamic, on-line, interactive computer systems. The result is instant retrieval and verification of information, reduced paperwork, lower operating costs and improved service to customers.

Over a two-year period, we reduced staffing at COM/Energy Services by 15 percent. This reduction was achieved primarily through attrition, but also by employee-initiated implementation of part-time positions and job sharing, which, collectively, resulted in savings of over $3 million.

COM/Gas has dramatically cut response time and increased operational efficiency in its service dispatch operation. Specialized software tracks service orders from start to finish and allows instantaneous sharing of information between crucial departments having interaction with customers. Within minutes of a serviceman's completing work in a customer's home, all pertinent information is relayed back to service dispatch and also becomes available to any one of 30 customer inquiry representatives. This system expedites emergency repair service, allows better scheduling of customers' service calls and improves communication with customers.

The computer-aided dispatch system takes advantage of our existing customer information system and required no capital investment. Future enhancements include bringing computer power into the service van.

Because of different needs, COM/Electric has recently acquired software for a program called Work Management Information System.

"Because of new technology in material handling equipment and highly focused work and safety practices, our performance record is outstanding."

Charles L. Johnson Jr.
Line Crew Leader
COM/Electric

COM/Gas uses an electro-fusion system for service additions, main construction, repair, and tie-in of polyethylene gas pipe. This new electro-fusion technology has enabled COM/Gas to make inherently flawless joints 100 percent of the time while reducing the size of the excavation and time required to complete the job.

This addition, scheduled for implementation in 1991, will automate most of the now manual functions involved in the planning and write-up of construction and maintenance work performed in the transmission and distribution areas. This will mean improved efficiency in tracking and managing current and future work loads as well as improved service and reliability for customers.

"Computer-aided dispatch reduces the amount of paperwork and allows us to do what we do best—get our service people out to satisfy customers."

Susan Dalrymple
Service Dispatcher A
COM/Gas

"Our work load has increased tremendously. We haven't added people. We've introduced automation, and we're getting more done in less time."

Jim Griffiths, Coordinator
Legal Collections
COM/Energy Services

Quality at Commonwealth Energy System means providing our customers with a superior value. An inherent part of that value is meeting the expectations of customers, employees and shareholders.

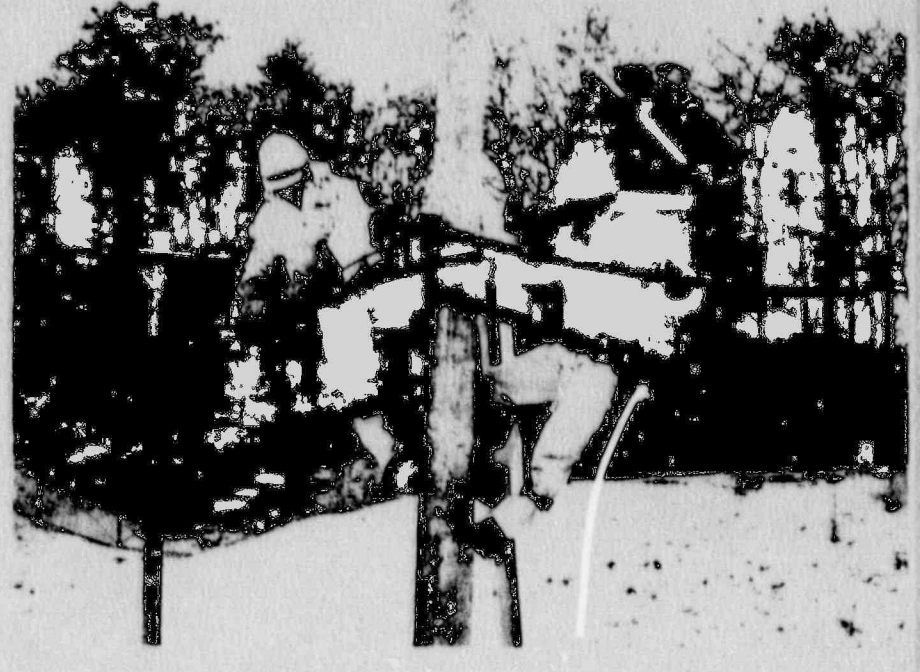
This means handling customer calls promptly and efficiently or earning the distinction of operating the most efficient oil-fired electric generating unit in the country. Quality can be as simple as a friendly smile beaming across a meter reader's face or as arduous as restoration of power to thousands of customers under the most adverse of conditions during and after a storm. It is accurate meter reading and billing; keeping rates as low as possible; or finding, securing and transporting natural gas supplies, when others could not, during the coldest December since the beginning of weather record keeping.

For us, quality doesn't stop with the sale of kilowatthours of electricity or cubic feet of natural gas. We are investing approximately

New England weather isn't always cooperative in our efforts to deliver quality services, but we stand ready to face any challenge to uphold the quality of our gas and electric utility services.

"At Canal Electric, we maintain the highest levels of quality, from the oil that goes in, to the air emissions that come out. That's why we're number one in the country!"

Fernando Sousa, Chemist
Canal Electric Company



$5 million in a new sophisticated, customer information system to be completed by mid-1990. The software and advanced computer system maintain precise, confidential records on more than one-half million customers. All information is instantaneously accessible, allowing us to react or respond to any customer at any location— quickly and in the most appropriate manner.

Complementary services are just as important as supplying the energy itself. These services include no-cost or low-cost conservation programs that enable customers to gain greater control over their energy usage and costs, critical tracking of customers with life support equipment, safety programs for schools, special telephone service for the hearing-impaired, consumer advisory panels and collaboration with interested parties in planning future energy needs.

Quality has yet another dimension. Not only did our earnings increase significantly during 1989, but the quality of these earnings improved. The proportion of earnings derived from certain non-cash additions to income determines the quality of earnings. The lower this percentage, the higher the quality of earnings per share. In 1988 and 1987, these items accounted for approximately 57 percent and 59 percent of our net income, respectively, compared to 34 percent last year. We expect continued improvement in the quality of our earnings, the result of some of the positive items discussed in our preceding shareholder letter.

Any quality product, in the final analysis, is always the result of quality people. We can't begin to hope for quality in one without quality in the other. We strive to hire the best people for every job at every level. This is not a program, but a way of life for our human resource professionals. And we will continue to attract, train and retain the best employees available.

In our pledge to quality, we have not overlooked our employees, and we continue to provide them with a quality work environment that is safe and appropriate. This means equal opportunity for employment, development and advancement for those who qualify. It means fair and adequate wages and competitive benefits. Moreover, we encourage our employees to be mentally and physically fit by providing financial incentives toward education and health and fitness programs.

"Our goal is to satisfy the customer on the first call. It's rare that we don't."

Lucy Moschilli, Senior Clerk
Customer Inquiry Center
COM/Gas

"Getting 566,000 energy bills mailed every month, each one with the appropriate information, is an awesome responsibility. Quality for us is getting it right the first time."

Jack MacDonald, Supervisor,
Mail Operations and Services
COM/Energy Services

Condensed Statements of Income

Years Ended December 31	1989	1988	1987
		(Dollars in Thousands)	
Operating Revenues:			
Electric	**$524,523**	$434,765	$429,851
Gas	**268,140**	243,380	219,841
Steam and other	**13,197**	10,619	10,751
	805,860	688,764	660,443
Operating Expenses:			
Fuel and purchased power	**288,400**	244,608	237,166
Cost of gas sold	**152,649**	135,222	131,977
Other operation and maintenance	**224,131**	201,177	192,097
Depreciation	**29,769**	28,286	25,288
Amortization of Seabrook 2	**2,103**	(2,004)	5,627
Taxes	**37,667**	32,684	30,827
	734,719	639,973	622,982
Operating Income	**71,141**	48,791	37,461
Other Income (Expense):			
Allowance for equity funds used during construction	**5,162**	8,825	8,377
Abandonment of Seabrook 2	**833**	(5,243)	(1,251)
Other, net	**(1,058)**	3,117	3,169
	4,937	6,699	10,295
Income Before Interest Charges	**76,078**	55,490	47,756
Interest Charges:			
Long-term debt	**23,308**	20,151	20,876
Other interest charges	**18,880**	10,732	4,019
Allowance for borrowed funds used during construction	**(7,728)**	(10,352)	(9,493)
	34,460	20,531	15,402
Net Income	**41,618**	34,959	32,354
Dividends on preferred shares	**1,473**	1,532	2,269
Earnings Applicable to Common Shares	**$ 40,145**	$ 33,427	$ 30,085
Average Number of Common Shares Outstanding	**9,690,277**	9,556,577	9,408,026
Earnings Per Common Share	**$4.14**	$3.50	$3.20

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

Condensed Balance Sheets

December 31	1989	1988
	(Dollars in Thousands)	
Assets		
Property, Plant and Equipment, at original cost	**$ 976,470**	$ 877,251
Less—Accumulated depreciation	**316,007**	295,674
	660,463	581,577
Construction work in progress, net	**255,094**	256,516
	915,557	838,093
Leased Property, net	**7,498**	8,704
Equity in Corporate Joint Ventures	**13,803**	10,835
Current Assets:		
Cash	**102**	2,954
Accounts receivable, net	**74,452**	60,917
Unbilled revenues	**62,046**	37,263
Other current assets	**35,142**	37,304
	171,742	138,438
Deferred Charges	**56,106**	35,846
	$1,164,706	$1,031,916
Capitalization and Liabilities		
Capitalization:		
Common share investment	**$ 310,566**	$ 293,508
Redeemable preferred shares, less current sinking fund requirements	**18,760**	19,580
Long-term debt, less current sinking fund requirements	**342,937**	222,324
	672,263	535,412
Capital Lease Obligations	**5,249**	6,658
Current Liabilities:		
Interim financing	**153,275**	201,575
Accounts payable	**83,246**	56,319
Accrued taxes	**14,338**	15,216
Other current liabilities	**29,846**	26,683
	280,705	299,793
Deferred Credits:		
Accumulated deferred income taxes	**146,164**	133,636
Unamortized investment tax credits and other	**60,325**	56,417
	206,489	190,053
Commitments and Contingencies (Note 2)		
	$1,164,706	$1,031,916

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

Condensed Statements of Cash Flow

Years Ended December 31	1989	1988	1987
		(Dollars in Thousands)	
Cash Flow From Operating Activities:			
Net income	**$ 41,618**	$ 34,959	$ 32,354
Effects of non-cash items--			
Abandonment of Seabrook 2	**(833)**	5,243	1,251
Depreciation and amortization	**31,872**	26,282	30,915
Deferred income taxes and investment tax credits, net	**11,263**	3,324	1,737
Allowance for equity funds used during construction	**(5,162)**	(8,825)	(8,377)
Earnings from corporate joint ventures	**(1,367)**	(1,329)	(1,533)
Change in working capital, exclusive of cash	**(6,944)**	(11,511)	(5,320)
All other operating items	**(17,011)**	878	122
Net cash provided by operating activities	**53,436**	49,021	51,149
Cash Flow For Investing Activities:			
Additions to property, plant and equipment (exclusive of AFUDC)	**(93,544)**	(97,952)	(67,699)
Allowance for borrowed funds used during construction	**(7,728)**	(10,352)	(9,493)
Dividends from corporate joint ventures	**1,410**	1,077	1,430
Equity investment in corporate joint venture	**(3,359)**	—	—
Net cash used for investing activities	**(103,221)**	(107,227)	(75,762)
Cash Flow From Financing Activities:			
Sale of common shares	**4,077**	4,148	4,951
Payment of dividends	**(28,637)**	(28,329)	(28,463)
Proceeds from (payment of) short-term borrowings	**(48,300)**	98,925	73,990
Long-term debt issues	**126,000**	—	4,460
Long-term debt issues refunded	**(2,600)**	(10,943)	(15,236)
Sinking funds payments	**(3,607)**	(4,167)	(16,530)
Net cash provided by financing activities	**46,933**	59,634	23,172
Net increase (decrease) in cash	**(2,852)**	1,428	(1,441)
Cash at beginning of period	**2,954**	1,526	2,967
Cash at end of period	**$ 102**	$ 2,954	$ 1,526
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period for:			
Interest	**$ 40,812**	$ 31,906	$ 23,365
Income taxes	**$ 9,21[illegible]**	$ 11,817	$ 13,779

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

1. Detailed Information

The detailed Consolidated Statements of Income, Statements of Cash Flow, Balance Sheets, Statements of Capitalization, Statements of Changes in Common Shareholders' Investment, Statements of Changes in Redeemable Preferred Shares, Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations are included in the Proxy Statement.

2. Commitments and Contingencies

Seabrook Status

The system's 3.52% interest in the Seabrook project is owned by Canal Electric Company (Canal), a wholly-owned subsidiary of the System. As of December 31, 1989, Canal's investment in Seabrook amounted to approximately $244 million. Assuming, for financial planning purposes only, a commercial operation date of June 1, 1990, our investment will be approximately $250 million. The Seabrook unit, which has been complete since mid-1986 but has experienced difficulties and delays in plant licensing, has a rated capacity of 1,150 MW. On March 1, 1990, the Nuclear Regulatory Commission (NRC) approved a full-power operating license for Seabrook 1. The license became effective after a two-week stay during which intervenors filed appeals with the United States Circuit Court of Appeals. The stay appeals were denied by the Court and the plant is prepared to begin its ascension to full-power operation which is expected to be reached in June 1990. Subsequently, Canal made a rate filing with the Federal Energy Regulatory Commission (FERC) for recovery of Seabrook costs from its affiliates Commonwealth Electric Company and Cambridge Electric Light Company. These affiliates have filed for recovery of these costs in their respective power cost charge proceedings.

The system continues to believe firmly that its participation in the Seabrook project from its inception has been prudent, reasonable, appropriate and an integral and necessary element in planning for the power needs of its electric customers. Accordingly, the system will vigorously pursue all rights to recovery of its investment in Seabrook 1. The timing and amount of recovery of the system's investment in Seabrook 1 cannot be foreseen at this time. However, the system believes that it is reasonable to expect that recovery of a substantial portion of this investment should ultimately be allowed.

For additional information on the Seabrook project, please refer to Note 4 of the Notes to Consolidated Financial Statements included in the 1990 Proxy Statement.

Replacement Power Costs

Commonwealth Electric has a life-of-the-unit contract for 11% of the output from the Pilgrim nuclear power plant located in Plymouth, MA.

Pilgrim, which is owned and operated by Boston Edison Company (BECO), had been idle from April 1986 through 1988 and went through a gradual restart program during 1989, ultimately achieving full-power operation in October 1989. During the outage, Commonwealth Electric had been purchasing replacement power from other sources averaging $1.2 million per month more than what Pilgrim power would have cost. In addition, contractual demand charges to BECO for Pilgrim were approximately $1.8 million per month through December 31, 1987 and $3 million per month since then. Replacement power costs during 1989 were at a lower level due to Pilgrim's gradual restart program. These replacement power costs and demand charges were recovered from customers through Commonwealth Electric's power cost charge or its base rates. Excess replacement power costs through the term of the outage and during the restart process were approximately $45 million.

In January 1990, Commonwealth Electric signed settlement agreements, subject to state and federal regulatory approval, with BECO with regard to this outage. These agreements resolve all outstanding issues concerning Commonwealth Electric's liability to refund replacement power costs. In brief, BECO will pay $11 million in replacement power costs related to the outage to Commonwealth Electric, which in turn, will refund this amount to its customers. No other replacement power costs related to this outage will be subject to refund by Commonwealth Electric. To date, Commonwealth Electric has deferred, with FERC approval, approximately $20 million in litigation costs relating to this proceeding. Commonwealth Electric expects to receive $11 million, from BECO, upon regulatory approval of the settlement agreements. Deferral of the remaining portion of these litigation costs will continue pending final resolution in a future regulatory proceeding. Management believes that there is adequate regulatory and legal precedent for recovery of these costs. Please refer to Note 4 of the Notes to Consolidated Financial Statements included in the 1990 Proxy Statement for additional information on these settlement agreements and replacement power costs.

Environmental Matters

The system is subject to evolving regulations administered by federal, state and local authorities relating to the quality of the environment. These regulations affect, among other things, the siting of generating facilities and impose stricter standards for air and water quality and nuclear plant licensing and safety. These regulations have had an impact on the system's operations in the past and will continue to impact future operations, capital costs and construction schedules.

In 1980, the federal government passed the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), and in 1986, the Superfund Amendment and Reauthorization Act (SARA) to initiate the clean-up of the environment. These acts, commonly referred to as "Superfund" legislation, authorize the United States Environmental Protection Agency (EPA) to identify and clean up hazardous waste sites and to seek recovery from statutorily liable parties, usually referred to as potentially responsible parties, or PRPs, or to order the PRPs to undertake the clean-up themselves.

Commonwealth Electric and Commonwealth Gas Company have each been designated by the EPA as a PRP under the Superfund legislation and are potentially liable along with certain other designated PRPs for a share of the clean-up costs at the Sullivan's Ledge site in New Bedford, MA. Some twenty-two parties are known to have been designated PRPs at this site with an estimated total present worth clean-up cost of $10.2 million. System companies are not involved in any other Superfund sites, except perhaps in a "de minimis" capacity.

In addition, the Massachusetts Department of Environmental Protection (DEP) has designated a former coal gasification plant site which occupies property owned by Commonwealth Gas at Quinsigamond Avenue in Worcester, MA as a hazardous waste site. Several other smaller, less significant sites (both coal gas and other hazardous waste) have also been designated by DEP as representing a potential liability to system companies.

Commonwealth Gas is currently participating in a generic rule-making proceeding before the DPU that is intended to result in the establishment of a procedure for rate recovery of all or a portion of the costs associated with the clean-up of coal gasification waste. This procedure may also be applied to future requests for recovery of other types of clean-up costs. Also, comprehensive general liability insurance coverage may provide compensation for remediation costs incurred in the clean-up of the above-referenced sites. While the system is unable to predict the final outcome, costs or remediation involved in any of these efforts, management believes that there are reasonable prospects for recovery.

Power Contracts

Cambridge and Commonwealth Electric have long-term contracts for the purchase of electricity from various sources. Generally, these contracts are for fixed periods and require payment of a demand charge for their capacity entitlement in each unit and an energy charge to cover the cost of fuel. Total costs under these contracts are included in fuel and purchased power in the Condensed Statements of Income. Pertinent information with respect to ownership interests in these generating units is as follows:

	Connecticut Yankee	Maine Yankee	Vermont Yankee	Yankee Atomic
Equity ownership	4.50%	4.00%	2.50%	4.50%
Plant entitlement	4.50%	3.59%	2.25%	4.50%
Plant capability (MW)	591.1	870.0	520.0	173.6
System entitlement (MW)	26.6	31.2	11.7	7.8
Contract expiration date	1998	2008	2007	1991
1989 actual cost ($000)	$9,168	$5,796	$3,299	$3,120
1990 estimated cost ($000)	$8,834	$6,386	$3,754	$2,547

Commonwealth Electric also contracted to purchase power from various other generating facilities as follows:

	1989 MW	Actual Cost 1989	Estimated Cost 1990
		(Dollars in Thousands)	
Nuclear units	98.7	$47,113	$52,741
Hydro units	24.4	9,894	9,095
Cogenerating units	26.8	14,244	24,749
Waste-to-energy units	46.2	17,879	11,238
Other units	3.2	170	438

In addition, Canal contracted to purchase 50 MW, on average, from Northeast Utilities annually from November 1989 through 1994 due to the need for capacity to fulfill the system's New England Power Pool obligation and to have sufficient energy supply to meet customer needs. The cost of this power in 1989 amounted to $35.5 million.

Other Commitments

Other major commitments of the System and its subsidiaries include construction expenditures, sinking fund payments and maturing debt issues as summarized below.

	1990	1991	1992	1993	1994
			(Dollars in Thousands)		
Construction expenditures	$86,718	$87,523	$84,505	$70,439	$74,644
Sinking fund requirements	2,979	7,806	7,006	6,746	7,799
Maturing debt issues	—	—	39,658	15,075	—

Report of Independent Public Accountants

To the Board of Trustees of
Commonwealth Energy System

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheets and consolidated statements of capitalization of COMMONWEALTH ENERGY SYSTEM (a Massachusetts Trust) and subsidiary companies as of December 31, 1989 and 1988, and the related consolidated statements of income, changes in common shareholders' investment, changes in redeemable preferred shares and cash flow for each of the three years in the period ended December 31, 1989, appearing in Exhibit A to the proxy statement for the 1990 annual meeting of shareholders of the System (not presented herein). Our report dated March 1, 1990, also appearing in the proxy statement, contains explanatory paragraphs calling attention to uncertainties surrounding the recovery of Canal Electric Company's investment in Seabrook 1 and the recovery of certain unreimbursed costs not covered by a January 1990 settlement with the operator of the Pilgrim nuclear power plant as discussed in Note 4 to those consolidated financial statements. Additionally, the January 1990 settlement as set forth in Note 4 is subject to further regulatory approvals.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 1989 and 1988, and the related condensed statements of consolidated income and cash flows for each of the three years in the period ended December 31, 1989, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Arthur Andersen & Co.

Boston, Massachusetts
March 1, 1990.

Comparative Statistical Data

	1989	1988	1987	1986	1985
			(Dollars in Thousands)		
Operations:					
Revenues	**$ 805,860**	$ 688,764	$ 660,443	$612,940	$678,077
Operating Expenses -					
Operations	**617,053**	538,204	517,670	475,917	535,799
Maintenance	**48,127**	42,803	43,570	34,765	32,261
Depreciation and amortization	**31,872**	26,282	30,915	24,609	23,139
Taxes	**37,667**	32,684	30,827	37,724	46,443
	734,719	639,973	622,982	573,015	637,642
Operating income	**71,141**	48,791	37,461	39,925	40,435
Add—Other income	**4,937**	6,699	10,295	16,510	17,230
Less—Interest charges	**34,460**	20,531	15,402	15,262	13,703
Net income	**41,618**	34,959	32,354	41,173	43,962
Preferred dividends	**1,473**	1,532	2,269	3,080	3,264
Earning applicable to common shares	**$ 40,145**	$ 33,427	$ 30,085	$ 38,093	$ 40,698
Sources of Consolidated Net Income—					
Electric	**$ 26,975**	$ 16,873	$ 21,403	$ 23,576	$ 26,323
Gas	**12,386**	15,282	7,240	6,295	7,426
Steam and other	**2,257**	2,804	3,711	11,302	10,213
Total	**$ 41,618**	$ 34,959	$ 32,354	$ 41,173	$ 43,962
Financial -					
Property, plant and equipment (including construction work in progress, net)	**$1,231,564**	$1,133,767	$1,025,440	$947,673	$849,500
Accumulated depreciation	**316,007**	295,674	276,374	262,892	248,547
Capitalization -					
Long-term debt (1)	**$ 342,937**	$ 222,324	$ 236,614	$250,400	$204,077
Preferred shares	**18,760**	19,580	20,400	33,920	36,740
Common equity	**310,566**	293,508	282,730	275,010	255,343
Total	**$ 672,263**	$ 535,412	$ 539,744	$559,330	$496,160

(1) Includes maturing long-term debt.

Comparative Statistical Data

	1989	1988	1987	1986	1985
Statistics and Ratios					
Unit sales -					
MWH—Retail	**4,684,179**	4,497,572	4,216,042	3,908,642	3,734,360
Wholesale	**2,606,105**	2,750,693	1,799,748	2,088,355	2,191,032
MMCF—Firm	**38,546**	36,226	35,171	33,541	34,081
Interruptible	**3,564**	3,624	4,033	2,328	3,269
Capitalization ratios -					
Long-term debt	**51.0%**	41.5%	43.8%	44.8%	41.1%
Preferred shares	**2.8**	3.7	3.8	6.1	7.4
Common equity	**46.2**	54.8	52.4	49.1	51.5
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%
Return on common equity	**13.3%**	11.6%	10.8%	14.4%	16.8%
Common share dividend pay-out	**67.7%**	80.2%	87.1%	65.0%	55.0%
Average price/earnings ratio	**8.2**	8.5	10.6	9.1	5.9
Data Per Common Share					
Earnings per share*	**$ 4.14**	$ 3.50	$ 3.20	$ 4.12	$ 4.50
Dividends paid	**2.80**	2.80	2.76	2.62	2.42
Annual dividend rate at end of year	**2.80**	2.80	2.80	2.72	2.52
Book Value	**31.87**	30.51	29.83	29.48	27.87
Common share closing price range -					
High	**38 ⅛**	32 ⅞	42 ⅜	45 ¾	30 ⅛
Low	**29 ¼**	26 ⅛	25 ⅛	29 ¼	22 ⅞

* Based on the average number of shares outstanding.

Trustees

Gerald E. Anderson,
President and Chief Executive Officer of the System and Chairman and Chief Executive Officer of its principal subsidiaries

(1) William M. Crozier, Jr.,
(4) Chairman of the Board and President of BayBanks, Inc., Boston, Massachusetts

(2) Henry Dormitzer,
formerly Executive Vice President, Wyman-Gordon Company, Worcester, Massachusetts

(1) Haynes H. Fellows, Jr.,
(4) formerly Vice President—Finance and Comptroller, New England Telephone and Telegraph Company, Boston, Massachusetts

(3) Franklin M. Hundley,
(4) A Managing Director, Rich, May, Bilodeau & Flaherty P.C., Boston Massachusetts (Attorneys)

(1) Calvin Siegal,
formerly President and Chief Executive Officer, Palm Beach Incorporated, New York, New York

(3) Robert E. Siegfried,
Chairman of the Board of Trustees of the System, formerly Chairman of the Board and Chief Executive Officer, The Badger Company, Inc., Cambridge, Massachusetts

(2) Sinclair Weeks, Jr.,
(3) Chairman of the Board, Reed & Barton Corp., Taunton, Massachusetts

(2) Gerald L. Wilson,
Dean of the School of Engineering, Vannevar Bush Professor, Massachusetts Institute of Technology, Cambridge, Massachusetts

(1) Member of Audit Committee
(2) Member of Executive Compensation Committee
(3) Member of Nominating Committee
(4) Member of Benefit Review Committee

Corporate Division

*Gerald E. Anderson,
Chairman and Chief Executive Officer

*James M. Brown,
Vice President and Chief Information Officer

*Peter B. Spillane,
Vice President—Public Relations

*Michael P. Sullivan,
Vice President, Secretary and General Attorney

*John R. Williams,
Vice President—Corporate Human Resources

*Russell D. Wright,
Financial Vice President and Treasurer

Walter J. Cotting,
Assistant Vice President—Information Services

John A. Whalen,
Comptroller

Electric Division

*Jeremiah V. Donovan,
President and Chief Operating Officer

S. Robert Fox, Jr.,
Vice President—Engineering and Construction

Andrew S. Griffiths,
Vice President—Administration

Robert E. Healey,
Vice President—Customer Operations

Donald J. LeBlanc,
Vice President—Resource Planning and Development

John M. Powers,
Vice President—Energy Supply

*Member of Policy Committee

Gas Division

*William G. Poist,
President and Chief Operating Officer

John J. Connors,
Vice President—Human Resources and Administration

Leonard R. Devanna,
Vice President—Gas Supply

Richard D. Johnston,
Vice President—Marketing and Customer Relations

Kenneth M. Margossian,
Vice President—Operations

*Member of Policy Committee

The sole purpose of this report is to give present security holders information about this System and its subsidiary companies and it is not a representation, prospectus or circular in respect to any security of this System or of its subsidiary companies.

The name "Commonwealth Energy System" means the trustees for the time being (as trustees but not individually) under a Declaration of Trust dated December 31, 1926, as amended, which is hereby referred to, and a copy of which has been filed with the Secretary of The Commonwealth of Massachusetts. Any agreement, obligation or liability made, entered into or incurred by or on behalf of said System binds only the trust estate, and no shareholder, director, trustee, officer or agent assumes, or shall be held to, any liability by reason thereof.

Transfer Agents and Registrars

Common Shares
Transfer Agent and Registrar
The First National Bank of Boston

Preferred Shares — Series A, B, C
Transfer Agent: Commonwealth Energy System
Registrar: State Street Bank and Trust Company

Dividend Payments
(Paid by the System subject to declaration by Trustees) Preferred on the 1st day of January, April, July, October
Common on the 1st day of February, May, August, November

Listing Affiliations

Common
New York Stock Exchange, Inc.
Boston Stock Exchange Inc.
Pacific Stock Exchange Incorporated

Trustees Under Indentures of Trust
Citibank, N.A. — Canal Electric Company Series B and D Bonds
State Street Bank and Trust Company — Other Subsidiary Companies' Long-term Debt

System Facts

Electric
Cambridge Electric Light Company
Canal Electric Company
Commonwealth Electric Company

Gas
Commonwealth Gas Company
Hopkinton LNG Corp.

Other Companies
COM/Energy Services Company
COM/Energy Steam Company
COM/Energy Acushnet Realty (leases land to Hopkinton LNG Corp.)
COM/Energy Cambridge Realty (organized to hold various properties)
COM/Energy Freetown Realty (organized to develop a parcel of land)
COM/Energy Research Park Realty (organized to develop a research building in Cambridge)
Darvel Realty Trust (joint-owner of the Riverfront Office Park complex)

In addition, the system has a 1.4% interest in a jointly-owned oil-fired generating unit and also owns from 2 ½% to 4 ½% interests in five nuclear power plants (located in Massachusetts, New Hampshire, Connecticut, Vermont and Maine).

Territory of Utility Operating Companies
Electric Operations—1,112 square miles covering 41 communities with population of 560,000
Gas Operations—1,067 square miles covering 49 cities and towns (including 12 served with electricity) with population of 1,007,000

Customers
Electric—342,000
Gas—224,000

Employees and Shareholders at Year-End
Regular Employees—2,590
Shareholders—18,067

Electric Plant
Capability—1,536.1 MW including sales under long-term contracts with other utilities of 429 MW resulting in a net capability of 1,107.1 MW
Peak demand—925 MW on January 4, 1989

Gas Plant
Distribution lines—2,641 miles
Peak day send-out—327,183 MCF on January 14, 1988

Form 10-K

The System files annually a report on Form 10-K with the Securities and Exchange Commission. Many of the information requirements of Form 10-K are satisfied by the 1990 Proxy Statement. A copy of Form 10-K is available upon written request addressed to Michael P. Sullivan, Vice President, Secretary and General Attorney, Commonwealth Energy System, P.O. Box 9150, Cambridge, Massachusetts, 02142-9150.

Energy

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