EASTERN UTILITIES ASSOCIATES

ANNUAL REPORT 1990

## EUA SYSTEM COMPANIES

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**EUA Ocean State Corporation**
**EUA Power Corporation**
**EUA Service Corporation**
**Montaup Electric Company**
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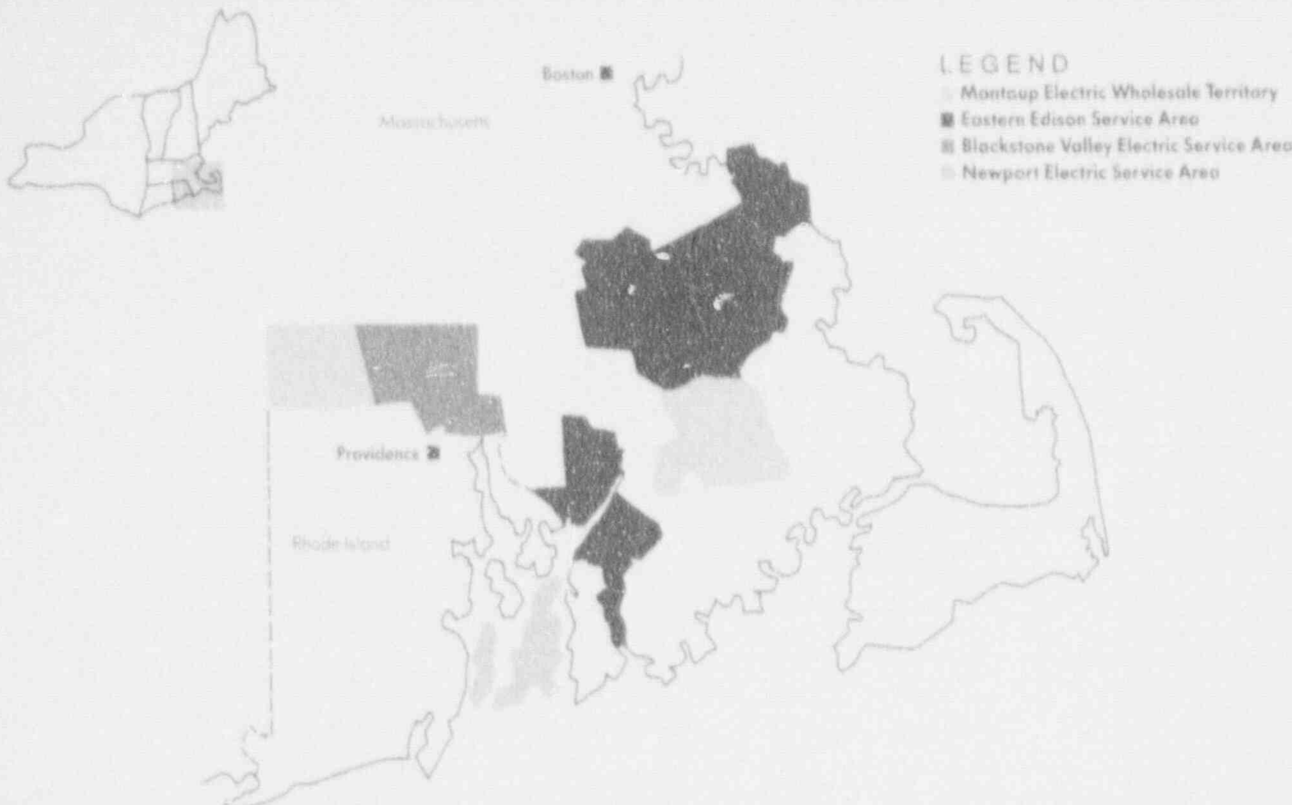


## EUA SYSTEM PROFILE

Eastern Utilities Associates is an investor-owned holding company whose shares are traded on the New York and Pacific Stock Exchanges under the ticker symbol EUA. Its subsidiaries are principally engaged in the generation, transmission, distribution and sale of electricity; related services such as cogeneration; and promoting the conservation and efficient use of energy. Electric utility subsidiaries serve a population of about 716,000 in an area of about 595 square miles.

EUA and its subsidiaries are known collectively as the EUA System.

**Blackstone Valley Electric Company** provides electric service to about 84,900 customers in four towns and the cities of Central Falls, Pawtucket and Woonsocket, all in northern Rhode Island.

**Eastern Edison Company** provides electric service to more than 174,000 customers in the cities of Brockton and Fall River and 20 surrounding towns in southeastern Massachusetts.

**Newport Electric Corporation** provides electric service to about 31,000 customers in the coastal Rhode Island communities of Newport, Jamestown, Middletown and Portsmouth.

**Montaup Electric Company** provides electricity at wholesale to the retail subsidiaries of EUA and to municipal electric utilities in Middleboro, Massachusetts and Pascoag, Rhode Island. Montaup is the generation and transmission subsidiary of EUA.

**EUA Cogenex Corporation** installs and maintains energy conservation and cogeneration systems in municipal, commercial and industrial buildings in the Northeast and other parts of the country. It provides services directly to the ultimate customer on its own and as a performance contractor for utility companies.

**EUA Power Corporation** is a New Hampshire based wholesale power corporation which owns 12.1% of the Seabrook Station nuclear generating plant. On February 28, 1991 EUA Power filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code. See Footnote B – EUA Power Corporation of Notes to Consolidated Financial Statements for further information.

**EUA Ocean State Corporation** holds a 29.9% ownership interest in the Ocean State Power partnership in northern Rhode Island. The 255-megawatt, gas-fired Ocean State Unit 1 has entered commercial operation; a matching Unit 2 is scheduled for operation in late 1991.

**EUA Energy Investment Corporation** seeks out qualifying cogeneration and independent power production facilities for investment.

**EUA Service Corporation** provides professional and technical services to Eastern Utilities Associates and all EUA System companies.

## FINANCIAL HIGHLIGHTS

| | 1990(1) | 1989 |
|---|---|---|
| **Financial Data** *(dollars in thousands)* | | |
| Operating Revenues | $ 451,867 | $ 408,577 |
| Operating Income | 55,385 | 58,388 |
| Consolidated Net (Loss) Income | (130,182)(2) | 40,877 |
| Cash Construction Expenditures | 59,929 | 75,861 |
| **Common Share Data** | | |
| Consolidated (Loss) Earnings per Share | $(8.18)(2) | $2.95 |
| Dividends Paid per Share | $2.575 | $2.475 |
| Average Common Shares Outstanding | 15,917,255 | 13,877,091 |
| Book Value per Share (Year End) | $14.52(2) | $24.57 |
| Market Price (Year End) | $23.875 | $31.75 |
| **Operating Data** | | |
| Total Electric Sales (mwh) | 5,310,000 | 5,127,000 |
| System Requirements (mwh) | 4,488,000 | 4,396,000 |
| System Peak Demand (mw) | 850(3) | 833 |
| System Reserve Margin (At Peak) | 49.8% | 26.7% |
| System Load Factor | 66.4% | 60.4% |
| Customers (Year End) | 288,986 | 256,602 |
| Employees (Year End) | 1,388 | 1,241 |

(1) *Includes operating statistics for Newport Electric from April 1, 1990 and EUA Power since Seabrook's in-service date of August 19, 1990.*

(2) *After cumulative effect of accounting change for income taxes and additional charges to 1990 earnings. See Note A — Summary of Additional Charges to 1990 Earnings for further information.*

(3) *Includes approximately 53.1 MW of incremental demand associated with the Newport acquisition.*

## TO OUR SHAREHOLDERS

For Eastern Utilities Associates, 1990 was a year marked with some major disappointments, but not without its share of successes. During the first three months of 1991, your management made some very difficult decisions. These decisions have significantly affected our results for 1990 and also impacted our transition to the future.

Donald G. Pardus

Among the disappointments were the filing in February 1991 by our EUA Power subsidiary for protection under Chapter 11 of the Federal Bankruptcy Code; the additional charges to 1990 earnings which were primarily the result of our EUA Power investment, the announcement that we would not renew our outstanding tender offers for Fitchburg Gas & Electric Light Company and UNITIL Corporation and the general economic downturn which has occurred in our service territories. On the success side, we were able to pay a dividend for the 62nd consecutive year; Seabrook Station became a reality; we made significant progress in our efforts to strengthen our energy supply mix and expand our core and non-core businesses. The remainder of this letter will explore each of these developments in more detail.

### EUA Power Bankruptcy:

EUA Power posed a major challenge to us in 1990. The rapid decline in the region's economic health which took place very late in the year, had a direct impact on demand for electricity and hampered our efforts to market the 140 megawatts of capacity from Seabrook. We have not been able to find buyers willing to commit to long-term capacity contracts therefore it is necessary to sell energy on a short-term basis at prices which do not allow us to recover all our costs including interest on outstanding debt.

As a result, EUA Power filed on February 28, 1991, a voluntary petition for protection under Chapter 11 of the United States Bankruptcy Code. After careful analysis, and in light of the rapidly declining economy, we concluded that this action was in the best interest of all concerned. We will attempt to work closely with the holders of EUA Power's notes in an effort to develop a plan that will allow EUA Power to emerge from bankruptcy on a financially viable basis.

John R. Stevens

EUA Power will also continue to pursue the signing of long-term power contracts at prices sufficient to recover its investment. However, the region's continued economic slump coupled with new and untested bidding requirements for power contracts, which are being implemented by various utility commissions, will hamper that effort.

It is important to note that the Chapter 11 filing by EUA Power does not and will not impact the financial results of our other core and non-core subsidiaries.

### Additional Charges to 1990 Earnings:

On March 29, 1991, we announced that we would take an additional, after tax, charge to 1990 earnings of approximately $148 million which resulted in a loss for 1990 of approximately $130 million, or $8.18 per share. This loss compares to earnings per average common share of $2.95 in 1989. The action was taken in light of the very recent and significant decline in the demand for electricity in New England, the uncertain outlook for EUA Power obtaining long-term power contracts in the immediately foreseeable future and EUA Power's Chapter 11 filing.

In addition, EUA Power will be deconsolidated for financial reporting purposes, thus, EUA's current and future financial results will not be impacted by EUA Power. At such time as EUA Power emerges from bankruptcy, it would be reconsolidated if it meets the accounting criteria for consolidation.

Approximately $126 million of the additional charge to earnings relates directly to a write-off of our EUA Power investment, about $17 million relates to potential tax liabilities of this write-off, and the remainder relates primarily to a write-off of expenses related to our tender offers.

Given the facts that are known today we believe that by writing-off our investment in EUA Power in this manner, we have protected our shareholders from any further adverse effects which may result from the bankruptcy. The write-off has the effect of providing for our financial obligations to EUA Power.

**Fitchburg/UNITIL Tender Offers:**

On March 29, 1991, we also announced that we would not extend our tender offers for Fitchburg Gas and Electric Light Company and UNITIL Corporation beyond their expiration date, April 26, 1991, and that it was highly improbable that the conditions to either of the offers would be satisfied by that date. The additional charge to 1990 earnings discussed above also includes a write-off of expenses related to the tender offers.

**Economic Downturn:**

As with most businesses in the Northeast, our 1990 results were limited by the year's economic downturn, particularly very late in the year. The declining economy and continuing temperate weather conditions resulted in a decline in kilowatt-hour sales as compared to 1989. Sales to residential and commercial customers decreased slightly last year, 1.3% and 0.2%, respectively, while sales to industrial customers declined by 6.1%. Overall kilowatt-hour sales declined by 2.2%. This compares with increases in the 3%–4% range for the past few years.

**Dividends:**

Based upon conditions as they existed during the first part of 1990, your dividend was increased last May to an annual rate of $2.60 per common share. At that time, we were confident that commercial operation of Seabrook was imminent and that we would be able to sign long-term power sales contracts for EUA Power's Seabrook interest. We now know that while Seabrook did indeed come on-line, the severe and swift economic downturn led us to file a Chapter 11 proceeding for EUA Power and to ultimately take an additional charge to 1990 earnings.

We are sure that you are concerned about EUA's ability to continue to pay dividends in the future. What we can tell you at this point is that the additional charge to 1990 earnings resulted in a Consolidated Retained Earnings deficit of approximately $78 million. As a result of the retained earnings deficit, we have filed a request with the Securities and Exchange Commission under the Public Utility Holding Company Act for permission to continue paying common share dividends. We requested expedited consideration of this request so that we could consider paying a dividend on May 15, the next normal payment date. Although we cannot predict the timing or success of our application, we believe that the SEC should grant our request because of the strong cash flow generated by the balance of the EUA System. It is also clear that it will be necessary to reduce the current level of EUA's dividend payments, although a new level cannot be established until the SEC has issued their approval to pay a dividend.

**Seabrook Station Goes On-Line:**

After a 17-year struggle, Seabrook Station became a reality on August 19, 1990. EUA's crucial role in making the operation of Seabrook a reality has not gone unnoticed. In the words of one research investment analyst "Eastern Utilities' management has been among the most instrumental among the Seabrook ownership in the struggle to clear the operating license for the facility over the past five years. This indicates the company's tenacity and resolve."

**Fuel Diversity:**

We have taken decisive steps since the 1970s to reduce our dependence on oil used to generate electricity. We will continue in that direction in the 1990s. Nuclear energy—as represented by Seabrook—and gas—as in Ocean State Power—are two important non-oil sources of generation. We increased our hydroelectric capability last year, as well, through the Phase II agreement with Hydro Quebec.

As 1990 ended, 38% of our generation was fueled by oil, less than half the 85% it supplied in 1980. Nuclear energy, which provided 17% of our electricity ten years ago, matched oil's 38% in 1990; we now burn coal to fuel 22% of our generation and natural gas for 2%.

By 1995, we project oil will supply about 11% of our generating needs; coal, 21%; nuclear, 31%; gas, 28%. The balance will come from a combination of hydropower, and such non-traditional sources as cogeneration and independent power producers.

**Core and Non-Core Businesses Expand:**

Newport Electric Corporation officially joined the EUA System on March 27, 1990. Eastern Utilities has been well-received by Newport's customers as we implement measures to improve the reliability of their electric service. The dedicated employees of Newport Electric have also been a positive addition to our outstanding work force.

The 255 megawatt Unit I of the gas-fired Ocean State power plant went on-line as scheduled and within budget in late 1990. Construction of a comparable sized Unit II continues within budget for completion in late 1991. EUA's 30% equity investment in Ocean State should provide a premium return to our shareholders, while at the same time, further diversifying our energy mix away from foreign oil.

Our EUA Cogenex subsidiary continues to increase its contribution to our bottom line. Cogenex now lists among its energy management customers a diverse mix of major corporations, utilities and communities from coast to coast.

**Looking Ahead:**

The year 1990 was difficult and the year ahead will not be easy, as it is unlikely that the region's overall economic condition will improve in 1991. As a result, kilowatt-hour sales are expected to be lower than in 1990. These conditions have required us to implement stringent cost control measures consistent with safety and reliable services throughout our System. Notwithstanding these actions, it is likely that we will seek rate increases in most jurisdictions to counter cost increases and declining kilowatt-hour sales. Our main objective in 1991 is to put in place the framework necessary for moving forward.

Eastern Utilities and our team of valued employees will be challenged in 1991. We are working diligently to deal with these challenges in a way that will build the foundation for future success.

Sincerely,

Donald G. Pardus

John R. Stevens

Donald G. Pardus
Chairman

John R. Stevens
President

April 12, 1991

## SELECTED CONSOLIDATED FINANCIAL DATA

| *Years Ended December 31 (In Thousands Except Common Shares and Per Share Amounts)* | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|
| **Income Statement Data:** | | | | | |
| Operating Revenues | $451,867 | $ / | $374,138 | $367,129 | $343,324 |
| Operating Income | 55,385 | 58,388 | 65,212 | 62,195 | 61,725 |
| Consolidated Net (Loss) Income | (130,182)(1) | 40,877 | 37,475 | 43,546 | 32,490 |
| **Balance Sheet Data:** | | | | | |
| Plant in Service | 985,138 | 687,833 | 671,192 | 653,371 | 614,330 |
| Construction Work in Progress | 6,809 | 674,850 | 535,814 | 425,818 | 358,708 |
| Gross Utility Plant | 991,947 | 1,362,683 | 1,207,006 | 1,079,189 | 973,038 |
| Accumulated Depreciation and Amortization | 241,128 | 203,990 | 187,049 | 173,813 | 157,813 |
| Net Utility Plant | 750,819 | 1,158,693 | 1,019,957 | 905,376 | 815,225 |
| Total Assets | 1,094,740 | 1,376,032 | 1,202,635 | 1,071,216 | 954,514 |
| **Capitalization:** | | | | | |
| Long-Term Debt | 443,595 | 606,079 | 554,564 | 479,217 | 423,789 |
| Redeemable Preferred Stock | 34,530 | 34,612 | 34,614 | 29,852 | 29,852 |
| Non-Redeemable Preferred Stock | 15,850 | 15,079 | 15,079 | 15,079 | 15,079 |
| Common Equity | 237,393 | 375,016 | 301,759 | 285,383 | 225,156 |
| Total Capitalization | 731,368 | 1,030,786 | 906,016 | 809,531 | 693,876 |
| Short-Term Debt | 43,071 | 58,676 | 62,426 | 38,035 | 63,444 |
| **Common Share Data:** | | | | | |
| Consolidated (Loss) Earnings Per Average Common Share: | | | | | |
| Before Cumulative Effect of Accounting Change | $ (8.21) | $ 2.95 | $ 2.85 | $ 3.46 | $ 2.82 |
| Cumulative Effect of Accounting Change for Income Taxes | $ .03 | | | | |
| After Cumulative Effect of Accounting Change | $ (8.18) | $ 2.95 | $ 2.85 | $ 3.46 | $ 2.82 |
| Average Number of Shares Outstanding | 15,917,255 | 13,877,091 | 13,167,915 | 12,596,381 | 11,537,677 |
| Return on Average Common Equity | (42.5)% | 12.1% | 12.8% | 17.1% | 15.0% |
| Market Price—High | 41½ | 41¾ | 33⅝ | 40½ | 39⅝ |
| —Low | 20¾ | 30⅜ | 21⅞ | 24 | 25¾ |
| —Year End | 23⅞ | 41¾ | 31½ | 28 | 38½ |
| Dividends Paid per Share | $ 2.575 | $ 2.475 | $ 2.375 | $ 2.27 | $ 2.15 |

*(1) After cumulative effect of accounting change for income taxes and additional charges to 1990 earnings. See Note A—Summary of Additional Charges to 1990 Earnings for further information.*

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

### Overview

Eastern Utilities Associates (EUA) reported a Consolidated Net Loss of $130.2 million, or $8.18 per average common share, in 1990. The principal reason for the 1990 loss is a fourth quarter 1990 after tax charge to earnings of $147.7 million relating primarily to certain additional charges against the full amount of EUA's investment in EUA Power Corporation (EUA Power) and related income taxes totalling approximately $142.9 million and an after-tax write-off of approximately $4.3 million related primarily to EUA's tender offers for UNITIL Corporation (UNITIL) and Fitchburg Gas and Electric Light Company (FG&E).

Before the additional charges, 1990 Consolidated Net Income would have been $17.5 million, or $1.11 per average common share, compared with Consolidated Net Income of $40.9 million, or $2.95 per average common share, in 1989, representing a decrease of 57% and 62%, respectively. The decline in 1990 earnings is primarily the result of short-term power sales by EUA Power of its entitlement from Seabrook at prices that were substantially below its actual operation, maintenance and capital-related costs along with the cessation of the recording of Allowance for Funds Used During Construction (AFUDC) coincident with the in-service date of the plant. Other factors affecting 1990 earnings per share were the effects of the slumping economy coupled with milder weather on kwh sales and an increase of more than two million in the average number of common shares outstanding.

Consolidated Net Income in 1989 increased $3.4 million or 9.1% from 1988 and earnings per average share in 1989 increased 3.5% from $2.85 in 1988. The 1989 increase principally reflects additional earnings from non-cash AFUDC applicable to EUA Power's ownership in Seabrook. In addition, increased sales of electricity and new rates charged by our Massachusetts retail subsidiary since January 1989 had a positive impact on 1989 earnings.

The charges taken by EUA against its investment in EUA Power were taken in light of very recent and significant changes in the long-term power supply market in New England. The forecast for demand of electricity in New England during the 1990's has been dramatically reduced from previous estimates because of the economic conditions in New England and the impact of conservation and load management on New England utilities. In addition, a number of competitive long-term power supplies have been made available to the market. These factors, coupled with the uncertainty surrounding the outcome of EUA Power's Chapter 11 proceeding and recent declines in kwh sales, necessitated the charge to earnings at this time. This action resulted in the deconsolidation of EUA Power for financial reporting purposes effective December 31, 1990. Consequently, EUA's future financial results should not be impacted by EUA Power. At such time as EUA Power emerges from bankruptcy, it would be reconsolidated if and only if it then meets the criteria for consolidation.

The additional charges to 1990 earnings also result in a Consolidated Retained Earnings deficit of approximately $78 million. As a result of the retained earnings deficit, EUA has filed a request with the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (Holding Company Act) for authorization to pay common share dividends through February 15, 1992. EUA has requested expedited consideration of its request so that EUA could consider paying a dividend on May 15, 1991, the next normal payment date. Although management cannot predict the timing or outcome of our request, we believe that the SEC should grant the request because of the strong cash flow being generated by the balance of the EUA System. A new dividend level cannot be established until the SEC has issued its order, but it is clear that it will be necessary to reduce the current level of EUA's common share dividend.

### EUA Power

On February 28, 1991, EUA Power filed a voluntary petition in the United States Bankruptcy Court for the District of New Hampshire for reorganization under Chapter 11 of the Federal Bankruptcy Code (the Bankruptcy Code). EUA Power is now operating its business as a debtor-in-possession under protection of the Bankruptcy Court and will endeavor to develop a plan of reorganization which would enable it to emerge from bankruptcy on a financially viable basis.

EUA Power filed for protection under the Bankruptcy Code because the cash generated by the short-term sale of power out of its 12.1% entitlement from the Seabrook project will be insufficient to pay interest on its outstanding Series B and Series C Secured Notes (the Notes) when the interest comes due on May 15, 1991, and the prospects for signing long-term power sales contracts prior to that date are minimal. In addition, management of EUA has decided not to provide additional funds to EUA Power to enable it to make the interest payment.

Since Unit 1's commercial in-service date, EUA Power has been selling electricity at rates substantially lower than its actual operation, maintenance and capital related costs. These short-term sales, coupled with the cessation of the accrual of AFUDC resulting from the commencement of commercial operation of Unit 1, have had a substantial negative impact on the EUA System's net earnings for 1990. For the period August 19, 1990, through December 31, 1990, actual operating costs, including interest and depreciation expenses, exceeded revenues from short-term power sales by $25.3 million on a pre-tax basis. At current market prices, EUA Power will still be selling power below its cost. However, as a result of the deconsolidation of EUA Power, future losses should no longer impact EUA's financial results.

While operating in Chapter 11, EUA Power intends, with the approval of the Bankruptcy Court, to continue making payments of its ongoing obligations under the Seabrook Joint Ownership Agreement (the JOA) to the extent its cash flow permits. EUA Power will attempt to arrange a debtor-in-possession financing facility to enable it to fund working capital requirements and operating expenses including its obligations under the JOA. However, at this time, EUA Power has been unsuccessful in arranging such a financing facility. Any financing facility would also require the approval of the Bankruptcy Court and the SEC under the Holding Company Act.

### Deferral of AFUDC

Commencing on January 1, 1988, EUA Power began deferring the equity portion of AFUDC associated with its investment in Seabrook, as required by Financial Accounting Standards Board Statement No. 90 (FAS 90). This deferral continued in 1990 until the in-service date of Seabrook Unit 1 at which time EUA Power transferred its investment in Seabrook from construction work in progress to plant in service. While the deferral resulted in a reduction in earnings of approximately $18.7 million in 1990, $24.9 million for 1989 and $19.4 million for 1988, it had no impact on our cash earnings. The reversal of any deferred AFUDC for EUA Power will be linked to the ability of EUA Power to enter into long-term power contracts at prices sufficient to recover its total investment.

### Rate Case Activity

New wholesale rates authorized for Montaup by the Federal Energy Regulatory Commission (FERC) permitted us to begin earning a cash return on the balance of Montaup's Seabrook investment when Seabrook entered commercial service in August. The rates were initiated August 19, 1990, subject to refund, pending final adjudication of Montaup's rate application. FERC has approved a settlement agreement covering all aspects of the $20 million rate increase, except questions of the prudency of Montaup's Seabrook investment. Hearings on the prudency portion of the rate case are expected to commence in June 1991.

The economic decline in our service territories which has resulted in a significant decrease in demand, has led us to seek additional rate relief from FERC by filing new wholesale rates for Montaup in March 1991.

New retail rates took effect at Blackstone Valley Electric in mid-1990. This marked the first time we were able to negotiate a settlement in a Rhode Island rate case without the need to await full adjudication, enabling us to implement new rates three months earlier than would otherwise have been possible.

### Operating Revenues

The table below sets forth estimates of the factors which caused Operating Revenues to change during the last two years:

| ($ in millions) | *Increase (Decrease) From Prior Years* 1990 | 1989 |
|---|---|---|
| Operating Revenue change attributable to: | | |
| Newport Acquisition | $ 40.4 | $ |
| EUA Power Sales | 10.5 | |
| Recovery of Fuel Costs | (1.2) | (1.5) |
| Effect of Rate Changes | 9.6 | 6.4 |
| Purchased Power Cost Adjustment Clause (PPCA) | 10.1 | 14.8 |
| kwh Sales | (30.1) | 5.7 |
| Unit Contracts | (6.3) | 4.5 |
| Non-Electric | 10.3 | 4.5 |
| Total | $ 43.3 | $34.4 |

The Newport acquisition reflects the inclusion of Newport's operating results as of April 1, 1990. Operating revenue from EUA Power reflects short-term power sales of its share of Seabrook's power output since commercial operation began on August 19, 1990. As previously noted, revenues of EUA Power are not sufficient to recover its costs.

The revenues attributable to fuel costs are the result of the recovery of such costs through the operation of fuel adjustment clauses. The change in such revenues reflect corresponding underlying changes in fuel costs.

The 1990 effect of rate changes reflects base rate increases for Blackstone and Montaup effective in June 1990 and August 1990, respectively. The effect of rate changes for 1989 is associated with an Eastern Edison rate increase, which became effective in January 1989.

The revenue attributable to PPCA in the table above reflects Blackstone's and Eastern Edison's recovery of Montaup's purchased power capacity costs through the operation of their PPCA clauses.

In 1990, kwh sales of electricity in our Massachusetts and Rhode Island service territories declined 2.2% and total kilowatt-hour sales in 1990 decreased by 6.4% from those of 1989 excluding EUA Power's short-term sales since Seabrook's in-service date and Newport's total retail sales since April 1, 1990. This decrease is due to the region's slumping economy and unusually moderate weather. The winter months were unusually warm, with heating degree days below both normal and the 1989 level by about 15%. However, even with a weather correction factored into the calculation, sales declined 0.7% in 1990. Kwh sales increased in 1989 primarily as a result of continued growth within our service territories. This growth is demonstrated by the 5.1% and 28.2% increases in kwh sales to our commercial customers and our unit contract sales, respectively. In the years prior to 1990, demand for electricity by customers of our retail subsidiaries typically hit record levels during hot summer months, only to see higher peak demand the following winter. Mild weather conditions last year joined with the slumping economy to flatten those peaks; no record was set.

The table below sets forth the percent changes in kwh sales by class of customers excluding those of Newport and EUA Power for the last two years:

| | *Increase (Decrease) From Prior Years* 1990 | 1989 |
|---|---|---|
| Residential | (1.3)% | 0.3% |
| Commercial | (0.2) | 5.1 |
| Industrial | (6.1) | (4.3) |
| Other | (3.5) | 4.2 |
| Total System Requirements | (2.2) | 1.5 |
| Unit Contracts | (32.0) | 28.2 |
| Total Energy Sales | (6.4)% | 1.6% |

### Expenses

The EUA System's most significant expense items continue to be fuel and purchased power costs, which combined comprised about 48.7% and 53.9% of total operating expenses for 1990 and 1989, respectively. Fuel expense for 1990 decreased $4.8 million or 4.8% from 1989, despite the inclusion of $3.7 million of fuel expense associated with EUA Power's share of Seabrook and $0.3 million of fuel expense incurred by Newport since April 1, 1990. The overall decline in fuel expense is primarily the result of the increased use of less expensive nuclear fuel and lower kwh sales. Fuel expense for 1989 increased $3.3 million or 3.4% over 1988, primarily as a result of higher oil prices experienced during 1989. In 1990 purchased power-demand costs increased $9.1 million or 10.3% over 1989. Of this increase, $10.8 million is the result of Newport's purchased power-demand costs supplied by sources other than Montaup since April 1, 1990. This increase was offset by a decrease in 1990 purchased power costs of Blackstone and Eastern Edison as a result of expenses recorded in 1989 associated with a purchased power capacity adjustment clause surcharge partially offset by an increase in Montaup's 1990 purchased power expenses due to the longer shutdown of Montaup's Somerset Units for scheduled maintenance in 1990 as compared to 1989 along with additional purchased power contracts in effect in 1990. Purchased power-demand costs increased $20.3 million in 1989 over

1988, primarily because of additional purchases required as a result of higher system net requirements due to the increased kwh sales mentioned above, additional purchases required under new purchased power contracts in effect in 1989 that were not in effect in 1988, and two generating units being out of service for scheduled annual maintenance for two months in 1989.

Other operating and maintenance expenses increased by $34.9 million in 1990. This increase is primarily due to the inclusion of Newport's other operating and maintenance expenses of $6.7 million since its acquisition and additional expenses incurred by EUA Power and Montaup resulting from the commercial operation of Seabrook Unit 1 of $8.2 million and $1.6 million, respectively. Also contributing to the 1990 increase were (i) additional amortization of previously deferred costs by Blackstone and Montaup, which are being recovered through rates, (ii) conservation and load management costs of Montaup whose recovery commenced in 1990 with the implementation of its rate increase, and (iii) increased maintenance expense in connection with Montaup's Somerset generating units shutdown as indicated above. The 1989 increase in other operating and maintenance expenses reflects increased amortization of prior deferred amounts by our Eastern Edison subsidiary, recovery of which commenced with the implementation of Eastern Edison's 1989 rate increase. Also affecting both years' increases were increased operating costs resulting from EUA Cogenex's growing business activity along with the effects of inflation on labor, materials and other costs.

AFUDC represents a non-cash element of income. The significant decrease in AFUDC of $29.8 million was predominantly due to the cessation of the recording of AFUDC related to our Seabrook Unit 1 investments which were transferred to plant in service by EUA Power and Montaup upon the plant entering commercial operation on August 19, 1990. Also affecting the decrease was a lower AFUDC debt rate utilized by EUA Power in 1990. AFUDC increased $24.8 million in 1989 compared to 1988 primarily as a result of an increase in the AFUDC debt rate for EUA Power (the portion of AFUDC that was not deferred under FAS 90), the base to which the AFUDC rate was applied, and to a lesser extent, the reversal of a portion of Montaup's deferred FAS 90 AFUDC.

Depreciation and amortization expense increased by $11.6 million or 44.9% in 1990 over 1989. This increase resulted from the inclusion of our EUA Power and Montaup Seabrook investments in plant in service, the addition of Newport's fixed assets and an increase in depreciable plant of EUA Cogenex.

Interest on long-term debt decreased $2.6 million in 1990 from 1989 primarily as the result of EUA Power's payment of interest on its 17½% Series B and Series C Secured Notes in cash during 1990 in lieu of the issuance of 17½% Series C Secured Notes (see Note B—EUA Power Corporation for further details). The decrease was partially offset by increases in Blackstone's long-term debt interest due to a full year's effect of its $15 million 9.5% Series B First Mortgage Bonds issued in September 1989 and to an increase in Cogenex's long-term interest due to its $35 million 10.56% Unsecured Note issuance in June 1990 along with the impact of Newport's debt obligations. Long-term debt interest increased $7.8 million in 1989 over 1988 primarily as a result of EUA Power's payment of interest on its 17½% Series B Secured Notes with the issuance of 17½% Series C Secured Notes instead of cash.

Other Interest Expense decreased $4.0 millon in 1990 from 1989 and increased $5.7 million in 1989 over 1988. These changes are due to the interest accrued in 1989 with respect to the potential tax disallowance of the Seabrook Unit 2 abandonment loss (see Note K—Commitments and Contingencies for further details) along with higher rates and levels of short-term debt in 1989.

Inflation continues to have an impact on the operation of our System. At the Federal level, wholesale rate-making practices permit a forward looking test period which enables us to anticipate inflationary increases. The traditional use of an historical test period for retail rate-making purposes at the state level does not provide us this opportunity.

### Financial Condition

The EUA System's need for permanent capital is primarily related to the construction of facilities required to meet the needs of its existing customers and to meet the future requirements of these customers as well as new customers. For 1990, 1989 and 1988, the EUA System's cash construction expenditures were $59.9 million, $75.9 million and $63.3 million, respectively. Of these amounts $9.3 million, $26.9 million, and $29.5 million, respectively, relate to cash construction expenditures on Seabrook.

The System expects cash construction expenditures (excluding EUA Power) to be about $55.4 million in 1991, which includes $23.1 million of estimated construction expenditures by EUA Cogenex. Cash construction expenditures for 1992, 1993 and 1994 are estimated to be approximately $51.0, $40.6 and $41.4 million, respectively. Approximately 42% of the projected construction expenditures relate to EUA Cogenex.

In the utility industry, cash construction requirements not met with internally generated funds are customarily obtained through short-term borrowings which are ultimately funded with permanent capital. EUA System companies maintain short-term lines of credit with various banks aggregating approximately $125,000,000. At December 31, 1990, unused short-term lines of credit amounted to approximately $66,729,000. In 1990 internally generated funds available after the payment of dividends amounted to a deficit of $13.9 million. Excluding EUA Power's 1990 cash interest payments on the Notes, internally generated funds available after the payment of dividends amounted to $35.0 million or 58.4% of the System's cash construction requirement. In 1989, internally generated funds amounted to $32.7 million, or 43.2% of the cash construction requirements.

EUA expects that EUA Power's Chapter 11 filing will not have an adverse impact on the financial condition or liquidity of the balance of the System. Internally generated funds of the EUA System companies (excluding EUA Power) are expected to supply, in excess of 100% of 1991 estimated cash construction requirements. Continued growth at EUA Cogenex, and EUA Ocean State's obligation to fund its equity commitment relating to OSP Unit 2 upon its completion, will require some external financing. However, those companies have sought, and received, regulatory approval to increase their financing authority to fund such commitments.

In 1990, the System completed four permanent financings. In June, EUA Cogenex issued $35 million of 10.56% unsecured notes, the proceeds of which were used to repay short-term debt. In November, our Blackstone Valley Electric subsidiary issued $18 million of 10.35% Series C First Mortgage Bonds due 2010. Funds from these bonds were used to redeem Blackstone's 14.25% Series A First Mortgage Bonds. In December, our Eastern Edison subsidiary issued $50 million of Medium Term Notes due in 1992 and 1995 at interest rates ranging from 8.5% to 9.25%. These funds were used to repay all short-term debt of Eastern Edison and its wholly-owned subsidiary, Montaup Electric Company. In our final financing of 1990, EUA Power borrowed $21 million in connection with the issuance of variable rate, tax-exempt Solid Waste Disposal Facility Revenue Bonds by the Industrial Development Authority of the State of New Hampshire. The proceeds of these Bonds, which are due in 2020, were used to reimburse EUA Power for expenditures previously incurred in connection with qualified solid waste disposal facilities. EUA has guaranteed EUA Power's obligations under a Letter of Credit and Reimbursement Agreement (the LOC) supporting these Bonds. The reserve against EUA's investment in EUA Power includes amounts payable by EUA pursuant to its guarantee. As a result of the Chapter 11 filing EUA Power is in default under the terms of the LOC and the indenture on the Secured Notes.

EUA received proceeds of $15.5 million from the issuance of 550,471 EUA common shares primarily to our Dividend Reinvestment Plan. These proceeds were used to repay short-term debt and to make investments in or loans to subsidiary companies and for other corporate purposes. Finally, EUA issued 540,000 common shares in exchange for all the outstanding common stock of Newport. The total recorded investment of this transaction, including fees of $1.6 million, amounted to $19.5 million.

In addition to construction expenditures, projected requirements for scheduled sinking fund payments and redemptions of securities (excluding EUA Power) in 1991, 1992, 1993 and 1994 are: $2.3 million, $18.7 million, $38.8 million and $4.9 million, respectively, which include the maturity of $15 million and $35 million of Eastern Edison debt in 1992 and 1993, respectively.

## Acquisitions

On March 27, 1990 EUA completed the acquisition of Newport Electric. Our successful purchase demonstrated how efficiently such an acquisition can take place when all parties agree that it will benefit the shareholders, customers, employees and communities served by both companies. About six and one-half months passed between signing of a purchase and sales agreement and the final closing, including all required shareholder and regulatory approvals. In the months since, we have concentrated on successfully integrating Newport Electric's operations into the EUA System and providing Newport's 31,000 customers with the reliable electric service, as well as the other community-oriented services, to which customers of our other retail utilities are accustomed.

Newport Electric's service territory is unusual in several ways. Its four communities are all on islands in Narragansett Bay, its single largest customer is the U. S. Navy; other customers include the famed Newport mansions and the historic Newport Casino, site of the Tennis Hall of Fame.

In April 1989, EUA commenced separate cash tender offers to the shareholders of FG&E and UNITIL. On March 29, 1991 the New Hampshire Public Utilities Commission issued an order denying our petition to acquire UNITIL and EUA announced it would not extend its tender offers for these companies.

**EUA Cogenex**

The performance of EUA Cogenex, our energy management subsidiary, continues to demonstrate that our decision to diversify into an energy-related business where we have expertise was correct. In 1990, EUA Cogenex became the leading energy management company for cities and towns in Massachusetts, with contracts to help 20 individual municipalities reduce their annual electrical requirements by some 25 million kilowatt-hours.

The list of commercial, educational, and health care facilities with energy use managed by EUA Cogenex continues to read like a social register of major firms. Clients added during 1990 include: The First Church of Christ, Scientist; Panasonic; AT&T; Polaroid; Rowes Wharf on Boston's waterfront; the Vintage Club in Palm Springs, California; Trammel Crow Real Estate in Dallas.

EUA Cogenex added $1.1 million to the EUA System's 1990 earnings. This was more than double its 1989 results, and the outlook continues for even greater contributions in the coming years.

**Ocean State Power**

Unit I of the natural gas-fired Ocean State Power project in northern Rhode Island entered commercial service at the end of the year. The Ocean State Power project is a unique partnership among two electric utilities, a Canadian gas transmission pipeline company and the project developer. Through our EUA Ocean State Corporation subsidiary we have a 29.9% equity interest in the 255-megawatt Ocean State Power Unit I and the same share in its matching Unit II, under construction for a scheduled late 1991 in-service date. Montaup and Newport both hold long-term power-purchase contracts with Ocean State Power.

Ocean State Power Unit I is the first new base load generating station to be built in Rhode Island in a half-century and is the first major power plant in the Northeast with a 20-year contract for a natural gas fuel supply from Canada. Besides further diversifying our sources of energy, our investment in EUA Ocean State should provide our shareholders with a premium return.

**Fuel Diversity**

EUA has taken steps since the 1970s to reduce its dependence on oil used to generate electricity. We will continue in that direction in the 1990s. Nuclear energy—as represented by Seabrook—and gas—as in Ocean State Power—are two important non-oil sources of generation. We increased our hydroelectric capability last year, as well.

The commercial startup of the Seabrook nuclear generating station in August marked the successful culmination of a 17-year effort to get the 1,150-megawatt generating unit built, licensed and operating—an effort in which EUA played a crucial role.

Seabrook annually displaces the need to burn 11.5 million barrels of oil at New England generating stations while providing enough safe, reliable energy for one million New England homes. The 289,000 customers of Blackstone Valley Electric, Newport Electric and Eastern Edison are entitled to 2.9% of Seabrook's output through Montaup's ownership interest in Seabrook.

Phase II of the New England Power Pool's energy agreement with Hydro Quebec entered partial service during the year. Full service is anticipated in mid-1991. EUA benefits from Montaup's and Newport's aggregate 4% share in the Hydro Quebec Phase II agreement.

Coal, a fourth fuel, enabled us to provide more than 60% of our electricity from non-oil sources. Our conversion of Montaup's Somerset Station from oil to coal was a significant step when we took it in the mid 1980s. It proved equally important in 1990. When conditions in the Middle East caused the price of oil to double between July and October, we were able to hold fuel cost increases paid by our retail electric customers to less than 4%. As 1990 ended, 38% of our generation was fueled by oil, less than half the 83% it supplied in 1980. Nuclear energy, which provided 17% of our electricity in 1980, matched oil's 38% in 1990; we now burn coal to fuel 22% of our generation and natural gas for 2%.

By 1995, we project oil will supply about 11% of our generating needs; coal, 21%; nuclear, 31%; gas, 28%. The balance will come from a combination of hydropower, and such non-traditional sources as cogeneration and independent power producers.

**Conservation and Load Management**

Conservation and load management programs offered to our customers produced 17,000 kilowatts of reduced System demand. Reducing peak demand postpones our need to invest in future costly new generating facilities and saves our customers money.

About 7,200 commercial, industrial and residential customers participated in one or more of our conservation and load management programs in 1990. Taking advantage of these programs enabled our customers to reduce their need for electricity by approximately 38 million kilowatt-hours per year. We are offering an even more extensive series of conservation and load management programs in 1991, administered under FERC regulation by Montaup for our retail subsidiaries.

FERC is permitting Montaup to recover its expenditures on conservation and load management programs through its wholesale rates. In addition, recovery of a portion of the costs of our conservation programs will be offset by three annual payments which Montaup began receiving from Boston Edison Company in 1990. The payments are part of a settlement agreement reached in a case based on an extended outage of Boston Edison's Pilgrim Nuclear Power Plant, where Montaup has a power-purchase entitlement.

**Environmental**

The Federal Environmental Protection Agency (EPA) and certain state and local authorities, have jurisdiction over releases of pollutants into the environment and have broad authority in connection therewith, including the ability to require installation of pollution control devices and remedial actions. The EPA has established clean air standards for certain pollutants, including standards limiting emissions from coal-fired and oil-fired generators. In response to concerns about acid rain, Congress recently passed amendments to the Clean Air Act which establish a two-phased utility power plant pollution control program to reduce emissions of sulfur dioxide and oxides of nitrogen. We already burn coal with low sulfur content at Montaup's Somerset Station and preliminary tests of even lower-sulfur coal indicate we can economically meet our 1995 environmental obligations under the new Clean Air Act and Commonwealth of Massachusetts regulations with the new coal. As a result of these amendments, EUA anticipates that Montaup will be able to utilize lower sulfur fuel and only nominal capital investments are anticipated. EUA does not anticipate any material impact from the amendments.

Blackstone, Eastern Edison, Montaup, Newport and EUA Service are also parties to certain environmental proceedings. Management is unable to predict the outcome of any of these environmental matters or to estimate the ultimate potential costs which may result. It is the policy of these companies in such cases to provide notice to liability insurers and to make claims. However it is not possible at this time to predict whether liability, if any, will be assumed by, or can be enforced against, the insurance carrier with respect to these matters.

As of December 31, 1990, the EUA System has incurred costs of approximately $1.5 million in connection with the foregoing environmental matters and estimates that additional expenditures may be incurred through 1992 up to $1.9 million.

Of these amounts, approximately $1.4 million of incurred costs to date and $1.4 million of the estimated future costs relate to Blackstone. Blackstone is currently amortizing certain of the incurred costs over a five-year period and is currently recovering certain incurred costs in its rates. Also, Montaup is currently recovering certain of the incurred costs in its M-12 rate. Estimated amounts after 1992 are not now determinable since site studies which are the basis of these estimates have not been completed. As a result of the recoverability in current rates, EUA believes that the ultimate impact of environmental costs are not material to the EUA System or to any individual subsidiary and has not recorded a liability for those amounts.

### New Accounting Standards

Adoption of FAS 96 provided a positive non-cash impact on 1990 earnings of approximately $0.5 million, or 3 cents per average common share. FAS 96 requires the use of the liability method of accounting for deferred income taxes for all temporary differences caused when the tax basis of an asset or liability differs from that reported in the financial statements.

Under the liability method, deferred taxes are recorded using the tax rates that are expected to be in effect when the temporary differences reverse. (For further discussion of FAS 96 see "Note D—Income and Deferred Taxes.")

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106 (FAS 106), "Accounting for Post-Retirement Benefits Other Than Pensions." FAS 106 establishes accounting and reporting standards for post-retirement benefits including health care and life insurance and it will require the accrual of the expected cost of such benefits during the employee's years of service and the recognition of the actuarially determined total post-retirement benefit obligation earned by existing retirees. EUA must adopt this Statement no later than 1993; such adoption of FAS 106 is not expected to have a material effect on EUA's results of operations as a result of expected rate-making treatment.

### Other

The EUA System is committed under long-term purchased power contracts, expiring on various dates through the year 2020, to pay demand charges whether or not energy is received. Under terms in effect at December 31, 1990, the aggregate annual minimum commitments for such contracts is approximately $155 million in 1991, $155 million in 1992 and $139 million in 1993, and will aggregate $2.6 billion for years after 1993. In addition, the EUA System is required to pay additional amounts depending on the actual amount of energy received under such contracts. The demand costs associated with these contracts are reflected as purchased power-demand in the Consolidated Income Statement.

Montaup is recovering through rates its share of estimated decommissioning costs for Millstone Unit 3 and Seabrook Unit 1. Montaup's share of the currently allowed estimated total costs to decommission the Millstone and Seabrook units is $7.4 million in 1986 dollars and $7.0 million in 1987 dollars, respectively, which is based on studies performed by Northeast Utilities and the New Hampshire Yankee Division of Public Service Company of New Hampshire. In addition, pursuant to contractual arrangements with other nuclear generating facilities in which Montaup has an equity ownership interest or life of the unit entitlement, Montaup pays into decommissioning reserves. Such expenses are currently recovered through rates.

Under the Nuclear Waste Policy Act of 1982, the Department of Energy (DOE) is obligated to design, license, build and operate a permanent repository for high level radioactive wastes and spent nuclear fuel. The Act specifies that DOE provide for the disposal of the waste and spent fuel starting in 1998. Seabrook anticipates that the DOE will be in a position to accept fuel for storage or disposal on or before 2010.

At Seabrook there is on-site storage capacity for twenty years or to the year 2010. No short-term capital expenditures are anticipated in the near-term to deal with any increase in storage requirements after 2010. Millstone Unit 3 has sufficient on-site storage facilities to accommodate high level wastes and spent fuel for the projected life of the unit. No additional expenditures are projected for the foreseeable future.

EUA, as parent company of EUA Power, EUA Cogenex and EUA Ocean State, has guaranteed certain obligations of those subsidiaries. At December 31, 1990, the aggregate amount of such guarantees was approximately $110.2 million. The 1990 additional charges to earnings against EUA's investment in EUA Power includes a reserve for EUA's guarantees of EUA Power's obligations.

Montaup, as one of the stockholders of each of three regional nuclear generating companies, has guaranteed its pro rata share of debt obligations of those companies totalling approximately $5 million. In addition Montaup, as a 3.27% equity participant in two companies constructing certain transmission facilities, has guaranteed approximately $6.7 million of the outstanding debt of these two companies which amounted to $205 million at December 31, 1990. In addition Montaup and Newport have minimum rental commitments under a noncancellable transmission facilities support agreement for years subsequent to 1990 which total approximately $36.0 million and $2.0 million, respectively.

**Organizational Changes**

Donald G. Pardus was elected Chairman of the Board of Trustees effective July 1, 1990, upon the retirement from that post of John F. G. Eichorn, Jr. Mr. Eichorn led the Association for two decades as President, Chief Executive Officer and Chairman. He was an innovative leader who took an active role to ensure the success of the Seabrook project and build a management team that transformed EUA into a dynamic and diverse company.

Mr. Eichorn remains a Trustee. Mr. Pardus retains his position as Chief Executive Officer.

John R. Stevens, who had been Senior Executive Vice President, was elected President, succeeding Mr. Pardus in that post. He continues as Chief Operating Officer.

Peter S. Damon and W. Nicholas Thorndike were elected Trustees, effective January 1, 1991, succeeding Oliver F. Ames and Nathan H. Garrick, Jr., who both reached the age of mandatory retirement from the Board of Trustees. Mr. Damon is President and Chief Executive Officer of the Bank of Newport. Earlier in the year he was elected to the Board of Directors of Newport Electric Corporation. Mr. Thorndike is a corporate director and trustee.

Mr. Garrick was a Trustee since 1963; Mr. Ames joined the Board ten years later. Eastern Utilities Associates has been fortunate to benefit from their wise counsel over the years. We are equally fortunate to be able to replace them with such capable individuals as Messrs. Damon and Thorndike.

Robert G. Powderly, a Vice President of EUA Service Corporation, was elected President of Newport Electric, effective with our acquisition of that company.

**Report of Management**

The management of Eastern Utilities Associates is responsible for the consolidated financial statements and related information included in this annual report. The financial statements are prepared in accordance with generally accepted accounting principles applicable to rate-regulated utilities and include amounts based on the best estimates and judgements of management giving appropriate consideration to materiality. Financial information included elsewhere in the annual report is consistent with the financial statements.

The EUA System maintains an accounting system and related system of internal controls which are designed to provide reasonable assurance as to the reliability of financial records and the protection of assets. The System's staff of internal auditors conducts reviews to maintain the effectiveness of internal control procedures.

Coopers & Lybrand, the System's independent certified public accountants, is engaged to examine and express their opinion on our financial statements. Their examination includes a review of internal controls to the extent required by generally accepted auditing standards.

The Audit Committee of the Board of Trustees, which consists solely of outside Trustees, meets with management, internal auditors and Coopers & Lybrand to discuss auditing, internal controls and financial reporting matters. The internal auditors and Coopers & Lybrand have free access to the Audit Committee without management present.

## CONSOLIDATED STATEMENT OF INCOME

| *Years Ended December 31* *(In Thousands Except Common Shares and Per Share Amounts)* | 1990 | 1989 | 1988 |
|---|---|---|---|
| Operating Revenues | $451,867 | $408,577 | $374,138 |
| Operating Expenses: | | | |
| Fuel | 95,647 | 100,462 | 97,202 |
| Purchased Power-Demand | 97,510 | 88,430 | 68,134 |
| Other Operation | 111,635 | 80,951 | 69,156 |
| Maintenance | 22,540 | 18,332 | 17,285 |
| Depreciation and Amortization | 37,544 | 25,906 | 22,951 |
| Taxes—Other Than Income | 20,261 | 16,498 | 15,402 |
| Income and Deferred Taxes | 11,345 | 19,610 | 18,796 |
| Total Operating Expenses | 396,482 | 350,189 | 308,926 |
| Operating Income | 55,385 | 58,388 | 65,212 |
| Equity in Earnings of Jointly Owned Companies | 2,371 | 1,670 | 1,372 |
| Allowance for Other Funds Used During Construction | 4,623 | 4,785 | 1,591 |
| Additional Charges to 1990 Earnings (Note A) | (133,716) | | |
| Other (Deductions) Income—Net (Note A) | (11,021) | 2,119 | 961 |
| (Loss) Income Before Interest Charges | (82,358) | 66,962 | 69,136 |
| Interest Charges: | | | |
| Interest on Long-Term Debt | 85,297 | 87,906 | 80,140 |
| Amortization of Debt Expense and Premium | 2,725 | 3,605 | 2,230 |
| Other Interest Expense | 7,073 | 11,034 | 5,384 |
| Allowance for Borrowed Funds Used During Construction (Credit) | (50,942) | (80,592) | (59,025) |
| Net Interest Charges | 44,153 | 21,953 | 28,729 |
| (Loss) Income Before Cumulative Effect of Accounting Change | (126,511) | 45,009 | 40,407 |
| Cumulative Effect of Accounting Change for Income Taxes (Note D) | 523 | | |
| (Loss) Income After Cumulative Effect of Accounting Change | (125,988) | 45,009 | 40,407 |
| Preferred Dividends of Subsidiaries | 4,194 | 4,132 | 2,932 |
| Consolidated Net (Loss) Income | $(130,182) | $ 40,877 | $ 37,475 |
| Average Common Shares Outstanding | 15,917,255 | 13,877,091 | 13,167,915 |
| Consolidated (Loss) Earnings Per Average Common Share: | | | |
| Before Cumulative Effect of Accounting Change | $(8.21) | $2.95 | $2.85 |
| Cumulative Effect of Accounting Change for Income Taxes (Note D) | .03 | | |
| Consolidated (Loss) Earnings Per Share | $(8.18) | $2.95 | $2.85 |
| Dividends Paid Per Share | $2.575 | $2.475 | $2.375 |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

| *Years Ended December 31, (In Thousands)* | 1990 | 1989 | 1988 |
|---|---|---|---|
| **Cash Flow from Operating Activities:** | | | |
| (Loss) Income After Interest Charges | $(125,988)(1) | $ 45,009 | $ 40,407 |
| Adjustments to Reconcile Net (Loss) Income to Net Cash Provided from Operating Activities: | | | |
| Depreciation and Amortization | 49,025 | 32,972 | 25,549 |
| Amortization of Nuclear Fuel | 7,359 | 1,698 | 1,742 |
| Deferred Taxes | 24,068 | 25,328 | 25,056 |
| Cumulative Effect of Accounting Change for Income Taxes | (523) | | |
| Investment Tax Credit, Net | (1,184) | (8,348) | (11,375) |
| Oil Conservation Adjustment | 1,007 | 4,699 | 5,723 |
| Allowance for Funds Used During Construction | (55,565) | (85,377) | (60,616) |
| Non-Cash Interest Expense | | 54,850 | 46,824 |
| Additional Charges to 1990 Earnings (Note A) | 133,716 | | |
| Other—Net | (12,912) | 6,465 | (8,812) |
| Changes in Operating Assets and Liabilities: | | | |
| Accounts Receivable | (5,387) | (8,187) | (8,564) |
| Materials and Supplies | (893) | (1,501) | (292) |
| Accounts Payable | 4,513 | 2,654 | 1,388 |
| Taxes Accrued | 2,788 | 1,899 | (3,893) |
| Other—Net | 11,653 | 3,437 | (7,328) |
| Net Cash Provided From Operating Activities | 31,677 | 75,598 | 45,809 |
| **Cash Flow from Investing Activities:** | | | |
| Construction Expenditures | (59,929) | (75,861) | (65,307) |
| Increase in Other Investments | (34,411) | (17,160) | (630) |
| Net Cash Used In Investing Activities | (94,340) | (93,021) | (65,937) |
| **Cash Flow from Financing Activities:** | | | |
| Issuances: | | | |
| Common Shares | 15,513 | 66,857 | 10,067 |
| Preferred Stock | | | 20,000 |
| Long-Term Debt | 124,000 | 15,000 | 90,000 |
| Redemptions: | | | |
| Long-Term Debt | (21,046) | (19,875) | (80,875) |
| Preferred Stock | (50) | | (15,000) |
| Premium on Reacquisition and Financing Expenses | (957) | (1,628) | (4,222) |
| EUA Common Share Dividends Paid | (40,813) | (34,272) | (31,160) |
| Subsidiary Preferred Dividends Paid | (4,194) | (4,132) | (2,932) |
| Net (Decrease) Increase in Short-Term Debt | (405) | (3,750) | 24,391 |
| Net Cash Provided From Financing Activities | 72,048 | 18,200 | 10,269 |
| **Net Increase (Decrease) in Cash** | 9,385 | 777 | (9,859) |
| Cash and Temporary Cash Investments at Beginning of Year | 5,791 | 5,014 | 14,873 |
| Cash and Temporary Cash Investments at End of Year | $ 15,176 | $ 5,791 | $ 5,014 |
| Cash paid during the year for: | | | |
| Interest | $ 90,885 | $ 40,271 | $ 37,537 |
| Income Taxes (Refund) | $ (2,628) | $ 6,872 | $ 7,183 |

*(1) After cumulative effect of accounting change for income taxes and additional charges to 1990 earnings. See Note A – Summary of Additional Charges to 1990 Earnings for further information.*

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

# CONSOLIDATED BALANCE SHEET

| *December 31, (In Thousands)* | 1990 | 1989 |
|---|---|---|
| **Assets** | | |
| Utility Plant and Other Investments: | | |
| Utility Plant in Service | $ 985,138 | $ 687,833 |
| Less Accumulated Provision for Depreciation and Amortization | 241,128 | 203,990 |
| Net Utility Plant in Service | 744,010 | 483,843 |
| Construction Work in Progress | 6,809 | 674,850 |
| Net Utility Plant | 750,819 | 1,158,693 |
| Nonutility Property—Net | 38,102 | 25,883 |
| Investments in Jointly Owned Companies | 54,018 | 16,766 |
| Decommissioning Fund | | 10,000 |
| Notes Receivable | 15,531 | 11,466 |
| Other | 3,179 | 1,251 |
| Total Utility Plant and Other Investments | 861,649 | 1,224,059 |
| Current Assets: | | |
| Cash and Temporary Cash Investments | 15,176 | 5,791 |
| Accounts Receivable: | | |
| Customers, Net | 49,110 | 42,386 |
| Accrued Unbilled Revenues | 9,681 | 9,416 |
| Other | 11,738 | 12,849 |
| Materials and Supplies (at average cost): | | |
| Fuel | 9,535 | 7,917 |
| Plant Materials and Operating Supplies | 8,640 | 8,417 |
| Other Current Assets | 20,960 | 6,111 |
| Total Current Assets | 124,840 | 92,887 |
| Other Assets: | | |
| Unamortized Debt Expense | 12,474 | 18,375 |
| Extraordinary Property Losses | 4,509 | 6,175 |
| Deferred Debits and Other | 91,268 | 34,536 |
| Total Other Assets | 108,251 | 59,086 |
| Total Assets | $1,094,740 | $1,376,032 |
| **Liabilities and Capitalization** | | |
| Capitalization: | | |
| Common Equity | $ 237,393 | $ 375,016 |
| Non-Redeemable Preferred Stock of Subsidiaries—Net | 15,850 | 15,079 |
| Redeemable Preferred Stock of Subsidiaries—Net | 34,530 | 34,612 |
| Long-Term Debt—Net | 443,595 | 606,079 |
| Total Capitalization | 731,368 | 1,030,786 |
| Current Liabilities: | | |
| Notes Payable—Banks | 43,071 | 58,676 |
| Long-Term Debt Due Within One Year | 1,669 | 3,000 |
| Accounts Payable | 38,533 | 28,506 |
| Redeemable Preferred Stock Sinking Fund Requirement | 650 | |
| Taxes Accrued | 2,806 | 3,929 |
| Deferred Taxes | | 752 |
| Interest Accrued | 12,173 | 16,097 |
| EUA Power Obligations Assumed by EUA (Note A) | 37,522 | |
| Other Current Liabilities | 30,628 | 8,841 |
| Total Current Liabilities | 167,052 | 119,801 |
| Other Liabilities: | | |
| Unamortized Investment Credit | 25,915 | 28,109 |
| Deferred Credits and Other | 56,677 | 54,478 |
| Total Other Liabilities | 82,592 | 82,587 |
| Accumulated Deferred Taxes | 113,728 | 142,858 |
| Commitments and Contingencies (Notes B, D and K) | | |
| Total Liabilities and Capitalization | $1,094,740 | $1,376,032 |

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

## CONSOLIDATED STATEMENT OF RETAINED (DEFICIT) EARNINGS

| *Years Ended December 31, (In Thousands)* | 1990 | 1989 | 1988 |
|---|---|---|---|
| Consolidated Retained Earnings – Beginning of Year | $ 92,682 | $ 86,077 | $ 79,762 |
| Consolidated Net (Loss) Income | (130,182) | 40,877 | 37,475 |
| Total | (37,500) | 126,954 | 117,237 |
| Dividends Paid – EUA Common Shares | 40,813 | 34,272 | 31,160 |
| Consolidated Retained (Deficit) Earnings – End of Year | ($78,313) | $ 92,682 | $ 86,077 |

## CONSOLIDATED STATEMENT OF EQUITY CAPITAL AND PREFERRED STOCK

| *December 31, (Dollar Amounts in Thousands)* | 1990 | 1989 |
|---|---|---|
| **Eastern Utilities Associates:** | | |
| Common Shares: | | |
| $5 par value, 36,000,000 shares authorized, 16,352,708 shares outstanding in 1990 and 15,262,237 shares in 1989. | $ 81,763 | $ 76,311 |
| Other Paid-In Capital | 236,232 | 208,284 |
| Common Share Expense | (2,289) | (2,261) |
| Retained (Deficit) Earnings | (78,313) | 92,682 |
| Total Common Equity | 237,393 | 375,016 |
| **Preferred Stock of Subsidiaries:** | | |
| Non-Redeemable Preferred: | | |
| Blackstone Valley Electric Company: | | |
| 4.25%, $100 par value 35,000 shares (1) | 3,500 | 3,500 |
| 5.60%, $100 par value 25,000 shares (1) | 2,500 | 2,500 |
| Premium | 129 | 129 |
| Eastern Edison Company: | | |
| 4.64%, $100 par value 60,000 shares (1) | 6,000 | 6,000 |
| 8.32%, $100 par value 30,000 shares (1) | 3,000 | 3,000 |
| Expense, Net of Premium | (50) | (50) |
| Newport Electric Corporation: | | |
| 3.75%, $100 par value 7,689 shares (1) | 769 | |
| Premium | 2 | |
| Total Non-Redeemable Preferred Stock | 15,850 | 15,079 |
| Redeemable Preferred: | | |
| Eastern Edison Company: | | |
| 9.00%, $100 par value 150,000 shares (1) | 15,000 | 15,000 |
| 9.80%, $100 par value 200,000 shares (1) | 20,000 | 20,000 |
| Expense, Net of Premium | (388) | (388) |
| Sinking Fund Requirement Due Within One Year | (600) | |
| Newport Electric Corporation: | | |
| 9.75%, $100 par value 5,900 shares (1) | 590 | |
| Expense | (22) | |
| Sinking Fund Requirement Due Within One Year | (50) | |
| Total Redeemable Preferred Stock | 34,530 | 34,612 |
| Total Preferred Stock of Subsidiaries | $ 50,380 | $ 49,691 |

*(1) Authorized and Outstanding*

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

## CONSOLIDATED STATEMENT OF INDEBTEDNESS

| *December 31, (in Thousands)* | 1990 | 1989 |
|---|---|---|
| **Long-Term Debt:** | | |
| EUA Service Corporation: | | |
| 10.2% Secured Notes due 2008 | $ 20,000 | $ 20,000 |
| EUA Power Corporation: (Note B) | | |
| 17½% Series B Secured Notes due 1993 | | 180,000 |
| 17½% Series C Secured Notes due 1992 | | 99,597 |
| EUA Cogenex Corporation: | | |
| 10.56% Unsecured Notes due 2005 | 35,000 | |
| Blackstone Valley Electric Company: | | |
| First Mortgage Bonds: | | |
| 14¼% due 1995 (Series A) | | 18,000 |
| 9½% due 2004 (Series B) | 15,000 | 15,000 |
| 10.35% due 2010 (Series C) | 18,000 | |
| Variable Rate Demand Bonds due 2014 (1) | 6,500 | 6,500 |
| Eastern Edison Company: | | |
| First Mortgage and Collateral Trust Bonds: | | |
| 8½% Secured Medium Term Notes due 1992 | 15,000 | |
| 9¼% due 1993 | 30,000 | 30,000 |
| 4½% due 1993 | 5,000 | 5,000 |
| 8.9% Secured Medium Term Notes due 1995 | 10,000 | |
| 6½% due 1997 | 7,000 | 7,000 |
| 10⅛% due 1997 | 35,000 | 35,000 |
| 9⅞% due 1998 | 40,000 | 40,000 |
| 8⅜% due 1999 | 5,000 | 5,000 |
| 7⅛% due 2002 | 8,000 | 8,000 |
| 8⅝% due 2003 | 10,000 | 10,000 |
| 9⅜% due 2016 | 55,000 | 55,000 |
| 10% due 2017 | 35,000 | 35,000 |
| Pollution Control Revenue Bonds: | | |
| 10⅛% due 2008 | 40,000 | 40,000 |
| Unsecured Medium Term Notes: | | |
| 9–9¼% due 1995 (Series A) | 25,000 | |
| Newport Electric Corporation: | | |
| First Mortgage Bonds: | | |
| 5% due 1992 | 700 | |
| 4¾% due 1994 | 1,000 | |
| 11⅛% due 1997 | 3,000 | |
| 10% due 1998 | 900 | |
| 9% due 1999 | 1,400 | |
| 9.8% due 1999 | 8,000 | |
| 8.95% due 2001 | 6,500 | |
| Second Mortgage Bonds: | | |
| 8.5% due 1998 | 1,880 | |
| 12% due 2011 | 6,200 | |
| Small Business Administration Loan: | | |
| 6.5% due 2005 | 1,163 | |
| Promissory Notes: | | |
| 12% due 1993 | 35 | |
| Unamortized (Discount)—Net | (14) | (18) |
| | 445,264 | 609,079 |
| Less Portion Due Within One Year | 1,669 | 3,000 |
| Total Long Term Debt—Net | $443,595 | $606,079 |

*(1) Weighted average interest rate was 6.1% for 1990 and 6.2% for 1989.*

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
*December 31, 1990, 1989, and 1988*

**(A) Summary of Additional Charges to 1990 Earnings:** For 1990, EUA Power Corporation (EUA Power) provided an impairment reserve against the value of its investment in the Seabrook nuclear generating station (Seabrook). Such reserve effectively reduces the carrying value of the investment of Eastern Utilities Associates (EUA) in EUA Power to zero and in addition provides a reserve on the consolidated balance sheet of EUA for certain of EUA's guarantees and commitments to EUA Power as of February 28, 1991, the date EUA Power filed for protection under Chapter 11 of the Federal Bankruptcy Code. See Note B—EUA Power Corporation for further information. Earnings for 1990 reflect the following additional charges:

| | |
|---|---|
| Estimated loss on EUA's investment in EUA Power | $ 85,748,000 |
| Provision for EUA Power obligations | 37,522,000 |
| Estimated loss on EUA loans to EUA Power | 2,458,000 |
| Total Reserves | $125,728,000 |
| Additional Write-offs: | |
| Fitchburg/UNITIL Acquisition Costs | 6,486,000 |
| Other charge-offs | 1,502,000 |
| Total additional write-offs | 7,988,000 |
| Total pre-tax charge to earnings | 133,716,000 |
| Add: Provision for estimated Federal income tax liability resulting from estimated loss on EUA's investment in EUA Power | 17,160,000 |
| Less: Deferred tax benefits associated with additional write-offs | 3,165,000 |
| After-tax reduction in earnings | $147,711,000 |

On March 29, 1991 EUA announced that it would not extend its tender offers for Fitchburg Gas and Electric Light Company and UNITIL Corporation. Accordingly, EUA has written-off all capital costs related to these tender offers.

Other charge-offs relate to a provision for additional costs to be incurred in connection with EUA Power's Chapter 11 filing and a provision for estimated losses on certain project investments of EUA Energy Investment Corporation.

The Provision for estimated Federal income tax liability and the deferred tax benefits referred to above are included on the Income Statement under the caption Other Income (Deductions)—Net.

The additional charges to 1990 earnings resulted in a Consolidated Retained Earnings deficit of approximately $78 million. As a result, EUA has filed a request with the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (Holding Company Act) for permission to pay common share dividends through February 15, 1992, despite the retained earnings deficit. EUA has requested expedited consideration of its request so that EUA could consider paying a dividend on May 15, 1991, the next normal payment date. Although management cannot predict the timing or outcome of its request, it believes that the SEC should grant the request because of the strong cash flow being generated by the balance of the EUA System. A new dividend level cannot be established until the SEC has issued its order, but it is clear that it will be necessary to reduce the current level of EUA's common share dividend.

**(B) EUA Power Corporation:**
*Background:* EUA Power has a 12.1% ownership interest in the 1150 megawatt Seabrook project. On August 19, 1990, Seabrook Unit I (Unit I) began commercial operation. At December 31, 1990, EUA Power's net investment in Unit 1 (including nuclear fuel and after the impairment reserve) was approximately $341.7 million.

*Bankruptcy Filing:* On February 28, 1991, EUA Power filed a voluntary petition in the United States Bankruptcy Court for the District of New Hampshire for reorganization under Chapter 11 of the Federal Bankruptcy Code (the Bankruptcy Code). EUA Power is now operating its business as a debtor-in-possession under protection of the Bankruptcy Court and will endeavor to develop a plan of reorganization which would enable it to emerge from bankruptcy on a financially viable basis.

EUA Power was organized solely for the purpose of acquiring its interest in Seabrook and selling in the wholesale market its share of the electricity generated by the project.

EUA Power filed for protection under the Bankruptcy Code because the cash generated by the short-term sale of power out of its entitlement from the Seabrook project will be insufficient to pay interest on its outstanding secured notes when the interest comes due on May 15, 1991, and the prospects for signing long-term power sales contracts prior to that date are minimal. The long-term power supply market has taken a very recent and significant downturn. The forecast for demand of electricity in New England during the 1990's has been dramatically reduced from previous estimates because of the economic conditions in New England and the impact of conservation and load management on New England utilities. In addition, a number of competing sources of long-term power supplies have been made available to the market. Management of EUA has also decided not to provide additional funds to EUA Power to enable it to make the interest payment.

While operating in Chapter 11, EUA Power intends, with the approval of the Bankruptcy Court, to continue making payments of its ongoing obligations under the Seabrook Joint Ownership Agreement (the JOA) to the extent its cash flow permits. EUA Power will attempt to arrange a debtor-in-possession financing facility to enable it to fund working capital requirements and operating expenses including its obligations under the JOA. However, at this time, EUA Power has been unsuccessful in arranging such a financing facility. Any financing facility would also require the approval of the Bankruptcy Court and the SEC under Holding Company Act.

EUA Power intends to continue its marketing efforts which have consisted of direct negotiations with utilities and participation in generation bidding processes. EUA Power recognizes that the continued deterioration of economic conditions in the Northeast, the recent changes in the long-term power supply market and the new and untested bidding requirements for power contracts being implemented by various state utility commissions are affecting its ability to enter into long-term sales contracts.

Since Unit 1's commercial in-service date, EUA Power has been selling electricity at rates substantially lower than its actual operation, maintenance and capital related costs. These short-term sales, coupled with the cessation of the accrual of AFUDC resulting from the commencement of commercial operation of Unit 1, have had a substantial negative impact on the EUA System's net earnings for 1990. As a result of EUA Power's deconsolidation from EUA's financial statements (as discussed below), EUA Power should no longer impact EUA's operating results. At such time as EUA Power emerges from bankruptcy, it would be reconsolidated if and only if it then met the criteria for consolidation.

*Condensed Balance Sheet:* EUA has determined that, in light of EUA Power's Chapter 11 filing, it would be appropriate to deconsolidate EUA Power effective December 31, 1990. Summarized Balance Sheet of EUA Power at December 31, 1990, is as follows (The Balance Sheet amounts for 1989 and Income Statement amounts for 1990, 1989 and 1988 are included in the consolidated financial statements):

| *Financial Position at December 31 (Dollars in Thousands)* | 1990 |
|---|---|
| Assets: | |
| Utility Plant Net of Reserves | $341,735 |
| Current Assets | 7,271 |
| Deferred Debits and Non-Current Assets | 5,146 |
| Total Assets | $354,152 |
| Liabilities and Stockholders' Equity: | |
| Stockholders' Equity | $ — |
| Long-Term Debt | 300,597 |
| Current Liabilities | 28,170 |
| Deferred Credits | 2,726 |
| Accumulated Deferred Taxes | 22,659 |
| Total Liabilities and Stockholders' Equity | $354,152 |

*EUA Power Debt:* EUA Power currently has outstanding $180,000,000 (the full authorized amount) of 17[illegible]% Series B Secured Notes due May 15, 1993, and $99,597,200 (out of $100,000,000 authorized) of 17[illegible]% Series C Secured Notes due November 15, 1992 (collectively, the Notes). The Notes are collateralized by its 12.1% ownership interest in Seabrook

During 1990 all interest was paid in cash; during 1989 and 1988, all interest was paid by the issuance of Series C Notes in lieu of cash at a rate equal to 135% of the interest which would otherwise have been paid in cash. No other EUA System debt security has similar pay-in-kind interest provisions. EUA Power also has outstanding 180,000 Contingent Interest Certificates (CICs) evidencing the right to receive additional payments contingent upon and measured by EUA Power's income in certain years following the commercial operation of Unit 1. Such Notes and CICs are solely the obligation of EUA Power and are not guaranteed by EUA or any other person. Also, in connection with the original private placement of the Notes and a subsequent exchange offer, EUA Power incurred fees of $11,384,000. These costs have been deferred and are being amortized to expense over the life of the Series B Secured Notes.

On December 28, 1990, EUA Power entered into a loan and trust agreement with the Industrial Development Authority of the State of New Hampshire (NHIDA) pursuant to which the NHIDA issued $21 million of Solid Waste Disposal Facility Revenue Bonds due in 2020 (Bonds), and loaned the proceeds to EUA Power for reimbursement of expenditures previously incurred in connection with construction of certain qualified solid waste disposal facilities. In connection with the issuance of the Bonds, EUA Power entered into a Letter of Credit and Reimbursement Agreement (LOC) with Citibank, N.A. EUA Power's obligations under LOC are guaranteed by EUA (See Guarantees under Note K—Commitments and Contingencies for further information). EUA Power utilized the proceeds from the Bonds to repay short-term notes to EUA.

As a result of the bankruptcy filing, EUA Power is in default under the terms of the Notes and the terms of the Letter of Credit and Reimbursement Agreement supporting the Bonds.

The Series B Secured Notes, which mature May 15, 1993, are non-redeemable prior to November 15, 1991, and on or after that date are redeemable at 100.5% of principal amount during the six-month period ending May 14, 1992, at 100.25% of principal amount during the six-month period ending November 14, 1992, and at 100.125% of principal amount thereafter. The Series C Secured Notes, which mature November 15, 1992, are non-redeemable prior to maturity.

*EUA Power Financing:* EUA Power and EUA sought, and on April 30, 1990, received, authorization from the SEC under the Holding Company Act for several proposed financing transactions with an overall aggregate limit of $75 million that were intended to enable EUA Power to meet its obligations and working capital requirements for the period through May 15, 1991, including payment in cash of the interest to become due on the Notes during that period. Utilizing part of the SEC authorization, EUA Power made the May 15, 1990, and November 15, 1990, interest payments with proceeds from short-term borrowings from EUA, the issuance of $2.3 million of preferred stock to EUA, and the release of a $10 million decommissioning fund (which had been established by EUA Power to secure its Seabrook obligations with respect to up to $10 million of decommissioning expenses and any cancellation costs) in exchange for a guarantee of that obligation by EUA and the issuance of a letter of credit. Other financing transactions authorized by the SEC include capital contributions and open-account advances by EUA, the issuance of the NHIDA Bonds (discussed above) and short-term borrowings by EUA Power from others which would be guaranteed by EUA. At December 31, 1990, EUA Power had utilized $49.8 million of such authorization.

*Decommissioning Fund:* Under the agreements of purchase and sale with each of the five sellers from which EUA Power purchased its Seabrook interest, EUA Power was required to establish a fund of $10,000,000 to secure payment of part of its share of decommissioning costs of Seabrook Unit 1 and any costs of cancellation of Unit 1 or Seabrook Unit 2. Under an agreement entered into among EUA Power, a bank and the other joint owners of Seabrook, the bank was empowered to use securities of the fund should a default of EUA Power occur with respect to its obligations to pay such decommissioning and cancellation costs. The agreement also provides that upon payment in full of the decommissioning and cancellation obligations, or upon written agreement of EUA Power and the then joint owners who certify to the bank that they own at least 80% of the ownership shares in the Seabrook project to terminate the agreement, or at such time as the fund requirement is reduced to zero as a result of a written guarantee by EUA or a purchase or purchases (under life-of-the-unit contracts) of all of EUA Power's entitlement from Unit 1, the agreement shall terminate and the bank shall immediately release and return to EUA Power all collateral then in the possession or control of the bank. In May 1990, EUA guaranteed this obligation and obtained a letter of credit supporting the guarantee, and the entire fund was released to EUA Power. EUA has not provided a reserve for this guarantee because management believes that it is unlikely that such amounts will be paid.

*Accounting Change:* Effective January 1, 1988, EUA Power implemented Financial Accounting Standard No. 90 (FAS 90) "Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs." FAS 90, among other things, requires that AFUDC should be capitalized only if its subsequent inclusion in allowable costs for rate making purposes is probable. From the implementation of FAS 90 through December 31, 1990, approximately $62,933,000 of AFUDC related to EUA Power's investment in Unit 1 has been deferred. If and when EUA Power enters into long-term power sales contracts at prices sufficient to recover its investment, all or a portion of any AFUDC previously deferred would be restored to its earnings.

*Seabrook Unit 2:* EUA Power also has a 12.1[illegible] ownership interest in Seabrook Unit 2 (Unit 2). On November 6, 1986, the joint owners of Seabrook, recognizing that Unit 2 had been cancelled, voted to dispose of the Unit. Plans regarding disposition of Unit 2 are now under consideration, but have not been finalized and approved. EUA Power is unable, therefore, to estimate the costs for which it would be responsible in connection with the disposition of Unit 2. Monthly charges are required to be paid by EUA Power with [illegible]ct to Unit 2 in order to preserve and protect its [illegible]ments and various warranties.

(C) Summary of Significant Accounting Policies:

*Basis of Consolidation:* The consolidated financial statements include the accounts of EUA and all subsidiaries. All material intercompany transactions between the consolidated subsidiaries have been eliminated.

As a result of the Chapter 11 bankruptcy proceeding EUA does not control the operations of EUA Power and therefore effective December 31, 1990, EUA Power is not included in the consolidated financial statements for financial reporting purposes. EUA follows the equity method of accounting for its investment in EUA Power (See Note B—EUA Power Corporation for further details).

*System of Accounts:* The accounts of EUA and its consolidated subsidiaries are maintained in accordance with the uniform system of accounts prescribed by the regulatory bodies having jurisdiction.

*Jointly Owned Companies:* Montaup Electric Company (Montaup) follows the equity method of accounting for its investments in jointly owned companies including four regional nuclear generating companies. Montaup's investments in these nuclear generating companies range from 2.25% to 4.50%. Montaup is entitled to electricity produced from these facilities based on its ownership interests and is billed for its entitlement pursuant to contractual agreements which are approved by the Federal Energy Regulatory Commission (FERC). Montaup also has an equity investment of 3.27% in each of two companies which own and operate tie lines used to transmit hydro-electric power between the Hydro-Quebec electric system and New England.

EUA Ocean State Corporation (EUA Ocean State) was organized to invest in Ocean State Power (OSP) Units I and II. Unit I began commercial operation on December 31, 1990. EUA Ocean State also follows the equity method of accounting for its investments in OSP.

*Utility Plant and Depreciation:* Utility plant is stated at original cost. The cost of additions to utility plant includes contracted work, direct labor and material, allocable overhead, allowance for funds used during construction and indirect charges for engineering and supervision. For financial statement purposes, depreciation is computed on the straight-line method based on estimated useful lives of the various classes of property. Provisions for depreciation, on a consolidated basis were equivalent to a composite rate of approximately 3.1% in 1990 and 3.3% in 1989 and 1988 based on the average depreciable property balances at the beginning and end of each year.

*Allowance for Funds Used During Construction (AFUDC):* AFUDC represents the estimated cost of borrowed and equity funds used to finance the EUA System's construction program. In accordance with regulatory accounting, AFUDC is capitalized, as a cost of utility plant, in the same manner as certain general and administrative costs. AFUDC is not an item of current cash income, but is recovered over the service life of utility plant in the form of increased revenues collected as a result of higher depreciation expense. The combined rate used in calculating AFUDC was 18.0% in 1990, 22.05% in 1989 and 21.80% in 1988. In accordance with regulatory authority, Montaup and EUA Power provided deferred income taxes on the borrowed funds component of AFUDC. The caption Allowance for Borrowed Funds Used During Construction also includes interest which is permitted to be capitalized pursuant to Financial Accounting Standard No. 34 for non-regulated entities. See Note B—EUA Power Corporation with respect to a change in accounting in 1988 for AFUDC.

*Operating Revenues:* R  enues are based on billing rates authorized by applicable federal and state regulatory commissions. Eastern Edison Company (Eastern Edison), Blackstone Valley Electric Company (Blackstone) and Newport Electric Corporation (Newport), the retail subsidiaries, follow the policy of accruing the estimated amount of unbilled base rate revenues for electricity provided at the end of the month to match costs and revenues more closely. In addition they also record the difference between fuel costs incurred and fuel costs billed. Montaup and EUA Power recognize revenues when billed. Montaup, Blackstone, and Newport also record the difference between purchased power costs incurred and billed.

*Federal Income Taxes:* The general policy of EUA and its subsidiaries with respect to accounting for Federal income taxes is to reflect in income the estimated amount of taxes currently payable and to provide for deferred taxes on certain items subject to temporary differences to the extent permitted by the various regulatory commissions. As permitted by the regulatory commissions, it is the policy of the subsidiaries to defer the annual investment tax credits and to amortize these credits over the productive lives of the related assets.

In 1990 EUA adopted Financial Accounting Standards Board Statement No. 96, "Accounting for Income Taxes" (FAS 96). See Note D – Income and Deferred Taxes for further details.

*Cash and Temporary Cash Investments:* EUA considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**(D) Income and Deferred Taxes:**

Comp  nents of income and deferred tax expe  se for the years 1990, 1989 and 1988 are as follow .

| *(In Thousands)* | 1990 | 1989 | 1988 |
|---|---|---|---|
| Federal: | | | |
| Current | $ 120 | $ (200) | $ 2,798 |
| Deferred | 9,852 | 25,197 | 24,082 |
| Investment Tax Credit, Net | (1,122) | (8,347) | (11,375) |
| | 8,850 | 16,650 | 15,505 |
| State: | | | |
| Current | 2,547 | 2,285 | 2,318 |
| Deferred | (52) | 675 | 973 |
| | 2,495 | 2,960 | 3,291 |
| Charged to Operations | 11,345 | 19,610 | 18,796 |
| Charged to Other Income: | | | |
| Current | (283) | 2,451 | 480 |
| Deferred | 14,268 | (544) | |
| Investment Tax Credit, Net | (61) | | |
| | 13,924 | 1,907 | 480 |
| Total | $ 25,269 | $21,517 | $19,276 |

Total income tax expense was different than the amounts computed by applying Federal income tax statutory rates to book income subject to tax for the following reasons:

| (In Thousands) | 1990 | 1989 | 1988 |
|---|---|---|---|
| Federal Income Tax Computed at Statutory Rates | $(34,422) | $22,618 | $20,293 |
| (Decrease) Increase in Tax From: | | | |
| Equity Component of AFUDC | (1,572) | (1,627) | (541) |
| Depreciation of Equity AFUDC | 1,136 | 214 | 322 |
| Amortization of ITC | (1,173) | (955) | (1,289) |
| State taxes, net of Federal income tax benefit | 1,645 | 2,299 | 2,613 |
| Tax impact of EUA's write-off of its investment in EUA Power | 59,458 | | |
| Other | 197 | (1,032) | (2,122) |
| Total Income Tax Expense | $ 25,269 | $21,517 | $19,276 |

The provision for deferred taxes resulting from temporary differences comprises the following:

| (In Thousands) | 1990 | 1989 | 1988 |
|---|---|---|---|
| Excess Tax Depreciation | $12,478 | $ 4,726 | $ 4,581 |
| Estimated Unbilled Revenue | (776) | (639) | (1,076) |
| Unbilled Fuel Costs | 124 | (258) | (179) |
| Debt Component of AFUDC | 15,038 | 29,539 | 22,366 |
| Abandonment Losses | (502) | (461) | (662) |
| Capitalized Overheads | 400 | (931) | 1,788 |
| Effect of State and Local Taxes | (52) | 675 | 973 |
| Deferred Charges | (2,064) | (1,534) | (227) |
| Alternative Minimum Tax | 23 | (4,723) | (3,322) |
| Net Operating Loss Carryforward | (8,944) | | |
| Pilgrim Refund | (4,070) | | |
| Provision for estimated future tax liability resulting from the write-off of EUA's investment in EUA Power | 17,160 | | |
| Deferred tax benefits associated with write-offs | (3,165) | | |
| Other—Net | (1,582) | (1,066) | 813 |
| Total | $24,068 | $25,328 | $25,055 |

In 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes" (FAS 96), which retains the current requirement to record deferred income taxes for temporary differences that are reported in different years for financial reporting and tax purposes; however, the methodology for calculating and recording deferred income taxes has changed. Under the liability method adopted by FAS 96, deferred tax liabilities or assets are computed using the tax rates that will be in effect when the temporary differences reverse. Generally, for regulated companies, the changes in tax rates applied to accumulated deferred income taxes may not be immediately recognized in operating results because of ratemaking treatment and provisions in the Tax Reform Act of 1986. EUA adopted FAS 96 in 1990. The cumulative effect of adopting FAS 96 for periods ending prior to January 1, 1990, resulted in a $0.5 million reduction of deferred tax liabilities. This adjustment is reflected on EUA's Consolidated Statement of Income for 1990 as the cumulative effect of an accounting change. Income taxes for 1989 and 1988 have not been restated for this change.

In accordance with FAS 96, EUA has recorded on the consolidated balance sheet a regulatory liability to ratepayers of approximately $49.5 million. This amount primarily represents excess deferred income tax credits resulting from the reduction in the Federal income tax rate and also includes deferred tax credits provided on investment tax credits which were previously flowed through to ratepayers. Also a regulatory asset of approximately $5.2 million was recorded, representing the cumulative amount of Federal income taxes on temporary depreciation differences which were previously flowed through to ratepayers. These amounts include the tax effect of the future revenue requirements and are being amortized over the life of the related depreciable assets concurrent with their recovery in rates.

EUA has approximately $20 million of investment tax credit carryforwards which expire between the years 2001 and 2005 and a net operating loss carryforward for tax purposes of $26 million expiring in the year 2005. These carryforwards are primarily related to EUA Power.

(E) Acquisition:
On March 27, 1990, EUA consummated the purchase from NECO Enterprises Inc. (NECO) of all of the common stock of NECO's wholly-owned subsidiary, Newport Electric Corporation (Newport). In return EUA issued to NECO 540,000 EUA common shares. The total cost of the acquisition, including $1.6 million in fees, was valued at $19.5 million based on the closing price of EUA common shares on the date on which the acquisition was consummated. Newport's results of operations have been consolidated into EUA's financial statements as of April 1, 1990. EUA's results of operations prior to April 1, 1990 do not incorporate the activities of Newport. This transaction has been accounted for using purchase accounting and resulted in $8.0 million of goodwill included in deferred debits in the consolidated balance sheet.

(F) Capital Stock:
The changes in the number of common shares outstanding and the increases in other paid-in capital during the years ended December 31, 1990, 1989 and 1988 were as follows (dollars in thousands):

| | Number of Common Shares Issued | | | | |
|---|---|---|---|---|---|
| | Reinvestment and Employee Plans | Public Sales | Newport Acquisition | Common Shares At Par | Other Paid-In Capital |
| 1990 | 550,471 | | 540,000 | $5,452 | $27,948 |
| 1989 | 590,985 | 1,500,000 | | 9,455 | 57,402 |
| 1988 | 405,190 | | | 2,026 | 8,041 |

In the event of involuntary liquidation the holders of non-redeemable preferred stock of Blackstone and Eastern Edison are entitled to $100 per share. In the event of voluntary liquidation, or if redeemed at the option of those companies, each share of the non-redeemable preferred stock is entitled to: Blackstone's 4.25% issue, $104.40; Blackstone's 5.60% issue, $103.82; Eastern Edison's 4.64% issue, $102.98; Eastern Edison's 8.32% issue, $103.54 prior to October 1, 1993, and at reduced premiums in subsequent years. Newport's non-redeemable preferred stock is callable in whole or in part at $103.50 per share.

Under the terms and provisions of the issues of preferred stock of Blackstone, Newport and Eastern Edison, certain restrictions are placed upon the payment of dividends on common stock by each company. At December 31, 1990 and 1989, the respective capitalization ratios were in excess of the minimum which would make these restrictions effective.

(G) Redeemable Preferred Stock:
Eastern Edison's 9.00% and 9.80% Preferred Stock issues are entitled to mandatory sinking funds sufficient to redeem 6,000 and 8,000 shares, respectively, during each twelve-month period commencing July 1, 1991 in the case of the 9.00% issue and September 1, 1993 in the case of the 9.80% issue.

The redemption price for each issue is equal to the initial public offering price ($100) plus accrued dividends. Eastern Edison also has the non-cumulative option of redeeming an additional 6,000 and 8,000 shares, respectively, during each twelve-month period at such price.

Newport's 9.75% Preferred Stock issue is entitled to mandatory sinking funds sufficient to redeem 500 shares during each remaining twelve-month period until the year 2000, at which time any shares outstanding must be redeemed. The redemption price is $100 per share.

In the event of involuntary liquidation the redeemable preferred stock of Eastern Edison is entitled to $100 per share. In the event of voluntary liquidation, or if redeemed at the option of Eastern Edison, the 9.00% issue is entitled to $109.00 prior to July 1, 1991 and $106.75 for a five year period ending July 1, 1996. The 9.80% issue is entitled to $109.80 prior to September 1, 1993. The redemption premium reduces in subsequent years.

The aggregate amount of redeemable preferred stock sinking fund requirements, for each of the five years following 1990 are: $650,000 in 1991 and 1992 and $1,450,000 in 1993, 1994, and 1995.

**(H) Long-Term Debt:**
The various mortgage bond issues of Blackstone, Eastern Edison, and Newport are secured by substantially all of their utility plant. In addition, Eastern Edison's bonds are collateralized by securities of Montaup in the principal amount of $318,021,819.

Blackstone's Variable Rate Demand Bonds are collateralized by an irrevocable letter of credit which expires on December 6, 19 2. The letter of credit permits extensions on an annual basis upon mutual agreement of the bank and Blackstone.

In June 1990, EUA Cogenex issued $25 million of 10.56% Unsecured Notes due 2005, the proceeds of which were used to repay short-term borrowings.

In November 1990, Blackstone issued $18 million of 10.35% Series C, First Mortgage Bonds due 201 , the proceeds of which were used to redeem Blackstone's 14.25% Series A, First Mortgage Bonds.

In December 1990, Eastern Edison issued $25 million of First Mortgage Bonds, designated Secured Medium Term Notes due in 1992 and 1995 at interest rates ranging from 8.5% to 8.9% and $25 million of Unsecured Medium Term Notes Series A due 1995 at interest rates ranging from 9% to 9.25%. Proceeds were used to repay all short-term debt of Eastern Edison and its wholly-owned subsidiary, Montaup.

The aggregate amount of current EUA System cash sinking fund requirements (excluding EUA Power and amounts that may be satisfied by available property additions) and maturities for long-term debt, for each of the five years following 1990 are: $1,669,000 in 1991, $18,025,000 in 1992, $37,521,000 in 1993, $3,438,000 in 1994 and $38,943,000 in 1995.

**(I) Lines of Credit:**
EUA System companies maintain short-term lines of credit with various banks aggregating approximately $125,000,000. At December 31, 1990, unused short-term lines of credit amounted to approximately $66,729,000. In addition, at December 31, 1990, EUA Power had utilized $15,200,000 of such lines of credit. In accordance with informal agreements with the various banks, commitment fees are required to maintain certain lines of credit.

### (J) Jointly-Owned Facilities:

At December 31, 1990, Montaup and Newport owned the following interests in jointly-owned electric generating facilities (dollars in thousands):

| | Percent Owned | Plant in Service | Accumulated Depreciation and Amortization of Nuclear Fuel | Net Plant in Service | Construction Work in Progress |
|---|---|---|---|---|---|
| Montaup: | | | | | |
| Canal Unit 2 | 50.00% | 65,724 | 33,879 | 31,845 | 401 |
| Wyman Unit 4 | 1.96% | 4,027 | 1,458 | 2,569 | 1 |
| Seabrook Unit 1 | 2.90% | 203,751 | 4,010 | 199,741 | 7,109 |
| Millstone Unit 3 | 4.01% | 185,792 | 25,562 | 160,230 | 2,235 |
| Newport: | | | | | |
| Wyman Unit 4 | .67% | 1,298 | 512 | 786 | — |

The foregoing amounts represent Montaup and Newport's interest in each facility including nuclear fuel. At December 31, 1990, Montaup's total net investment in nuclear fuel of the Seabrook and Millstone Units amounted to $13.4 million and $4.2 million respectively. Financing for any such interest is provided by the respective company. Montaup and Newport's shares of related operating and maintenance expenses with respect to units reflected in the table above are included in the corresponding operating expenses. See Note K – Commitments and Contingencies for information with respect to the Seabrook project, including the cancellation of Seabrook Unit 2.

### (K) Commitments and Contingencies:

**Seabrook Unit 1:**

*Background:* Montaup has a 2.9% ownership interest in the 1150 megawatt Unit 1 nuclear generating plant in Seabrook, New Hampshire (Unit 1). On August 19, 1990, Unit 1 began commercial operation. Through December 31, 1990, Unit 1 had operated on average at approximately 82% of its total capacity. New Hampshire Yankee (NHY), a division of Public Service Company of New Hampshire, is currently responsible for the operation of Unit 1. At December 31, 1990, Montaup's net investment in Unit 1 (including nuclear fuel) was approximately $206.9 million.

*Licensing:* Still pending at December 31, 1990, before the United States Court of Appeals and the Nuclear Regulatory Commission (NRC) and its adjudicatory boards were a number of motions and appeals relating to certain issues with respect to Unit 1, which, if adversely decided, could have impacted the continuing effectiveness of its operating license. On January 25, 1991, virtually the last of the motions and appeals was rejected by the Court of Appeals. At present, the NRC is reviewing this decision. On March 7, 1991, the Massachusetts Attorney General announced that he intends to seek an appeal to the United States Supreme Court of the January 25th Court of Appeals decision. The inspector general of the NRC has been conducting an investigation into possible improprieties in the authorization of the Unit 1 operating license by the NRC's Atomic Safety and Licensing Board. In February 1991, the inspector general issued a report recommending certain modifications to the NRC's emergency planning regulations. It is not known at this time whether further investigations are contemplated. EUA cannot predict the outcome of the NRC's review or a Supreme Court appeal; however, EUA believes the operating license will not be permanently adversely affected and that Unit 1 will continue to be licensed to operate at full power.

*Montaup – Seabrook Interest:* On March 5, 1990, Montaup filed with the FERC for an increase in wholesale rates to become effective with the commercial in-service date of Unit 1. The requested increase, among other issues, placed in Montaup's rate base the balance of its investment in Unit 1. The FERC had previously permitted Montaup to include in its rate base approximately 50% of its Unit 1 construction work in progress. The FERC authorized implementation of the rate increase, subject to refund, and issued an order to separate the request into two phases. Phase I was to address all cost of service issues, and Phase II would address the Unit 1 prudency issues. On January 23, 1991, the FERC approved a settlement agreement with respect to Phase I resulting in a rate increase of $20 million. Hearings on Phase II are scheduled to begin in June 1991.

**Seabrook Unit 2**

Montaup also has a 2.9% ownership interest in Seabrook Unit 2 (Unit 2). On November 6, 1986, the joint owners of Seabrook, recognizing that Unit 2 had been cancelled, voted to dispose of the Unit. Plans regarding disposition of Unit 2 are now under consideration, but have not been finalized and approved. Montaup is unable, therefore, to estimate the costs for which it would be responsible in connection with the disposition of Unit 2. Monthly charges are required to be paid by Montaup with respect to Unit 2 in order to preserve and protect its components and various warranties. Montaup is currently recovering its investment in Unit 2 under a FERC approved rate case settlement.

On June 23, 1989, the Internal Revenue Service (IRS) issued a report in connection with its examination of the consolidated income tax return of EUA for the year 1984. The report included a proposed adjustment to disallow Montaup's Unit 2 abandonment loss deduction of $12.7 million claimed in the return. The IRS's proposed disallowance is based on its position that the necessary criteria to qualify for an abandonment loss have not been met. EUA disagrees with the IRS position and filed a protest on September 15, 1989. The issue is currently under consideration by the IRS Regional Director of Appeals. Should the tax benefit for the Unit 2 abandonment loss deduction ultimately be realized at a tax rate or for periods different than on Montaup's filed tax return, Montaup would seek to have its Unit 2 rate recovery modified to reflect such lower benefit.

**Other Matters:**

*SEC Review:* The SEC is conducting a review of EUA's Annual Report on Form 10-K for the year ended December 31, 1989 and subsequent Quarterly Reports on Form 10-Q. The staff of the Division of Corporation Finance has raised certain questions principally regarding the accounting for the capitalized financing costs related to EUA Power's investment in Seabrook Unit 1 and the effect which recording such amounts had on reported earnings for 1990, 1989 and 1988. EUA has submitted written responses to all of the SEC's inquiries.

EUA cannot predict the outcome of the SEC's review. The SEC could require that EUA restate its financial statements for the years ended December 31, 1990, 1989 or 1988 or for any quarterly period during such years. Management believes that such a restatement, if any, should not result in a material change to amounts reflected in the accompanying Consolidated Balance Sheet at December 31, 1990 and should not result in a material change to the cumulative reported income and losses for the three year period then ended, however, it could result in a material change to the amounts previously reported for one or more of the years or quarters within the three year period.

EUA continues to believe their financial statements have been prepared in accordance with generally accepted accounting principles and present fairly the financial position and results of operations of EUA.

*Shareholder Proceeding:* On January 22, 1991, an owner of 200 EUA common shares filed a class action suit on behalf of certain EUA shareholders in Superior Court of the Commonwealth of Massachusetts naming EUA and certain current and former trustees of EUA as defendants. The suit alleges that EUA issued materially misleading statements and misrepresentations about the financial status and prospects of EUA Power and their impact on the financial status and prospects of EUA, thereby fraudulently inducing certain EUA shareholders to purchase common shares at prices in excess of their fair value. The plaintiff seeks compensatory damages, costs and expenses, including reasonable attorneys' fees, and such other relief as may be just and proper. EUA intends to vigorously defend the suit and has referred the complaint to outside legal counsel.

*Pensions:* The EUA System companies participate in a defined benefit pension plan covering substantially all of their employees. Plan benefits are based on years of service and average compensation over the five years prior to retirement. It is the EUA System's policy to fund the plan on a current basis in amounts determined to meet the funding standards established by the Employee Retirement Income Security Act of 1974.

Net pension (income) expense for 1990, 1989 and 1988 included the following components (in thousands):

| | 1990 | 1989 | 1988 |
|---|---|---|---|
| Service cost-benefits earned during the period | $ 2,260 | $ 1,573 | $ 1,507 |
| Interest cost on projected benefit obligations | 7,008 | 5,437 | 4,932 |
| Actual return on assets | (2,380) | (16,883) | (7,833) |
| Net amortization and deferrals | (7,098) | 9,385 | 692 |
| Net periodic pension (income) expense | $ (210) | $ (388) | $ (705) |

The following table sets forth the actuarial present value of benefit obligations and funded status at December 31, 1990, 1989 and 1988 (in thousands):

| | 1990 | 1989 | 1988 |
|---|---|---|---|
| Accumulated benefit obligations, including vested benefits of $64,790, $53,173 and $43,076, respectively | $65,239 | $53,416 | $47,507 |
| Projected benefit obligations | (84,343) | (67,234) | (59,917) |
| Plan assets at fair value, primarily stocks and bonds | 96,340 | 88,201 | 77,617 |
| Less: Unrecognized net gain on assets | (11,823) | (20,187) | (15,689) |
| Unamortized net assets at January 1 | 2,227 | 1,360 | (259) |
| Net pension assets | $ 2,401 | $ 2,140 | $ 1,752 |

The weighted average discount rate and rate of increase in future compensation levels used in determining the actual present value of accumulated benefit obligations in 1990 were 8.6% and 6.1%, in 1989 were 8.6% and 6.4% and in 1988 were 8.8% and 6.5% respectively. The expected long-term rate of return on plan assets was 10%.

*Post-Retirement Benefits:* Retired employees are entitled to participate in health care and life insurance benefit plans. Health care benefits are subject to deductibles and other limitations. Health care and life insurance benefits are partially funded by EUA for all qualified employees. The cost of these benefits, which amounted to approximately $1,580,000 in 1990, $1,227,000 in 1989 and $693,000 in 1988, were charged to expense as incurred.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106 (FAS 106), "Accounting for Post-Retirement Benefits Other Than Pensions." FAS 106 establishes accounting and reporting standards for post-retirement benefits including health care and life insurance and it will require the accrual of the expected cost of such benefits during the employee's years of service and the recognition of the actuarially determined total post-retirement benefit obligation earned by existing retirees. EUA must adopt this Statement no later than 1993; such adoption of FAS 106 is not expected to have a material effect on EUA's results of operations as a result of expected rate-making treatment.

*Long-Term Purchased Power Contracts:* The EUA System is committed under long-term purchased power contracts, expiring on various dates through the year 2020, to pay demand charges whether or not energy is received. Under terms in effect at December 31, 1990, the aggregate annual minimum commitments for such contracts are approximately $133,000,000 in 1991, $135,000,000 in 1992 and $139,000,000 in 1993, and will aggregate $2,600,000,000 for the years after 1993. In addition, the EUA System is required to pay additional amounts depending on the actual amount of energy received under such contracts. The demand costs associated with these contracts are reflected as Purchased Power-Demand on the Consolidated Income Statement.

*Construction:* The EUA System's construction program (excluding EUA Power) is estimated at $58,000,000 for the year 1991 and $196,700,000 for the years 1991 through 1994 (including allowance for funds used during construction of $8,200,000). Approximately 42% of the construction expenditures relate to EUA Cogenex.

*Environmental Controls:* The Comprehensive Environmental Response, Compensation and Liability Act of 1980 and certain similar state statutes authorize various governmental authorities to seek court orders compelling responsible parties to take clean-up action at disposal sites determined to present an imminent and substantial danger to the public and to the environment because of an actual or threatened release of hazardous substances. Because of the nature of the EUA System's business, various by-products and substances are produced or handled which are classified as hazardous under these laws. The EUA System generally provides for the disposal of such substances through licensed contractors, but these statutory provisions generally impose potential joint and several responsibility on the generators of the wastes for clean-up costs. EUA has been notified with respect to a number of sites, and the clean-up of wastes, in general, is receiving increasing attention from the governmental agencies involved.

As of December 31, 1990, the EUA System has incurred costs of approximately $1,500,000 in connection with the foregoing environmental matters and estimates that additional expenditures may be incurred through 1992 of up to $1,900,000.

Of these amounts, approximately $1,330,000 of incurred costs to date and $1,400,000 of the estimated future costs relate to Blackstone. Blackstone is currently amortizing certain incurred costs over a five-year period and is currently recovering certain of the incurred costs in its rates. Also, Montaup is currently recovering certain of the incurred costs in its M-12 rate. Estimated amounts after 1992 are not now determinable since site studies which are the basis of these estimates have not been completed. As a result of the recoverability in current rates, EUA believes that the ultimate impact of environmental costs are not material to the financial position of the EUA System or to any individual subsidiary and has not recorded a liability for those amounts.

The Environmental Protection Agency has established clean air standards for certain pollutants, including standards limiting emissions from coal-fired and oil-fired generators. In response to concern about acid rain, Congress recently passed amendments to the Clean Air Act (the Amendments) which establish a two-phased utility power plant pollution control program to reduce emissions of sulfur dioxide and oxides of nitrogen. As a result of the Amendments, EUA anticipates that Montaup will be required to utilize lower sulfur fuel. Nominal capital investments are anticipated. EUA does not anticipate the impact from the Amendments to be material to the financial position of the EUA System.

*EUA Guarantees:* EUA, as parent company of EUA Power, EUA Cogenex and EUA Ocean State, has guaranteed certain obligations of those subsidiaries. In the case of EUA Power, EUA has guaranteed EUA Power's obligations with respect to a letter of credit facility issued in connection with $21,000,000 of Bonds issued on behalf of EUA Power by the NHIDA. EUA has also guaranteed certain short-term borrowing obligations which at December 31, 1990, aggregated $15,200,000. As a result of EUA Power's Chapter 11 filing, EUA paid EUA Power's short-term debt obligation which on March 1, 1991, aggregated approximately $16,300,000 including accrued interest. The 1990 additional charge to earnings against EUA's investment in EUA Power includes a reserve for these amounts. In addition, EUA guaranteed up to $10,000,000 of EUA Power's share of decommissioning or cancellation costs of Seabrook Units 1 and 2 (See Note B—EUA Power Corporation). In the case of EUA Cogenex, EUA has guaranteed repayment of EUA Cogenex's $35,000,000 unsecured long-term notes. EUA has also guaranteed that funds will be available for EUA Ocean State to meet its equity commitment of approximately $29,000,000 for Unit 2 of the Ocean State Power Project which is expected to be paid in late 1991.

Montaup, as one of the stockholders of each of three regional nuclear generating companies, has guaranteed its pro rata share of obligations of those companies as follows: 2.5% of a $40,000,000 nuclear fuel financing of Vermont Yankee Nuclear Power Corporation; 4.5% of a $50,000,000 debenture issue of Connecticut Yankee Atomic Power Company; and 4.0% of a $50,000,000 nuclear fuel financing of Maine Yankee Atomic Power Company.

Montaup is a 3.27% equity participant in two companies that are constructing transmission facilities to interconnect New England and the Hydro-Quebec system in Canada. Montaup, as an equity participant, has guaranteed approximately $6.7 million of the outstanding debt of these two companies which amounted to $205 million at December 31, 1990. In addition, Montaup and Newport have minimum rental commitments under a noncancellable transmission facilities support agreement for years subsequent to 1990 which total approximately $16.0 million and $2.0 million, respectively.

*Nuclear Fuel Disposal and Nuclear Plant Decommissioning Costs:* The Nuclear Waste Policy Act of 1982 establishes that the Federal government is responsible for the disposal of spent nuclear fuel. Under the provisions of this act, the Federal government requires Montaup to pay a fee based on its share of the generation from the Millstone 3 and Seabrook Unit 1 nuclear generating units. Montaup is recovering these fees through its fuel adjustment clause.

Millstone Unit 3 has sufficient on-site storage facilities to accommodate high level wastes and spent fuel for the projected life of the unit. No additional expenditures are projected for the foreseeable future. Similarly, at Seabrook there is on-site storage capacity for twenty years or to the year 2010. No short-term capital expenditures are anticipated in the near-term to deal with any increase in storage requirements after 2010. Under the Nuclear Waste Policy Act of 1982, the Department of Energy (DOE) is obligated to design, license, build and operate a permanent repository for high level radioactive wastes and spent nuclear fuel. The Act specifies that DOE provide for the disposal of the waste and spent fuel starting in 1998. Seabrook anticipates that the DOE will be in a position to accept fuel for storage or disposal on or before 2010.

Also, Montaup is recovering through rates its share of estimated decommissioning costs for Millstone Unit 3 and Seabrook Unit 1. Montaup's share of the currently allowed estimated total costs to decommission the Millstone and Seabrook units is $7.4 million in 1986 dollars and $7.0 million in 1987 dollars, respectively, which is based on studies performed by Northeast Utilities and New Hampshire Yankee. In addition, pursuant to contractual arrangements with other nuclear generating facilities in which Montaup has an equity ownership interest or life of the unit entitlement, Montaup pays into decommissioning reserves. Such expenses are currently recovered through rates.

*Rate Refund:* Included in "Other Current Liabilities" is approximately $1.[illegible] million associated with the Pilgrim Unit 1 outage which will ultimately be refunded to retail customers beginning in 1991.

*Other:* Any public controversy concerning nuclear power could affect Unit 1 and other operating nuclear units in which Montaup has an interest. While the ultimate effect of such a controversy seems remote, it is possible that it could result in the premature shutdown of one or more of the units.

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**To the Trustees and Shareholders of Eastern Utilities Associates**

We have audited the accompanying consolidated balance sheets and consolidated statements of equity capital and preferred stock and indebtedness of Eastern Utilities Associates and subsidiaries (the Company or EUA) as of December 31, 1990 and 1989, and the related consolidated statements of income, retained earnings (deficit) and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

As discussed in Note K of "Notes to Consolidated Financial Statements" the Staff of the Securities and Exchange Commission (the Staff) is currently reviewing certain reports previously filed with the SEC. The Staff has raised certain questions principally regarding the accounting for capitalized financing costs. The SEC may ultimately require the restatement of such amounts reported in the financial statements for each of the three years in the period ended December 31, 1990.

As also discussed in Note K, the Company is a defendant in a lawsuit in which a shareholder alleges fraudulent inducement of certain EUA shareholders to purchase common shares at prices in excess of their fair value for which the plaintiff seeks compensatory damages. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements.

Coopers + Lybrand

Boston, Massachusetts
April 12, 1991

## QUARTERLY FINANCIAL AND COMMON SHARE INFORMATION
*(Unaudited)*

| | Thousands of Dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Operating Revenues | Operating Income | Income After Interest Charges | Consolidated Net Income | Earnings per Average Common Share(4) | Dividends Paid Per Common Share | Common Share Market Price High | Common Share Market Price Low |
| **For the quarters ended 1990:** | | | | | | | | |
| December 31 (1) | $123,829 | $13,735 | $(156,397) | $(157,450)(1) | $(9.68)(1) | $0.65 | 27⅜ | 20¾ |
| September 30 | 115,956 | 17,007 | 7,449 | 6,394 | 0.40 | 0.65 | 32⅞ | 25 |
| June 30 | 107,753 | 10,907 | 9,026 | 7,972 | 0.50 | 0.65 | 35⅛ | 31½ |
| March 31 (2) | 104,329 | 13,738 | 13,411 | 12,902(2) | 0.84(2) | 0.625 | 41½ | 33¾ |
| **For the quarters ended 1989:** | | | | | | | | |
| December 31 (3) | $105,732 | $16,072 | $12,170 | $11,138(3) | $0.75(3) | $0.625 | 41⅝ | 36⅛ |
| September 30 | 101,038 | 14,686 | 11,273 | 10,240 | 0.75 | 0.625 | 37 | 35¼ |
| June 30 | 99,178 | 12,279 | 8,879 | 7,848 | 0.58 | 0.625 | 37½ | 32 |
| March 31 | 102,629 | 15,352 | 12,688 | 11,651 | 0.87 | 0.60 | 32⅞ | 30⅛ |

*(1) Consolidated Net Income for the fourth quarter of 1990 includes additional charges to earnings of $147.7 million related primarily to a write-off of EUA's investment in EUA Power. (See Note A — Summary of Additional Charges for further information.) This adjustment had the net effect of decreasing fourth quarter Earnings per Average Common Share by $9.08.*

*(2) Consolidated Net Income for the first quarter of 1990 was restated by $0.5 million related to adoption of Financial Accounting Standards Board Statement No. 96. This adjustment had the net effect of increasing first quarter Earnings per Average Common Share by 3 cents.*

*(3) Consolidated Net Income for the fourth quarter of 1989 included $3.8 million related to the recognition of AFUDC, $1.1 million which represents a writedown of a project by EUA Energy Investment Corporation and $1.4 million which represents the recording of accrued interest related to a proposed tax disallowance of the Seabrook Unit 2 abandonment loss. These adjustments had the net effect of increasing fourth quarter Earnings per Average Common Share by 10 cents.*

*(4) The sum of the reported quarterly Earnings Per Average Common Share of $(7.94) differs from the reported twelve month ended December 31, 1990 earnings per average common share of $(8.18) due to an increase of over two million average common shares outstanding over the prior year.*

# CONSOLIDATED OPERATING STATISTICS

| *Years Ended December 31,* | 1990(1) | 1989 | 1988 | 1987 | 1986 | 1985 | 1980 |
|---|---|---|---|---|---|---|---|
| **Energy Generated and Purchased (millions of kwh):** | | | | | | | |
| Generated | | | | | | | |
| —by Somerset Station | 985 | 1,296 | 1,190 | 1,294 | 887 | 1,316 | 1,041 |
| —by Nuclear Units | 1,635 | 956 | 472 | 390 | 543 | 1,065 | 733 |
| —by Jointly-Owned Units | 1,793 | 2,075 | 1,836 | 2,050 | 2,101 | 1,595 | 1,746 |
| —by Life of the Unit Contracts | 753 | 836 | 884 | 569 | 667 | 697 | 757 |
| —by Newport | 7 | | | | | | |
| Interchange with NEPOOL | (243) | (446) | 23 | 236 | 157 | (387) | (263) |
| Purchased Power—Unit Power | 380 | 410 | 495 | 207 | 309 | 223 | 319 |
| Total Generated and Purchased | 5,310 | 5,127 | 4,900 | 4,746 | 4,664 | 4,509 | 4,333 |
| **Operating Revenues (thousands):** | | | | | | | |
| Residential | $156,883 | $141,254 | $127,883 | $124,047 | $115,744 | $110,682 | $ 79,357 |
| Commercial | 149,036 | 131,306 | 119,362 | 114,857 | 105,777 | 98,826 | 67,377 |
| Industrial | 70,363 | 70,852 | 69,516 | 72,218 | 67,973 | 66,707 | 48,931 |
| Other Electric Utilities | 7,840 | 20,783 | 23,660 | 18,740 | 16,189 | 15,779 | 18,183 |
| Other | 19,225 | 12,799 | 10,290 | 11,192 | 15,019 | 8,990 | 7,886 |
| Total Primary Sales Revenues | 403,347 | 376,994 | 350,711 | 341,054 | 320,702 | 300,984 | 221,734 |
| Unit Contracts | 29,852 | 23,213 | 19,518 | 23,372 | 22,622 | 32,526 | 22,908 |
| Non-Electric | 18,668 | 8,370 | 3,909 | 2,703 | | | |
| Total Operating Revenues | $451,867 | $408,577 | $374,138 | $367,129 | $343,324 | $333,510 | $244,642 |
| **Energy Sales (millions of kwh):** | | | | | | | |
| Residential | 1,531 | 1,416 | 1,412 | 1,328 | 1,262 | 1,212 | 1,149 |
| Commercial | 1,618 | 1,497 | 1,424 | 1,325 | 1,243 | 1,169 | 1,058 |
| Industrial | 839 | 832 | 869 | 863 | 855 | 833 | 848 |
| Other Electric Utilities | 130 | 389 | 377 | 365 | 372 | 382 | 420 |
| Other | 121 | 28 | 28 | 28 | 28 | 29 | 42 |
| Total Primary Sales | 4,239 | 4,162 | 4,110 | 3,909 | 3,760 | 3,625 | 3,517 |
| Losses and Company Use | 249 | 234 | 220 | 231 | 211 | 197 | 230 |
| Total System Requirements | 4,488 | 4,396 | 4,330 | 4,140 | 3,971 | 3,822 | 3,747 |
| Unit Contracts | 822 | 731 | 570 | 606 | 693 | 687 | 586 |
| Total Energy Sales | 5,310 | 5,127 | 4,900 | 4,746 | 4,664 | 4,509 | 4,333 |
| **Number of Customers:** | | | | | | | |
| Residential | 254,928 | 227,440 | 224,933 | 221,480 | 217,899 | 214,454 | 204,221 |
| Commercial | 32,836 | 27,890 | 26,611 | 25,480 | 24,356 | 23,161 | 20,380 |
| Industrial | 1,187 | 1,237 | 1,229 | 1,237 | 1,250 | 1,238 | 1,219 |
| Other Electric Utilities | 5 | 5 | 5 | 7 | 15 | 15 | 17 |
| Other | 30 | 30 | 29 | 29 | 30 | 30 | 30 |
| Total Customers | 288,986 | 256,602 | 252,807 | 248,233 | 243,550 | 238,898 | 225,867 |
| Average Annual Revenue per Residential Customer ($) | 636(2) | 621 | 569 | 560 | 533 | 516 | 389 |
| Average Annual Use per Residential Customer (kwh) | 6,221(2) | 6,226 | 6,277 | 5,996 | 5,792 | 5,652 | 5,626 |
| **Average Revenue per kwh:** | | | | | | | |
| Residential | 10.25¢ | 9.98¢ | 9.06¢ | 9.34¢ | 9.17¢ | 9.13¢ | 6.91¢ |
| Commercial | 9.21¢ | 8.77¢ | 8.38¢ | 8.67¢ | 8.51¢ | 8.45¢ | 6.37¢ |
| Industrial | 8.39¢ | 8.52¢ | 8.00¢ | 8.37¢ | 7.95¢ | 8.01¢ | 5.77¢ |

*(1) Includes operating statistics for Newport Electric from April 1, 1990 and EUA Power since Seabrook's in-service date of August 19, 1990*

*(2) 1990 includes twelve-month data for Newport Electric's residential customers*

# CONSOLIDATED OPERATING STATISTICS–GENERAL

| *Years Ended December 31,* | 1990(1) | 1989 | 1988 | 1987 | 1986 | 1985 | 1980 |
|---|---|---|---|---|---|---|---|
| **Capitalization (thousands):** | | | | | | | |
| Bonds – Net | $363,566 | $306,500 | $294,500 | $267,500 | $246,500 | $263,500 | $125,182 |
| Other Long-Term Debt | 80,029 | 299,579 | 260,064 | 211,717 | 177,289 | 21,991 | 37,500 |
| Total Long-Term Debt – Net | 443,595 | 606,079 | 554,564 | 479,217 | 423,789 | 285,491 | 162,682 |
| Preferred Stock – Net | 50,380 | 49,691 | 49,693 | 44,931 | 44,931 | 46,536 | 35,278 |
| Common Equity | 237,393 | 375,016 | 301,759 | 285,383 | 225,156 | 208,211 | 95,424 |
| Total Capitalization | 731,368 | $1,030,786 | $906,016 | $809,531 | $693,876 | $540,238 | $293,384 |
| **Capitalization Ratios (%)** | | | | | | | |
| Long-Term Debt | 61 | 59 | 61 | 59 | 61 | 53 | 55 |
| Preferred Stock | 7 | 5 | 6 | 6 | 7 | 9 | 12 |
| Common Equity | 32 | 36 | 33 | 35 | 32 | 38 | 33 |
| **Common Share Data:** | | | | | | | |
| (Loss) Earnings per Average Common Share ($) | (8.18)(2) | 2.95 | 2.85 | 3.46 | 2.82 | 2.67 | 1.63 |
| Dividends per Share ($) | 2.575 | 2.475 | 2.375 | 2.27 | 2.15 | 2.03 | 1.60 |
| Payout (%) | (31.5)(2) | 83.9 | 83.3 | 65.6 | 76.2 | 76.0 | 98.2 |
| Average Common Shares Outstanding | 15,917,255 | 13,877,091 | 13,167,915 | 12,596,481 | 11,537,677 | 11,156,941 | 5,525,320 |
| Total Common Shares Outstanding | 16,352,708 | 15,262,237 | 13,371,252 | 12,966,062 | 11,676,229 | 11,376,471 | 5,583,634 |
| Book Value per Share ($) | 14.52 | 24.57 | 22.57 | 22.01 | 19.28 | 18.30 | 17.09 |
| Percent Earned On Average Common Equity (%) | (42.5) | 12.1 | 12.8 | 17.1 | 15.0 | 14.9 | 9.5 |
| Market Price ($): | | | | | | | |
| High | 41½ | 41¼ | 35⅝ | 40½ | 39½ | 26⅞ | 13¾ |
| Low | 20¾ | 30⅝ | 21⅝ | 24 | 25⅜ | 16⅝ | 10⅝ |
| Year End | 23⅝ | 41⅛ | 31½ | 28 | 38½ | 25⅜ | 11⅝ |
| **Miscellaneous ($ in thousands):** | | | | | | | |
| Total Construction Expenditures ($) | 133,629 | 188,599 | 151,198 | 126,856 | 64,371 | 78,192 | 44,939 |
| Cash Construction Expenditures ($) | 59,929 | 75,861 | 65,307 | 68,929 | 47,137 | 54,406 | 25,024 |
| Internally Generated Funds ($) | 35,024(3) | 32,734 | 38,894 | 14,554 | 44,832 | 27,501 | 1,126 |
| Internally Generated Funds as a % of Cash Construction (%) | 58.4(3) | 43.2 | 59.6 | 21.1 | 95.1 | 50.5 | 4.5 |
| Installed Capability – MW | 1,359 | 1,169 | 1,090 | 1,091 | 971 | 987 | 940 |
| Less: Unit Contract Sales – MW | 86 | 116 | 98 | 108 | 108 | 110 | 88 |
| System Capability – MW | 1,273 | 1,053 | 992 | 983 | 863 | 877 | 852 |
| System Peak Demand – MW | 850(4) | 831 | 813 | 782 | 691 | 738 | 695 |
| Reserve Margin (%) | 49.8 | 26.7 | 22.0 | 25.8 | 24.9 | 18.9 | 22.7 |
| System Load Factor (%) | 66.4 | 60.4 | 60.8 | 60.4 | 65.6 | 59.1 | 61.5 |
| Sources of Energy (%): | | | | | | | |
| Nuclear | 37.8 | 26.8 | 18.2 | 15.1 | 19.0 | 26.2 | 17.0 |
| Coal | 22.6 | 28.9 | 27.0 | 31.1 | 22.0 | 34.1 | |
| Oil | 37.9 | 44.3 | 54.8 | 53.8 | 59.0 | 39.7 | 83.0 |
| Gas | 1.7 | | | | | | |
| Cost of Fuel (Mills Per kwh): | | | | | | | |
| Nuclear | 8.3 | 7.6 | 8.2 | 9.2 | 8.6 | 7.0 | 4.9 |
| Coal | 21.2 | 20.1 | 20.5 | 20.5 | 23.7 | 23.7 | |
| Oil | 26.3 | 24.7 | 22.6 | 28.3 | 23.6 | 41.2 | 35.3 |
| Gas | 30.6 | | | | | | |
| All Fuels Combined | 18.4 | 18.8 | 19.4 | 23.0 | 20.8 | 26.3 | 30.8 |

*(1) Includes operating statistics for Newport Electric from April 1, 1990 and EUA Power since Seabrook's in-service date of August 19, 1990.*

*(2) After cumulative effect of accounting change for income taxes and additional charges to 1990 earnings. See Note A – Summary of Additional Charges to 1990 Earnings for further information.*

*(3) Excludes EUA Power's cash interest payments.*

*(4) Includes approximately 53.1 MW of incremental demand associated with the Newport acquisition.*

Shares of Eastern Utilities Associates are listed on the New York and Pacific Stock Exchanges, under the ticker symbol EUA. The approximate number of common shareholders of record on April 1, 1991 was 15,700.

**Form 10-K**
A copy of EUA's 1990 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders without charge.

**Annual Meeting**
A Special Meeting in lieu of an Annual Meeting of Shareholders will be held on Monday, June 17, 1991, at 10 a.m. in the Salon BelAir, first floor, Hotel Meridien, 250 Franklin Street, Boston, Massachusetts.

**Registrar, Transfer Agent and Dividend Disbursing Agent**
Shareholder Services—Investor Relations
Mail Stop 450209
The First National Bank of Boston
Post Office Box 644
Boston, MA 02102-0644

**Lost or Stolen Stock Certificates**
If your stock certificate is lost, destroyed or stolen, you should notify the transfer agent immediately so a "stop transfer" order can be placed on the missing certificate. The transfer agent then will send you the required documents to obtain a replacement certificate.

**Dividends**
Schedule of anticipated record and payment dates for 1991 dividends on EUA Common Shares:

| Record | Payment* |
|---|---|
| February 1 | February 15 |
| May 1 | May 15 |
| August 1 | August 15 |
| November 1 | November 15 |

**As a result of certain additional charges to earnings taken in 1990, the payment of dividends after February 15, 1991 is subject to approval of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935. Such approval has been requested. See Note A—Summary of Additional Charges to 1990 Earnings of Notes to Consolidated Financial Statements for further information.*

**Replacement of Dividend Checks**
If you do not receive your dividend check within five business days after the dividend payment date, or if your check is lost or destroyed, you should notify the dividend disbursing agent in writing for a replacement.

**Dividend Reinvestment and Common Share Purchase Plan**
A Dividend Reinvestment and Common Share Purchase Plan is available to all registered shareholders and System company employees. It is a simple and convenient method of purchasing additional EUA common shares.

Participants in the Plan are given a 5% discount on shares purchased with reinvested dividends. Participants also may make cash payments to purchase additional shares with no discount. You may obtain complete details by writing to:
William F. O'Connor, Secretary
Eastern Utilities Associates
Post Office Box 2333
Boston, MA 02107

**Duplicate Mailings**
Duplicate mailings are costly to us. Shareholders may be receiving duplicate mailings of annual and quarterly reports due to multiple stock accounts in the same household. To eliminate additional mailings of these reports, please write to the Company and enclose label(s) or label information from the duplicate reports. Dividend checks and proxy material will continue to be sent for each account on record.

EUA is required by law to create a separate account for each name when stock is held in similar but different names (e.g., John A. Smith, J. A. Smith, John A. and Mary K. Smith, etc.). Please contact the Company for instructions if you wish to consolidate multiple accounts.

**Financial Community Inquiries**
Institutional investors and securities analysts should direct inquiries to:
Clifford J. Hebert, Jr., Treasurer
Eastern Utilities Associates
Post Office Box 2333
Boston, MA 02107
(617) 357-9590

The name Eastern Utilities Associates is the designation of the Trustees for the time being under a Declaration of Trust dated April 2, 1928, as amended. All persons dealing with Eastern Utilities Associates must look solely to the trust property for the enforcement of any claims against Eastern Utilities Associates, as neither the Trustees, Officers nor Shareholders assume any personal liability for obligations entered into on behalf of Eastern Utilities Associates.

Eastern Utilities

EASTERN UTILITIES ASSOCIATES
ANNUAL REPORT 1990