BOSTON EDISON COMPANY
1978 ANNUAL REPORT

7903220275

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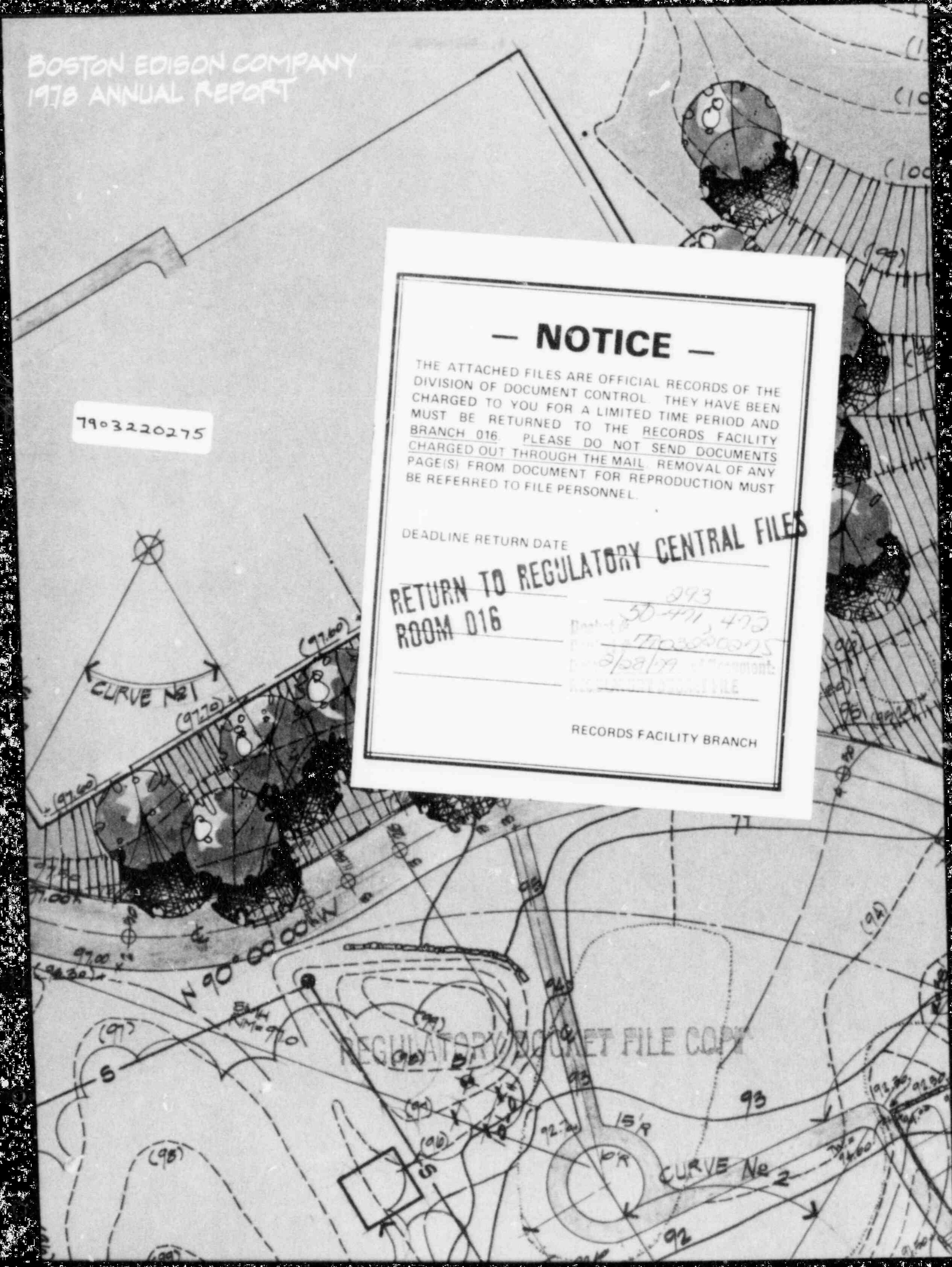
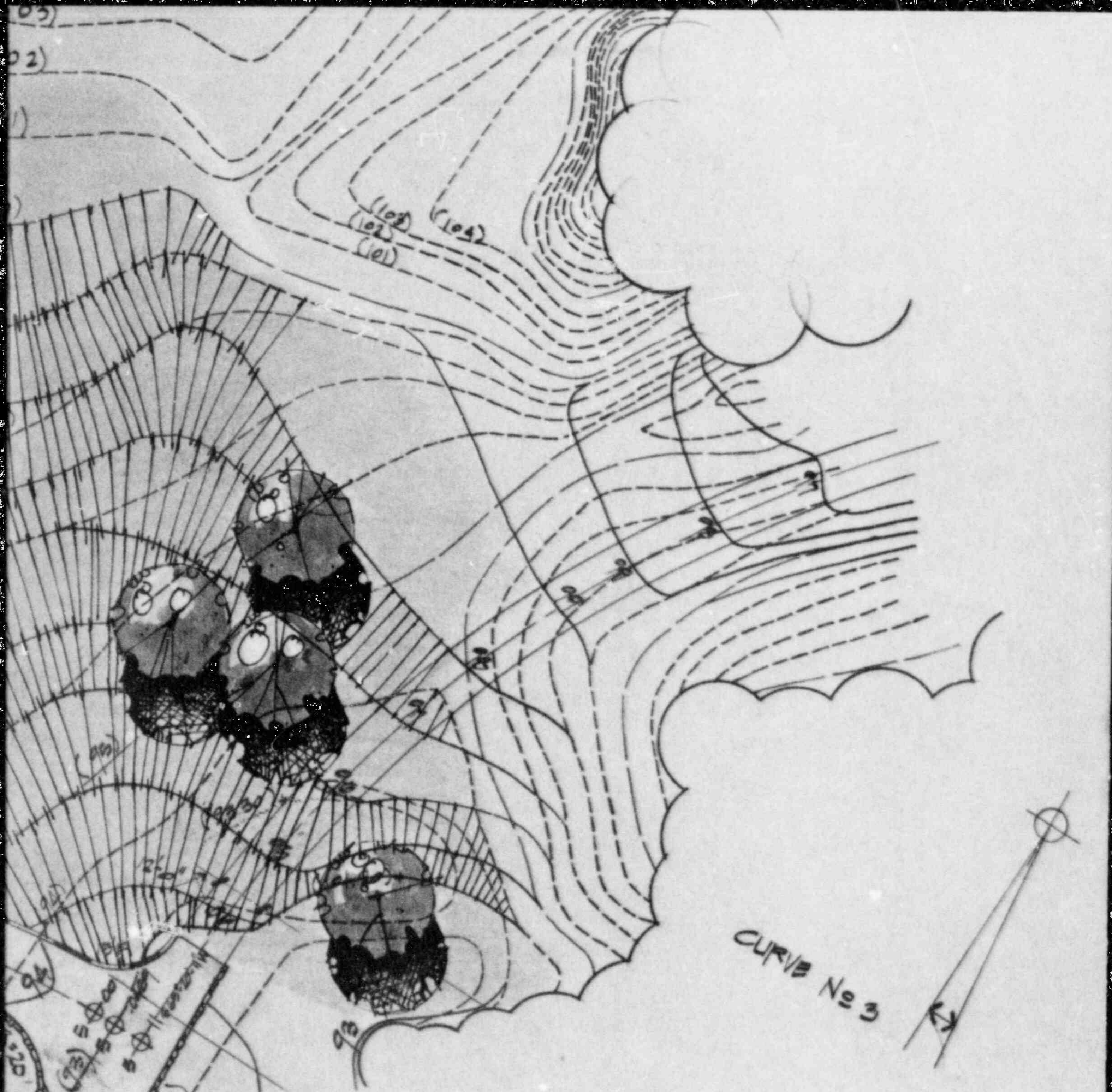




FINANCIAL HIGHLIGHTS

	1978	1977	% Change
Operating Revenues (000)	$613,438	$589,377	4.1
Balance for Common Stock (000)	$ 34,139	$ 22,307	53.0
Common Shares Outstanding—			
Weighted Average (000)	11,535	10,852	6.3
Common Stock Data:			
Earnings per Share	$2.96	$2.06	43.7
Dividends Declared per Share	$2.44	$2.44	—
Payout Ratio	82%	118%	—
Book Value per Share	$31.00	$30.48	1.7
Return on Average Common Equity	9.63%	6.80%	41.6
Fixed Charges Coverage (SEC)	2.50x	2.26x	10.6

PRESIDENT'S MESSAGE

The last five years have been especially difficult for the nation's electric utilities and, particularly, for Boston Edison Company. For Boston Edison, 1978 represents a turn around. Of special interest to you as stockholders are the accomplishments attained during the year. Earnings are the highest since 1972, $2.96 per share. Financial structure and key ratios were improved. Rate relief was received during the year. The system heat rate was the best in the Company's history and one of the best in the nation. The performance of Pilgrim Unit 1 was excellent with significant benefits to our customers. Improvements in productivity were realized. The number of employees is at its lowest level in 25 years, despite personnel increases needed to meet expanding regulatory and external demands, as well as the additional people required to support nuclear operations and engineering. We continue to make progress in achieving our equal opportunity objectives for both personnel and vendors.

As reported to you in last year's Annual Report, the Company, in spite of difficulties and constraints, has taken many constructive steps to minimize costs to serve. Operation and maintenance expenses increased only .7 percent during the year, a year which had one of the highest inflation rates in this century. For residential customers the cost of electricity in 1978 represented a smaller portion of the family budget than in 1959.

A significant event in 1978 was the election of a new governor. Governor Edward J. King was elected on a platform of economic growth and development of a healthy business climate. He emphasizes that the development of energy resources, including nuclear power, is necessary to achieve these objectives. Key to his program is relief from the heavy burden of property taxes. Major action in this area will not only present relief to homeowners, but will make Massachusetts a more attractive state in which to do business. This has particular importance for the Company since it is one of the highest property taxed utilities in the nation. In the past five years property taxes have increased an average of $6 million per year. In 1978 this rate decreased due to State aid to cities and towns. Over the next few years, we expect property taxes to stabilize or decline.

It is regrettable that five years after the oil embargo this nation does not have an effective energy policy. The development of coal and nuclear energy is essential. Conservation is one of the tools necessary to accomplish our objective of reduced dependence on foreign sources of energy. The Company supports constructive conservation for it represents the wise use of energy; however, conservation is not a substitute for new generating facilities.

The role of the country's electric utilities is a major one: providing energy sufficient to sustain the present economy and meet the needs of the future. In promoting economic growth and job development, the Company helps ensure reasonably priced electric energy and an adequate return on investors' funds, thus meeting responsibilities to investors, customers and employees.

In managing a business as complex as Boston Edison Company with its many problems and pressures, one does not accomplish results alone. I personally, and on behalf of the directors, extend appreciation to all who helped the Company make significant progress during 1978. Although many challenges remain for the future, we will maintain and escalate the momentum achieved this year.

February 28, 1979

REVIEW AND OUTLOOK

GROWTH AND CAPABILITY

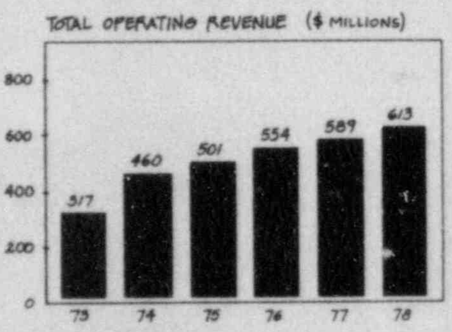
Over the past few years Boston Edison has dealt with the impact of a variety of changing factors upon energy growth, while simultaneously assuring an adequate and reliable supply of energy. With lower than anticipated growth, sales increases provide a decreasing percentage of the revenues necessary to offset the cost impacts of inflation. This forces increased reliance upon rate relief, which is politically and socially sensitive.

Prior to 1972, the Company's territory sales grew by approximately 7 percent annually. Inflation, the oil embargo and the 1974 recession resulted in a growth slowdown. Sales declines were experienced late in 1973 and continued through 1975. Since then, sales growth recovery has been realized, but below historical levels. In 1978, territory sales growth was 1.8 percent. For the period 1979 through 1989, current estimates indicate approximately a 3 percent annual growth rate in territory sales.

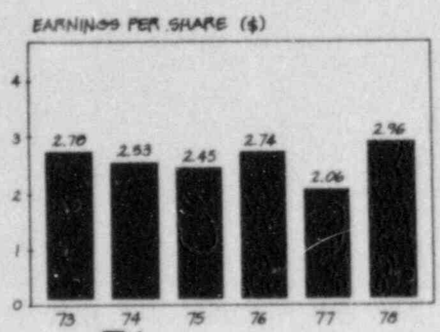
The Company's planning process, while reflecting this reduced growth, offers the flexibility necessary for growth to increase. The potential for such changes exist.

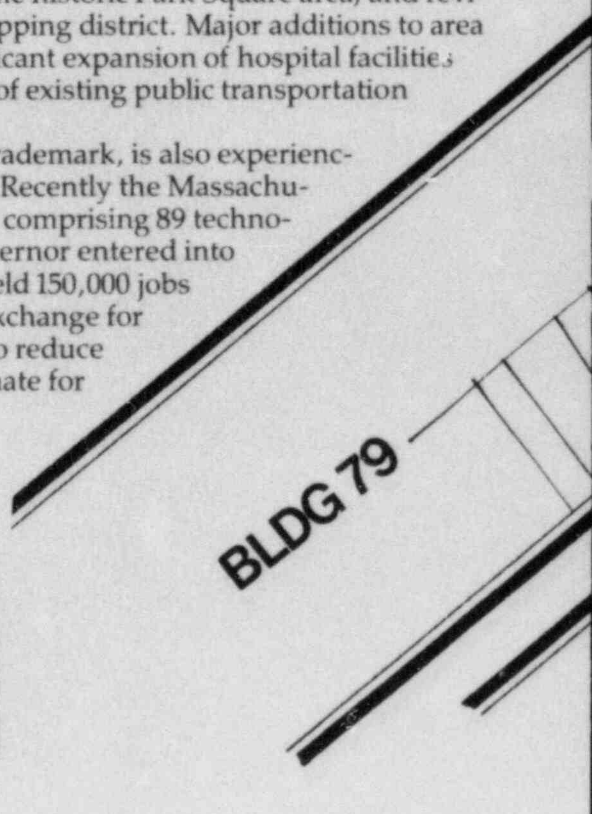
Boston and the surrounding area is experiencing renewed vitality. Boston is a 'living' city, financially healthy, with leadership that is sincerely interested in its well-being. The Mayor's 'Boston Plan' reflects a strong commitment to a new urban strategy designed to redevelop targeted areas through a mix of public and private funding. This public commitment is accompanied by increasing private development throughout the area.

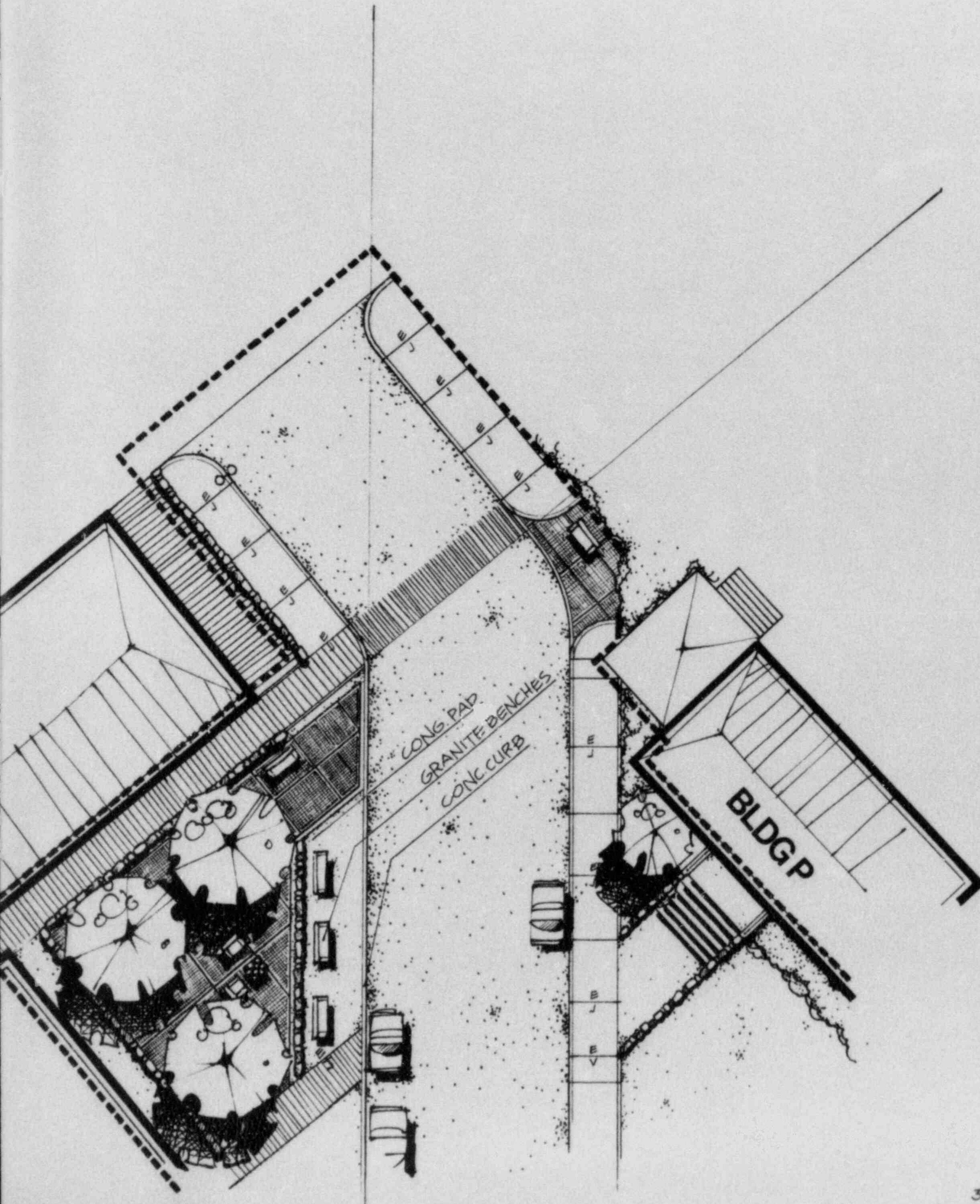
Many major projects are in the planning stage or already under construction: Copley Place, a $250 million investment in luxury shopping, a hotel and a 30-story office tower; the conversion of three closed naval facilities to commercial, industrial and residential uses; Park Plaza, the commercial redevelopment of the historic Park Square area; and revitalization of the downtown shopping district. Major additions to area colleges and universities, significant expansion of hospital facilities and substantial modernization of existing public transportation facilities are also planned.



High technology, an area trademark, is also experiencing renewed growth and vigor. Recently the Massachusetts High Technology Council, comprising 89 technological companies, and the Governor entered into a social compact designed to yield 150,000 jobs during the next four years, in exchange for action by the Commonwealth to reduce taxes and create a healthier climate for industry's economic growth.






CONC PAD
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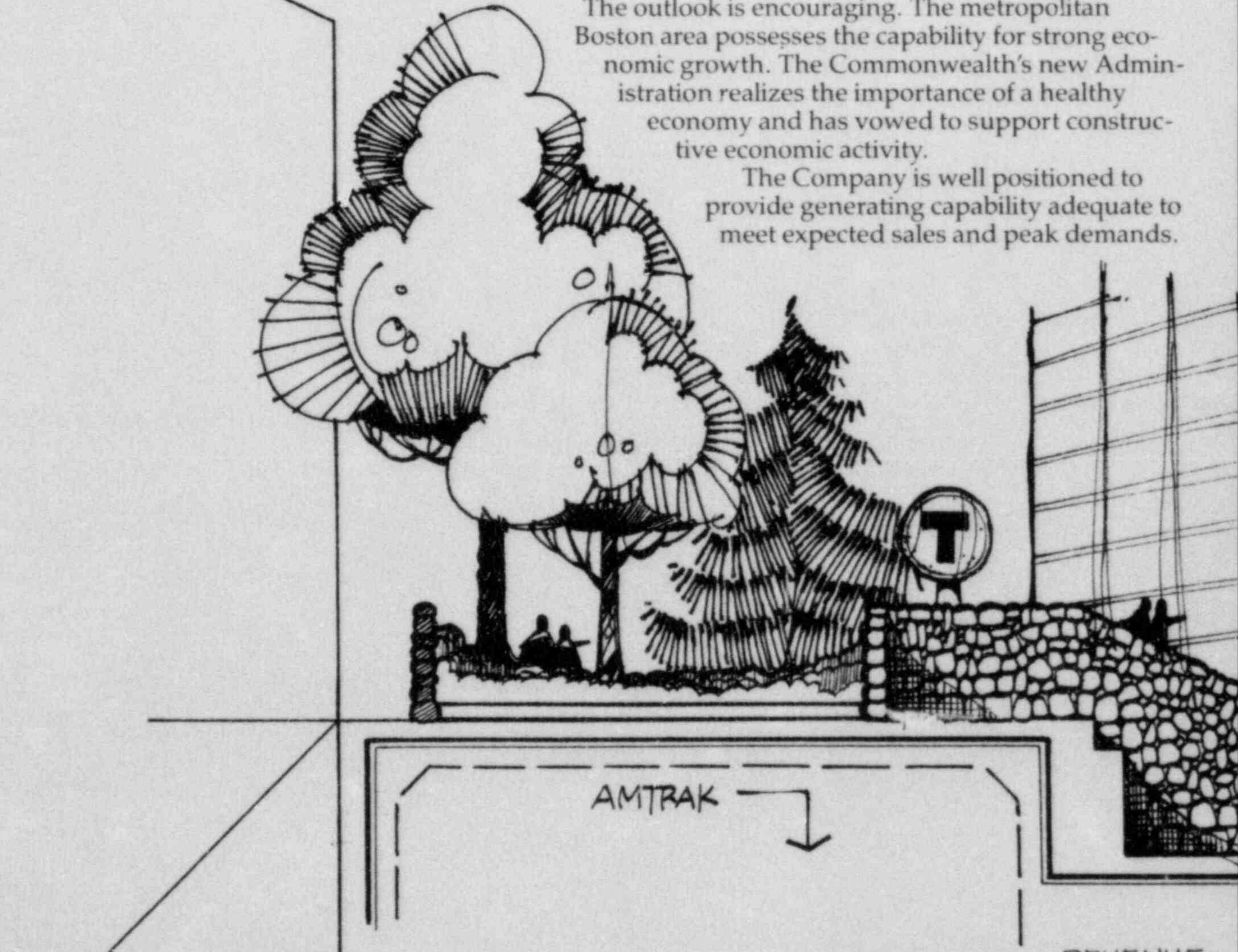
Large new office buildings have been completed and others are planned as the inventory of quality commercial space is being rapidly depleted. The construction of new hotels is being explored by major international firms, as the serious shortage of adequate hotel facilities becomes evident. Additional convention space is planned. Apartment and condominium construction continues. A number of development plans have been presented to continue the widely acclaimed restoration of Boston's historic waterfront.

As the economic tide is turning in the City of Boston, so too is change taking place in the suburbs. Route 128, which has had a surplus of office, research and industrial space for many years, now is experiencing a buildup of demand and new construction. Confidence has been restored to the point that developers are now building in anticipation of growth.

The outlook is encouraging. The metropolitan Boston area possesses the capability for strong economic growth. The Commonwealth's new Administration realizes the importance of a healthy economy and has vowed to support constructive economic activity.

The Company is well positioned to provide generating capability adequate to meet expected sales and peak demands.

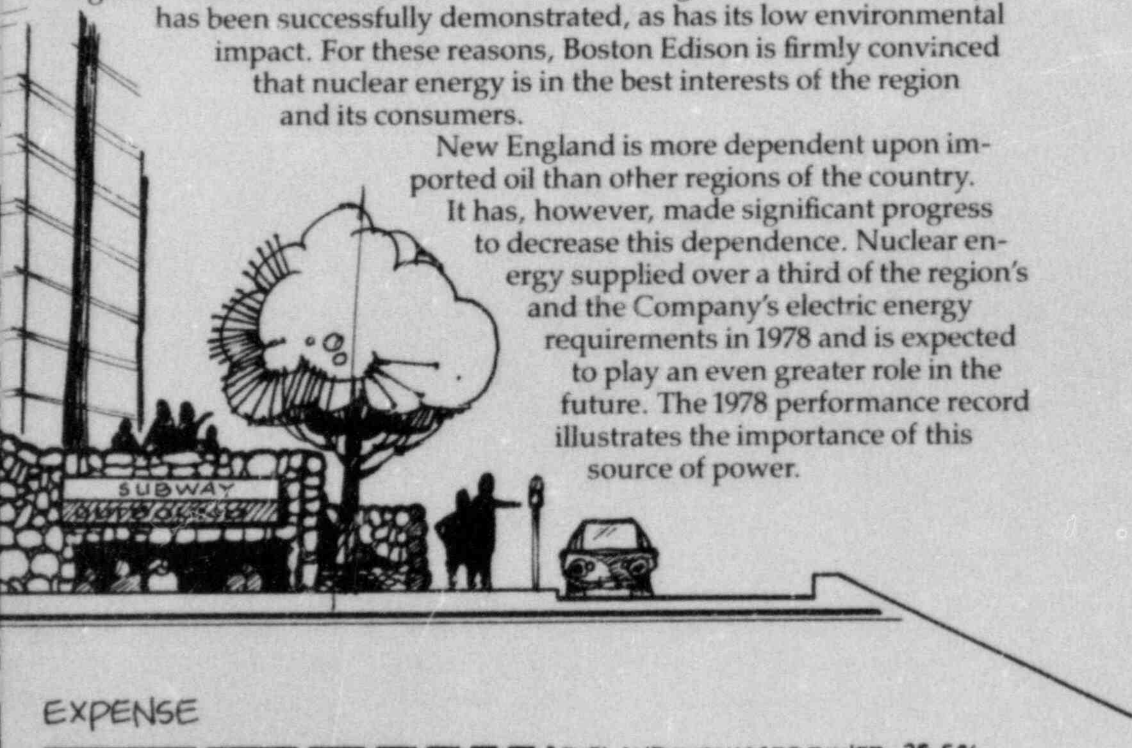


Present plans assure adequate capacity through the 1980s. In the mid 1980s, Pilgrim Unit 2, an 1150 MW nuclear unit, is scheduled for commercial operation and will strengthen operating capacity levels for the late 1980s and early 1990s.

NUCLEAR ENERGY

Assuring an adequate supply of energy for the economic development of the Boston area is one of the Company's responsibilities. Assuring that electricity is reasonably and fairly priced is another critical concern and the primary reason behind the Company's support of nuclear energy. Whether generation be coal, oil, nuclear or gas fired, the Company has nothing to gain. Recently enacted legislation prohibits the construction of oil or gas fired units for base load power. In New England coal is more expensive, while other forms of energy are not available in the decision-making time frame necessary to provide reliable base load power on an economical basis. Comprehensive studies have shown that for New England nuclear is the most economical form of generation. Its reliability has been successfully demonstrated, as has its low environmental impact. For these reasons, Boston Edison is firmly convinced that nuclear energy is in the best interests of the region and its consumers.

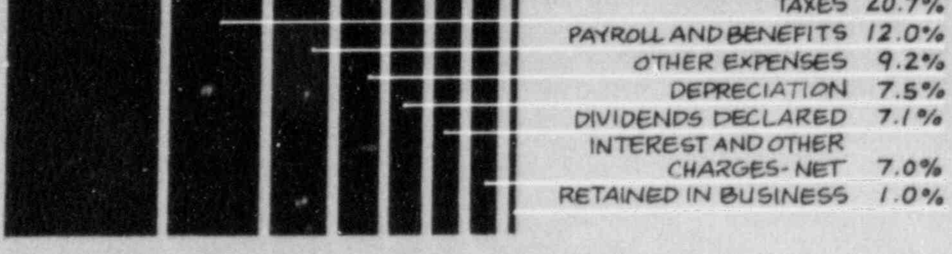
New England is more dependent upon imported oil than other regions of the country. It has, however, made significant progress to decrease this dependence. Nuclear energy supplied over a third of the region's and the Company's electric energy requirements in 1978 and is expected to play an even greater role in the future. The 1978 performance record illustrates the importance of this source of power.

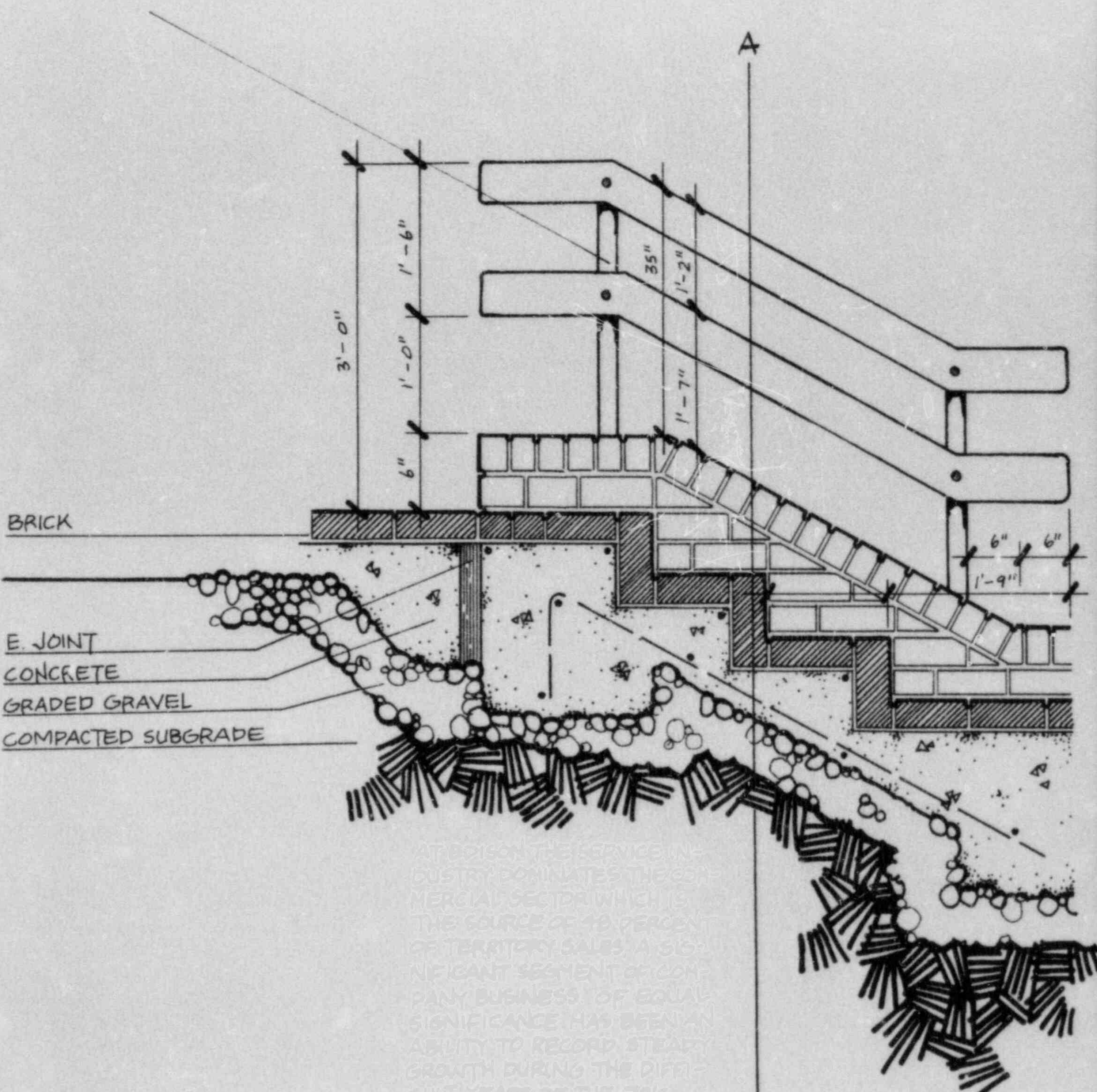


SERVICE IS EVIDENT IN A FINANCIAL COMMUNITY OF INTERNATIONAL BANKS, INSURANCE COMPANIES AND INVESTMENT FIRMS THAT HAVE EARNED ACCLAIM; IN A UNIQUE TECHNOLOGICAL INDUSTRY THAT HAS BEEN THE INCUBATOR FOR INNOVATION, TECHNICAL ADVANCEMENT AND, IN MANY CASES, UNLIMITED SUCCESS.

THE SERVICE INDUSTRY IS TO BOSTON WHAT AUTOMOBILES ARE TO DETROIT.

EXPENSE





AT EDISON THE SERVICE INDUSTRY DOMINATES THE COMMERCIAL SECTOR WHICH IS THE SOURCE OF 48 PERCENT OF TERRITORY SALES. A SIGNIFICANT SEGMENT OF COMPANY BUSINESS OF EQUAL SIGNIFICANCE HAS BEEN AN ABILITY TO RECORD STEADY GROWTH DURING THE DIFFICULT YEARS OF THE 70'S.

AND NOW THE WHEEL HAS TURNED. RECOVERY IS WITHIN REACH – AS IMMINENT AS THE 1980'S. WE'RE READY TO TAKE OFF ONCE AGAIN.

NUCLEAR ENERGY (cont)

Pilgrim Unit 1 achieved a 75 percent capacity factor; New England's nuclear units operated at 76 percent. Savings were substantial. New England's units saved the burning of 47 million barrels of oil, amounting to a $517 million fuel savings for customers. Of that, Pilgrim Unit 1 contributed a savings of 7 million barrels for a fuel savings of $78 million. In January 1979, the unit continued its strong performance, attaining over a 98 percent capacity factor and setting an all-time monthly production record.

The nation's increasing dependence upon foreign oil has adversely affected national security. It has been a primary source of record balance of payments deficits and has contributed significantly to persistent inflation. National economic performance has been and will continue to be seriously affected by problems related to oil supplies and prices.

The need for Pilgrim Unit 2 becomes increasingly evident as the volatile oil supply situation over the Iranian crisis illustrates the nation's vulnerability.

Pilgrim Unit 2 has been involved in a long and extensive licensing process which has resulted in delays in the projected schedule for commercial operation. The Company continues to target a December 1985 in-service date, but recognizes the potential for further regulatory delay. Hearings are continuing in the Nuclear Regulatory Commission (NRC) review of the construction permit application with very few issues remaining. Hearings are also in process before the Massachusetts Department of Public Utilities (DPU) relative to the Company's construction program focusing on the need for Pilgrim Unit 2. These hearings have been expedited by the DPU's new Commission.

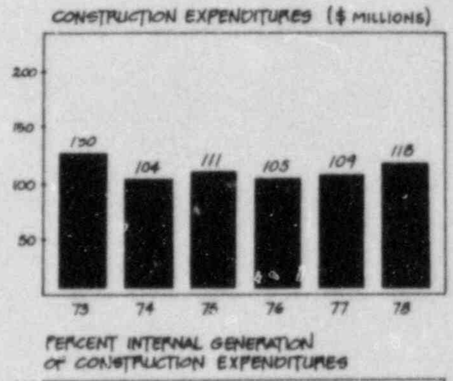
FINANCIAL

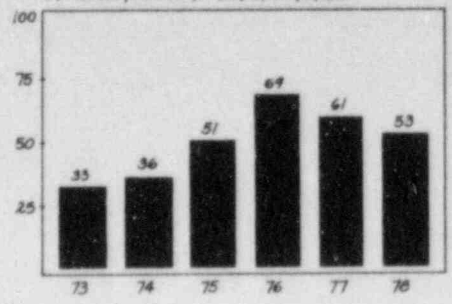
In 1978, substantial financial improvements were realized. Revenues advanced to $613 million, while net income increased from $38 million to $49 million, a 31 percent improvement. The balance available for common stock improved to $34 million. Earnings per share rose to $2.96 from $2.06 in 1977 while return on average common equity improved to 9.63% from 1977's 6.80%. Coverage of fixed charges increased from 2.26 times in 1977 to 2.50 times. Continued progress is expected in these key areas.

The Company's strong cash flow position has been maintained, remaining well above the industry average. Funds generated internally in 1978 amounted to over $63 million or 53% of construction expenditures.

In 1978, Boston Edison expended $118 million on construction projects. In addition to Pilgrim Unit 2, major expenditures were made for an oil storage facility at Mystic Station which provides the Company improved fuel purchasing flexibility, Pilgrim Unit 1 security and fire protection modifications required by the NRC, nuclear fuel, and a 35 MW ownership in Yarmouth Unit #4 built by Central Maine Power Company.

In 1978, the Company retired Units 4, 5 and 6 at Edgar Station. Constructed in the period from 1949 to 1954, the units would have required substantial investment for extensive repairs as well as to meet air and water environmental standards. Since the Company possesses adequate





FINANCIAL (CONT)

capability now and for the foreseeable future, and because these units were oil-fired, these expenditures could not be justified.

The Company anticipates construction expenditures of $159 million, $195 million and $207 million in 1979, 1980 and 1981, respectively. Some of the larger projects include work on Pilgrim Unit 2, major transmission and station facilities needed to meet customer requirements, a supervisory control and data acquisition system for improved system reliability and additional nuclear fuel.

Innovative financing augmented internally generated funds in 1978. The Company negotiated a nuclear fuel financing obligation through which about $44 million was obtained at favorable rates. In December, $95 million of first mortgage bonds were placed with a group of institutional investors, $49.5 million delivered in December and used to reduce short-term debt, and $45.5 million to be delivered in 1979 for the payment of maturing securities. The 1979 program anticipates issuing additional debt to be applied to the repayment of maturing securities. Market conditions permitting, additional shares of common equity will be issued.

The Company continued to strengthen its capital structure through the year. Long-term debt has been reduced from a high of 60 percent in 1974 to 52 percent of capitalization, continuing the trend of past years. Preferred and preference equity remained at 15 percent, while common equity represented 33 percent of capitalization. Although these levels are within targeted objectives, further improvements are planned.

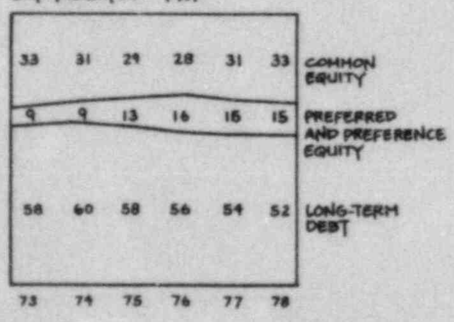
The Company's financial objectives are to continue to improve its earnings and return on equity, maintain its favorable cash flow posture, strengthen further the capital structure and improve fixed charge coverage ratios. During the year 1978, significant strides were made in these directions.

Actions have been taken to effect continuing financial improvement in 1979. A new system of budgeting review and control has been implemented; various forms of external financing to obtain the investment mix most beneficial to the Company are being explored.

The Massachusetts regulatory process in recent years has been rated below average by the investment community. It is expected that the newly appointed Department of Public Utilities Commissioners will be cognizant of the needs of the utilities in the Commonwealth. This is necessary if Governor King's commitment to economic growth is to be realized, and can be achieved with regulation that is fair to both consumers and investors.

In 1978, the Company obtained approximately $27 million in retail rate increases, $23 million from the February DPU decision and $4 million from the related appeal to the courts. On February 13, 1979, the DPU was notified of the Company's intent to file new rate schedules on March 16, 1979. In addition, revised rate schedules for the wholesale for resale customers have been filed with the Federal Energy Regulatory Commission, requesting an increase of approximately $1 million.

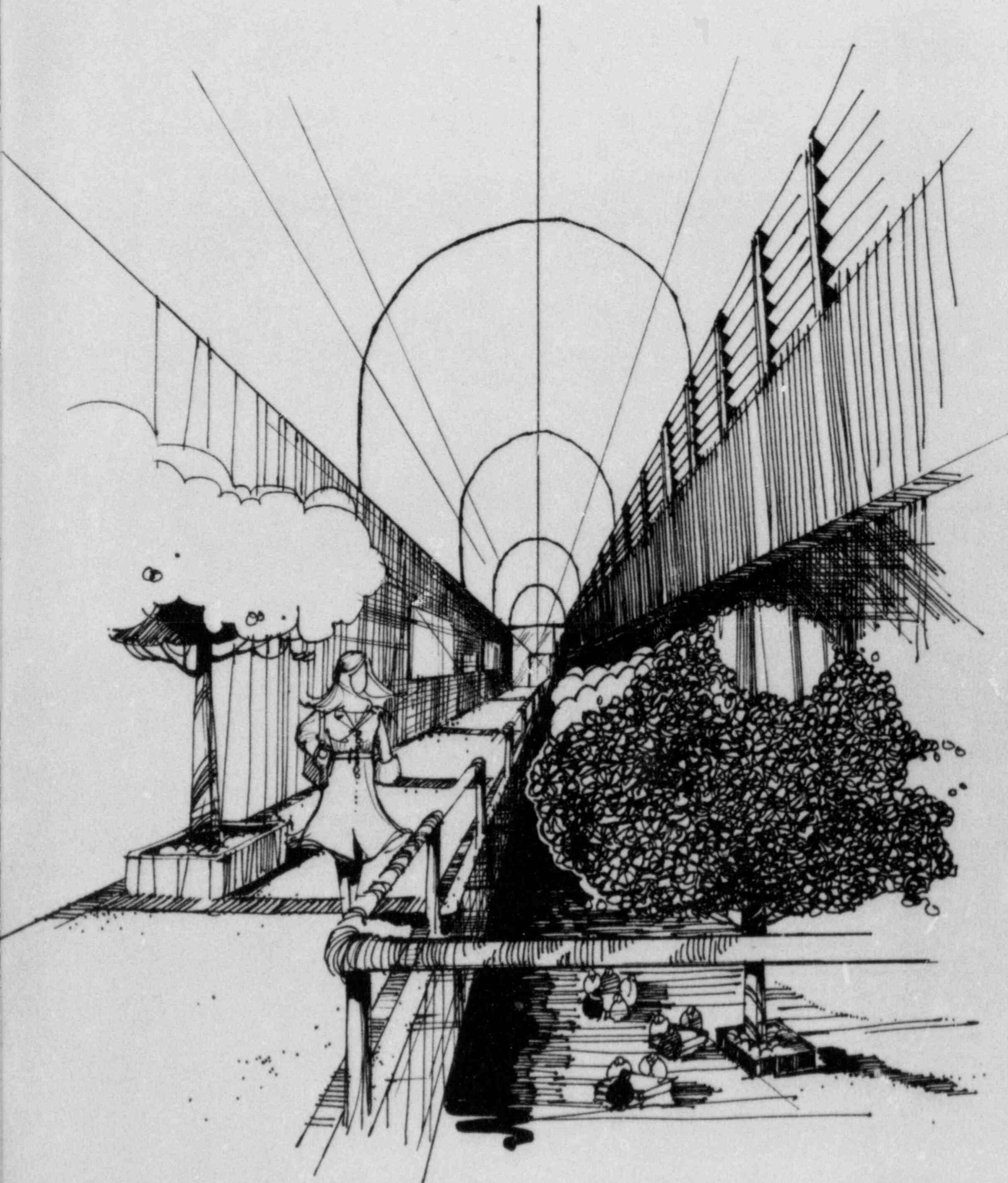
CAPITALIZATION (%)



WE'VE BEEN THERE BEFORE – IN THE 50'S WITH THE ADVENT OF THE GOLDEN SEMI-CIRCLE OF SCIENCE, ROUTE 128, IN THE 60'S WITH THE DEVELOPMENT OF THE NEW BOSTON SKYLINE

NOW THE REDEVELOPMENT OF CHARLESTOWN, THE INTRODUCTION OF PARK PLAZA, LAFAYETTE PLACE, COPLEY PLACE, AND OTHER MAJOR PROJECTS ON THE PLANNING BOARDS, MAKE THE 1980'S EXCITING, ATTRACTIVE AND PROMISING.

THE MOTORS ARE RUNNING.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Statements of Income

Operating revenues increased $24,061,000 in 1978 and $35,391,000 in 1977.

Base electric revenues increased $29,437,000 and $21,248,000 in 1978 and 1977, respectively; of these increases 83% in 1978 and 60% in 1977 resulted from retail rate increases.

Kilowatthour sales to our retail customers increased 1.7% and 2.5% in 1978 and 1977, respectively; while territory kilowatthour sales increased 1.8% and 2.5% for the same periods. It is estimated that sales of approximately 25,000,000 kilowatthours were lost due to the February 1978 blizzard which shut down the metropolitan Boston area for a week and that absent such loss, 1978 territory kilowatthour sales would have increased approximately 2.0 percent.

The following table provides a summary of the changes in operating revenues for the years 1978 and 1977.

	Increase (Decrease)	
Operating Revenue Changes	1978	1977
Electric Revenues:	(in thousands)	
Retail Sales:		
Rate Increases	$24,346	$12,644
Increase in Energy Sold	2,517	5,631
Subtotal	26,863	18,275
Sales for Resale	2,574	2,973
Total Base Electric Revenues	29,437	21,248
Other Electric Revenues	(39)	729
Fuel and Purchased Power Adjustment Revenues	(2,101)	11,804
Total Electric Revenues	27,297	33,781
Steam Revenues—Including Fuel Adjustment	(3,236)	1,610
Total	$24,061	$35,391

In 1978 total fuel and purchased power adjustment revenues and net fuel and purchased power expenses decreased $4,494,000 and $2,610,000, respectively. This compares with a 1977 increase in like revenues and expenses of $14,233,000 and $15,549,000. A principal factor in these fluctuations was the availability of the Company's nuclear facility, Pilgrim Unit I, which had been shut down for refueling during approximately five months in 1977. Furthermore, the 1978 average cost per barrel of oil decreased by $0.88 compared with an increase of $1.89 in 1977. Electric fuel and purchased power adjustment revenues include primarily the recovery of costs applicable to retail customers. Base revenues reflect the major portion of fuel and purchased power costs attributable to sales for resale.

Other operation expenses increased $5,894,000 in 1978 primarily as a result of increased labor costs reflecting the effect of the 1978 increases in Union contract wages and Management salaries, as well as increased rents, insurance, and regulatory commission expenses. Other operation and maintenance expenses increased in 1977 primarily because of additional transmission line and office rentals, additional fossil fuel generating station maintenance and labor and employee benefits resulting from a three-year union contract entered into in May, 1977.

The increases in Taxes Other than Income Taxes are primarily attributable to property tax increases resulting from higher tax rates and valuations.

The effective income tax rates for the years 1978 and 1977 were 46.7% and 47.4%, respectively (see note G of notes to financial statements).

Other interest increased $2,729,000 in 1978 principally as a result of an increase, from 6.9% in 1977 to 9.6% in 1978, in average interest rates. The prime lending rate as of December 31, 1978 and 1977 was 11¾% and 7¾%, respectively.

Total Allowance for Funds Used During Construction increased $7,997,000 in 1978 due primarily to increased average construction work in progress and an increase in the Allowance for Funds Used During Construction accrual rate. (See note B of notes to financial statements).

STATEMENTS OF INCOME
(IN THOUSANDS)

Years ended December 31,	1978	1977	1976	1975	1974*
Operating Revenues (notes A and G):					
Electric	$400,553	$371,116	$349,868	$290,186	$261,791
Steam	15,439	16,282	17,101	15,925	14,244
Fuel and purchased power adjustment	184,960	189,454	175,221	184,557	180,101
Other	12,486	12,525	11,796	10,454	3,396
Total Operating Revenue	613,438	589,377	553,986	501,122	459,532
Operating Expenses:					
Operation:					
Fuel (note A)	220,015	207,565	188,511	173,049	160,817
Purchased power (note A)	(1,710)	13,350	16,855	28,873	34,605
	218,305	220,915	205,366	201,922	195,422
Other	97,300	91,406	83,972	73,359	67,051
Total Operation Expense	315,605	312,321	289,338	275,281	262,473
Maintenance	32,812	33,659	31,875	25,090	23,012
Depreciation (note A)	45,936	44,814	42,815	38,324	34,522
Taxes other than income taxes	82,931	79,781	71,288	60,136	57,567
Provisions for income taxes (notes A and H):					
Current	27,123	3,969	3,011	1,153	(747)
Deferred	9,102	18,827	13,032	24,916	11,853
Investment tax credit—Net (notes A and H)	7,470	12,004	16,362	(312)	(312)
Total Operating Expenses	520,979	505,375	467,721	424,588	388,368
Operating Income	92,459	84,002	86,265	76,534	71,164
Other Income:					
Allowance for other funds used during construction (note B)	4,266	236	4,651	6,494	7,883
Other—Net	(161)	(494)	179	70	130
Operating and Other Income	96,564	83,744	91,095	83,098	79,177
Interest Charges:					
Interest on long-term debt	48,119	47,595	47,413	45,376	41,955
Nuclear fuel financing obligation (note D)	1,702	—	—	—	—
Other	10,110	7,381	7,462	9,660	14,032
Allowance for borrowed funds used during construction—credit (note B)	(12,798)	(8,831)	(3,805)	(5,314)	(6,450)
Total	47,133	46,145	51,070	49,722	49,537
Net Income	49,431	37,599	40,025	33,376	29,640
Preferred dividends provided	5,512	5,512	5,512	5,512	5,512
Preference dividends provided	9,780	9,780	8,362	4,503	—
Balance Available for Common Stock	$ 34,139	$ 22,307	$ 26,151	$ 23,361	$ 24,128
Common Shares Outstanding (weighted average)	11,535	10,852	9,535	9,535	9,535
Earnings per Share of Common Stock	$2.96	$2.06	$2.74	$2.45	$2.53

The notes on pages 14 through 21 are an integral part of the financial statements.
Management's Discussion and Analysis of Statements of Income is on page 10.
*Restated, see note G.

BALANCE SHEETS
(IN THOUSANDS)

	December 31, 1978		December 31, 1977*	
Assets				
Property, Plant and Equipment, at original cost (notes A, C, L and M)				
Utility plant in service:				
Electric plant	$1,459,340		$1,426,730	
Steam heating service plant	46,269		45,606	
	1,505,609		1,472,336	
Less: Accumulated depreciation	367,926	$1,137,683	387,418	$1,084,918
Nuclear fuel	84,127		77,595	
Less: Accumulated amortization	45,663	38,464	34,046	43,549
Nonutility property	927		885	
Less: Accumulated depreciation	28	899	196	689
Construction work in progress (note G)		169,960		141,519
		1,347,006		1,270,675
Investments in Nuclear Electric Companies, at equity		6,498		6,498
Current Assets:				
Cash	15,327		18,853	
Accounts receivable:				
Customers	90,202		84,385	
Other	4,110		139	
Materials and supplies, at average cost (note C)	27,077		21,425	
Prepaid expenses and other current assets	967	137,683	1,087	125,889
Deferred Debits (notes A, C and G)		53,483		64,454
		$1,544,670		$1,467,516

	December 31, 1978		December 31, 1977*	
Liabilities and Capital				
Common Stock par value $10 per share (note F):				
Shares authorized 14,534,500 in 1978;				
Shares outstanding 11,534,500	$115,345		$115,345	
Premium on Common Stock (note F)	129,812		129,812	
Retained Earnings	112,480		106,485	
Surplus Invested in Plant	405		405	
Capital Stock Expense—net	(426)	$ 357,616	(497)	$ 351,550
Cumulative Preferred Stock, par value $100 per share, authorized, issued and outstanding (note F):				
4.25% Series—180,000 shares	18,000		18,000	
4.78% Series—250,000 shares	25,000		25,000	
8.88% Series—400,000 shares	40,000		40,000	
Capital Stock Expense—net	(28)	82,972	(42)	82,958
Cumulative Preference Stock, par value $1 per share, authorized 8,000,000 shares, issued and outstanding (note F):				
$1.175 Series—5,000,000 shares	5,000		5,000	
Premium on $1.175 Series	41,650		41,650	
Capital Stock Expense—net	(193)	46,457	(224)	46,426
$1.46 Series—2,675,000 shares	2,675		2,675	
Premium on $1.46 Series	35,658		35,658	
Capital Stock Expense—net	(146)	38,187	(166)	38,167
Total Capital		525,232		519,101
Long-Term Debt (note C):				
First mortgage bonds	541,680		506,838	
Secured notes	19,720		21,360	
Term note payable to bank	—	561,400	75,000	603,198
Nuclear Fuel Financing Obligation (note D)		43,789		—
Current Liabilities:				
Long-term debt due within one year	91,148		1,640	
Notes payable to banks (note E)	52,180		108,680	
Accounts payable	43,738		43,020	
Customer deposits	4,493		4,129	
Taxes accrued	22,559		2,856	
Interest accrued	9,609		9,071	
Dividends declared	8,412		8,412	
Other current liabilities	2,220	234,359	3,265	181,073
Deferred Credits:				
Accumulated deferred income taxes (notes A and H)	135,018		125,497	
Accumulated deferred investment tax credit (notes A and H)	41,509		35,422	
Unamortized premium on debt, less expense (note C)	369		351	
Other	2,994	179,890	2,874	164,144
		$1,544,670		$1,467,516

The notes on pages 14 through 21 are an integral part of the financial statements.
*Restated, see note G.

SOURCES OF CONSTRUCTION FUNDS
(IN THOUSANDS)

Years ended December 31,	1978	1977	1976	1975	1974*
Statements of Sources of Construction Funds					
Funds Generated Internally:					
Net Income	$ 49,431	$ 37,599	$ 40,025	$ 33,376	$ 29,640
Add—Amounts charged (credited) not requiring funds currently:					
Depreciation	46,015	44,904	42,864	38,452	34,702
Deferred income taxes	9,103	18,827	12,937	24,699	11,655
Amortization of nuclear fuel	11,618	4,136	5,118	4,515	4,396
Investment tax credit—net	7,470	12,004	16,362	(312)	(312)
Allowance for funds used during construction	(17,064)	(9,067)	(8,456)	(11,808)	(14,333)
Total from operations	106,573	108,403	108,850	88,922	65,748
Less—Preferred dividends declared	5,512	5,512	5,512	5,512	5,512
Less—Preference dividends declared	9,780	9,780	8,037	4,020	—
Less—Common dividends declared	28,144	26,924	23,264	23,264	23,264
Funds generated internally	63,137	66,187	72,037	56,126	36,972
Funds Obtained from Outside Sources:					
Sale of Securities:					
Common Stock	—	51,560	—	—	—
Preference Stock	—	—	38,333	46,650	—
First Mortgage Bonds	49,500	60,000	—	—	60,000
Less—Sinking Fund & other retirements	(150)	(358)	(175)	(200)	—
Decrease in term notes payable to banks	—	(60,000)	—	—	—
Sale (redemption) of Secured Notes	(1,640)	—	—	23,000	—
Increase (decrease) in notes payable to banks	(56,500)	14,000	(12,500)	(12,320)	40,970
Proceeds from Nuclear Fuel Financing Obligation	43,789	—	—	—	—
Sale of utility property	—	—	—	—	7,940
Funds obtained from outside sources	34,999	65,202	25,658	57,130	108,910
Other Funds Provided (Used):					
Deferred fuel costs	11,030	(11,743)	798	(2,198)	(12,818)
Working Capital and other changes	8,989	(10,958)	6,220	(124)	(29,381)
	20,019	(22,701)	7,018	(2,322)	(42,199)
Total funds provided	$118,155	$108,688	$104,713	$110,934	$103,683
Construction Expenditures:					
Plant	112,102	109,727	86,507	94,131	102,088
Nuclear Fuel	6,053	(1,039)	18,206	16,803	1,595
Total construction expenditures	$118,155	$108,688	$104,713	$110,934	$103,683

RETAINED EARNINGS
(IN THOUSANDS)

	1978	1977	1976	1975	1974*
Statements of Retained Earnings					
Balance at beginning of year:					
As previously reported	$107,302	$111,919	$108,707	$108,127	$106,940
Cumulative adjustment to reflect refunds to certain customers (note G)	(817)	(817)	(817)	(817)	(494)
As restated	106,485	111,102	107,890	107,310	106,446
Net income	49,431	37,599	40,025	33,376	29,640
	155,916	148,701	147,915	140,686	136,086
Cash Dividends Declared:					
Preferred	5,512	5,512	5,512	5,512	5,512
Preference	9,780	9,780	8,037	4,020	—
Common	28,144	26,924	23,264	23,264	23,264
	43,436	42,216	36,813	32,796	28,776
Balance at end of year	$112,480	$106,485	$111,102	$107,890	$107,310

The notes on pages 14 through 21 are an integral part of the financial statements.
*Restated, see note G.

NOTES TO FINANCIAL STATEMENTS

The Company is subject to regulation by various agencies. Because of the effect in regulated businesses of the rate-making process, differences may arise in the application of generally accepted accounting principles as between regulated and nonregulated businesses. Such differences are related principally to the time at which various items enter into the determination of net income in accordance with the principle of matching costs and revenues.

1. Depreciation and Amortization

Physical property is depreciated on a straight-line basis at approximately 3.16% annually. At the time of retirement of property units, their cost and the cost of removal are charged to and salvage is credited to accumulated depreciation.

Maintenance expense is charged for the cost of current repairs, replacement of items not accounted for as units of property, and minor betterments of plants and properties as they are incurred.

The cost of nuclear fuel is amortized to fuel expense based on engineering estimates of usage. Nuclear fuel cost does not include salvage value and reprocessing costs, since the Massachusetts Department of Public Utilities (MDPU) has not allowed estimates of these items to be used in the determination of current fuel adjustment charges.

2. Capitalization of Costs During Construction

In accordance with regulatory accounting, the Company capitalizes as part of construction costs certain general and administrative costs, and also capitalizes and includes in income an allowance for funds used during construction (see note B).

3. Deferred Debits

The Company defers unbilled fuel and purchased power costs, certain promotional expenses and other costs deemed recoverable under the rate-making process. In addition, certain interest costs deemed to be recoverable under financing arrangements have been deferred (see note C).

4. Income Taxes

Deferred income tax expense results from timing differences in the recognition of certain expenses for tax and financial statement purposes. The major components of deferred income tax expense are summarized in note H.

Investment tax credits are reflected in income over the estimated useful lives of the related property.

5. Pensions

The Company's policy is to fund pension costs accrued; pension expense for the year consists of normal cost plus 10% amortization of initial prior service costs (see note I).

B. ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

Under the rate-making process, the amounts recorded as Allowance for Funds Used During Construction (AFUDC) are not realized in cash currently but will be recovered over the service life of plant in the form of increased revenue collected as a result of higher depreciation expense.

Commencing in 1977, pursuant to Order #561 issued by the Federal Energy Regulatory Commission (FERC), the Company changed its method for determining the rate used in computing AFUDC and its method of presentation of AFUDC in the statements of income. In accordance with the Order, the AFUDC rates for 1977 and 1978 were 9% and 11%. The rate used by the Company in 1974 through 1976 was 9½%, computed in accordance with the method allowed by the MDPU.

An MDPU rate order dated February 28, 1978 did not allow the method prescribed by Order #561, nor did it allow the additional deferred income taxes resulting from that method to be included in the cost of service. The Company is currently discussing this matter with the appropriate regulatory authorities to determine the applicable method to be used. In the meantime AFUDC has been recorded in 1978 and 1977 consistent with Order #561. Had the Company used the method prescribed in the MDPU's rate order, the effect on 1978 net income would be immaterial; however, 1977 net income would have been increased by approximately $2,153,000 ($.20 per common share).

C. LONG-TERM DEBT

First Mortgage Bonds

Substantially all property, plant and equipment and materials and supplies owned by the Company are subject to lien under the terms of the Indenture of Trust and First Mortgage dated December 1, 1940, and supplements thereto.

Series	Rate	Maturity	1978	1977
			(in thousands)	
O	12½	Aug. 15, 1979(1)	$ 60,000	$ 60,000
B	2¾	Apr. 1, 1980	13,688	13,838
D	3⅛	July 1, 1982	15,000	15,000
E	3	Aug. 1, 1984	18,000	18,000
F	4⅝	June 1, 1987	25,000	25,000
H	4¼	June 1, 1992	15,000	15,000
I	4¾	Nov. 1, 1995	25,000	25,000
J	6⅛	June 1, 1997	40,000	40,000
K	6⅞	Nov. 1, 1998	50,000	50,000
L	9	Dec. 1, 1999	50,000	50,000
M	9⅜	July 1, 2000	60,000	60,000
N	8⅛	May 15, 2001	75,000	75,000
Q	9¾	Dec. 15, 2003(1)	49,500	—
P	9¼	Apr. 15, 2007	60,000	60,000
Total First Mortgage Bonds			556,188	506,838
Other Long-Term Debt				
Term Note Payable to Bank, maturing on October 31, 1979 (2)			75,000	75,000
Secured Notes, due November 15, 1985, with interest at 11¼% (3)			21,360	23,000
Total Long-term Debt			652,548	604,838
Less: Long-term Debt due within one year			91,148	1,640
Long-term Debt—Net			$561,400	$603,198

(1) As of December 15, 1978, the Company executed a Bond Purchase Agreement for the private placement sale of $95,000,000 aggregate principal amount of First Mortgage Bonds, Series Q, 9¾%, due 2003. The bonds were sold to a group of institutional investors with $49,500,000 delivered in December 1978 and $45,500,000 to be delivered in August 1979. The proceeds of the December 1978 delivery were applied to the payment of outstanding short-term debt. The proceeds from the August 1979 delivery will be applied to the payment at maturity of the outstanding First Mortgage Bonds, Series O, 12½%, due August 15, 1979; accordingly, that amount of the Series O Bonds is included in Long-term Debt—Net above. Under the agreement the bonds are redeemable at prices declining from 109.75% at the present time to 100.00% of par value in the year 2002 and may not be refunded prior to December 15, 1988 with indebtedness having a shorter life to maturity or a lower interest rate. The Company will be required to make annual sinking fund deposits of $2,375,000 in the years 1983 through 1989, $3,800,000 in the years 1990 through 1995 and $6,935,000 in the years 1996 through 2002.

(2) The note bears interest at the lender's prime rate plus 22% of such rate (9.46% and 14.34% at December 31, 1977 and 1978, respectively); however, to the extent that the average interest paid exceeds 7.75% per annum over the period of the loan (November 15, 1972 to October 31, 1979), the excess amount will be refunded to the Company at maturity. Cumulative excess interest of $8,430,000 through December 31, 1978 has been deferred in the accompanying balance sheet.

(3) The notes are secured by five gas turbine facilities and have annual prepayment requirements of $1,640,000 through November 15, 1984.

The aggregate principal amounts of long-term debt due in the five years 1979 through 1983 are $91,148,000, $15,320,000, $1,640,000, $16,640,000 and $4,015,000, respectively.

The unamortized premium on the Company's outstanding debt, less expense of issue, is being amortized ratably to the maturities of the respective debt.

Under the terms of an August 1, 1978 agreement, with PruLease, Inc., the Company is able to finance from time to time the acquisition costs of nuclear fuel up to a maximum amount of $50,000,000 at any one time outstanding. As of December 31, 1978, $43,789,000 had been drawn down by the Company. Principal will be paid quarterly, beginning January 25, 1979, on the basis of nuclear fuel burnup. Interest, at a rate equal to PruLease's ninety-day commercial paper rate plus 1⅛%, is payable monthly. PruLease has a secured interest in the assets financed by the agreement which is subordinate to the lien of the Indenture securing the Company's First Mortgage Bonds. The Company is considered to be the owner for all purposes including accounting, tax, utility regulation and rate making. After the first year, the Company has the right to terminate the agreement on thirty days notice and PruLease has the right to terminate on two years notice.

At December 31, 1977 and 1978, the Company had lines of credit with commercial banks aggregating approximately $160,000,000. The Company maintains compensating balances that approximate 10% of certain credit lines plus 10% of the loans outstanding under these lines. Compensating balances based upon cash balances reflected in the Company's records represented approximately 13% and 11% of the lines of credit at December 31, 1977 and 1978, respectively. There are no legal restrictions on the withdrawal by the Company of compensating balances; however, the maintenance of such compensating balances is required to obtain short-term lines of credit at favorable interest rates.

The weighted average interest rate on short-term commercial bank loans outstanding at December 31, 1977 was 7.77% and at December 31, 1978 was 11.46%. The maximum amounts of short-term commercial bank loans outstanding were $138,680,000 in 1977 and $124,180,000 in 1978. Average short-term borrowings outstanding and related average interest rates during the years 1977 and 1978 were $95,520,000 at 6.94% and $96,162,000 at 9.55%, respectively. The average amounts outstanding and the average interest rates are based on daily weighted averages, but without considering the effect of compensating balances.

Common Stock

At the Annual Meeting held April 18, 1978, Shareholders voted to amend the Articles of Organization to increase the authorized capital stock of the Company by 3,000,000 additional shares of $10 par value common stock.

On May 4, 1977, the Company sold 2,000,000 shares of common stock for $51,560,000 of which $20,000,000 was credited to common stock at par value and $31,560,000 was credited to premium on common stock.

Cumulative Preferred Stock

Series	Current Redemption Price
4.25% (1)	$103.625 per Share
4.78% (1)	$102.80 per Share
8.88% (1)	$107.00 per Share

(1) Upon involuntary liquidation of the Company, holders will be entitled to receive $100 per share.

Cumulative Preference Stock

Series	Current Redemption Price
$1.175 (2) (3)	Not Redeemable Prior to March 1, 1980
$1.46 (2)	Not Redeemable Prior to May 1, 1981

(2) Subject to the prior preferential rights of the Cumulative Preferred Stockholders, upon involuntary liquidation of the Company, holders are entitled to receive $10 per share.

(3) Commencing in 1980, the Company is required to offer to purchase not exceeding 200,000 shares of the $1.175 Series at a price of not more than $10 per share if during a period of twelve consecutive months ending the last day of February in that year there was a period of forty-five consecutive calendar days during which the last reported sale price for such shares was less than $10 per share.

6 COMMITMENTS AND CONTINGENCIES

1. Capital Commitments
At December 31, 1978, contractual obligations for plant and equipment were approximately $153,000,000. Of this amount $77,000,000 was for Unit 2 at Pilgrim Station of which $31,000,000 is to be borne by the other joint owners of Unit 2. As of December 31, 1978 the Company's portion of construction expenditures for Unit 2 included in construction work in progress totaled $139,000,000, including $22,000,000 of AFUDC.

2. Rate Proceedings and Restatements
Information regarding certain pending Wholesale Rate proceedings at December 31, 1978, was as follows:

During the period January 1, 1973, through February 27, 1976, the Company increased its rates to its wholesale electric utility customers subject to final approval by FERC and possible refund. Based on a FERC compliance order and other developments with respect to settlement negotiations in late 1977, the Company estimated the amount of revenues to be refunded. Accordingly, operating revenues, net income and earnings per share of common stock for the years 1973 through 1976 were restated in the Company's 1977 financial statements.

On October 5, 1978, the Company and one of its wholesale customers filed with FERC a settlement agreement with respect to the rates collected in 1973 and 1974. Earlier in 1978, a similar settlement agreement with that customer, concerning rates collected in 1975 through 1978, was approved by FERC subject to possible rehearing. The Company has offered to join in similar settlement agreements with the other wholesale customers. Based upon these settlement agreements, the years 1973 and 1974 have been further restated since December 31, 1977, to record the effect of estimated additional refunds. The effect of the additional restatement was to reduce net income by $494,000 ($.06 per share) and $323,000 ($.03 per share) for the years 1973 and 1974, respectively.

After giving effect to the above restatements, the net amount of such rate increases over the rate last approved by FERC reported as revenues for the six years ended December 31, 1978, are approximately $6,599,000, $6,978,000, $3,671,000, $5,275,000, $6,938,000 and $4,956,000, respectively. The Company does not believe that material amounts in addition to those provided will have to be refunded. The exact amount of any refunds will depend upon the final outcome of the pending proceedings.

In 1976, the Company began billing to wholesale customers $1,900,000 of deferred fuel costs over a 24-month period. On January 12, 1979, FERC issued an order denying the collection of these costs. The Company believes its billing method was proper and intends to seek rehearing of the decision. Should refunds be required, earnings per common share for 1976 would be reduced by approximately $.10.

3. Litigation

The Company is a defendant in antitrust suits brought by the Town of Norwood in 1974 and the Towns of Concord and Wellesley in 1976. The plaintiffs claim treble damages totaling $69,000,000 based on their dealings with the Company as wholesale purchasers of electric power. Herrick & Smith, special counsel to the Company, have stated that they cannot predict the outcome of these lawsuits, since they cannot be certain what facts might be found in a trial or how some legal issues might be resolved, but that in the pretrial proceedings to date, nothing has come to their attention indicating to them that the plaintiffs' claims have merit.

4. Lease Commitments

At December 31, 1977 and 1978, the Company had leases covering certain facilities and equipment. Some of these leases are "capital leases," as defined by the Financial Accounting Standards Board. Under regulatory accounting, leases are not capitalized.

Had all operating leases which meet the criteria for capital leases been capitalized, the amounts of the asset and the liability that would have been included in the balance sheets for the years ended December 31, 1977 and 1978 and the effect on expenses would be immaterial.

Estimated minimum rental commitments under noncancellable leases and the amounts applicable to capital leases for years subsequent to 1978 are as follows:

	Total	Capital Leases
	(in thousands)	
1979	$ 7,700	$ 5,800
1980	6,700	5,400
1981	6,300	5,000
1982	5,700	4,400
1983	4,600	3,300
1984–1988	21,300	14,700
1989–1993	14,400	11,100
1994–1998	8,500	7,400
1999 and subsequent	6,500	5,800

A portion of the aforementioned rentals may be capitalized as part of construction costs in the future.

Rent expense reflected in the results of operations from 1974 through 1978 and the portion thereof related to capital leases is as follows:

	Rent Expense	Portion Related to Capital Leases
1978	$7,500	$5,300
1977	8,700	6,400
1976	5,600	3,800
1975	4,800	3,200
1974	5,400	4,000

Rent expense for the years 1974 through 1978 excludes $700,000, $1,100,000, $1,500,000, $1,700,000 and $1,900,000, respectively, of rentals capitalized as part of construction costs.

H. INCOME TAXES

Components of deferred income tax expense are as follows:

	1978	1977	1976	1975	1974
Excess tax depreciation over book depreciation	$4,005	$ 5,337	$ 4,863	$ 9,399	$ 3,889
Deferred fuel expense	(4,950)	5,270	(358)	5,580	3,647
Capitalized property taxes	60	—	—	1,887	840
Deferred interest expense	1,108	158	105	1,652	975
Debt portion of allowance for funds used during construction (note B)	5,744	3,964	1,708	3,067	837
Contested property taxes	—	—	380	1,299	824
Other indirect construction costs	—	1,386	1,225	1,432	366
Massachusetts corporate franchise tax	1,152	2,382	1,512	2,139	—
Abandonment loss	—	—	1,471	—	—
Other	1,985	330	1,865	(1,721)	277
Total	$9,104	$18,827	$12,771	$24,734	$11,655

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

	1978	1977	1976	1975	1974*
Statutory rate	48%	48%	48%	48%	48%
Allowance for funds used during construction (note B)	(2.2)	(.2)	(3.1)	(5.3)	(13.6)
Massachusetts corporate franchise tax	3.2	3.3	3.1	3.2	—
Excess of tax straight-line depreciation over book depreciation	—	—	—	—	(4.0)
Indirect construction costs	—	—	—	—	(1.6)
Other	(2.3)	(3.7)	(3.4)	(2.5)	(2.5)
Effective Rate	46.7%	47.4%	44.6%	43.4%	26.3%

*Restated, see note G.

The Company estimates that it will utilize all 1978 investment tax credits. Federal income tax returns through 1973 have been examined and closed.

I. PENSIONS

The Company has a noncontributory funded plan (with voluntary contributory features) covering substantially all employees. Pension accruals and the portion added to construction costs were as follows:

	1978	1977	1976	1975	1974
Total accrued	$7,808	$7,406	$6,389	$5,974	$4,955
Added to construction costs	1,810	1,841	1,659	1,542	1,174

Unfunded prior service costs as of December 31, 1977 and 1978 were $12,100,000 and $11,000,000, respectively.

J. 1978 AND 1977 QUARTERLY FINANCIAL DATA (UNAUDITED) IN THOUSANDS OF DOLLARS EXCEPT EARNINGS PER SHARE

	Quarter	Operating Revenues	Net Operating Income	Net Income	Net Income Available for Common Stock	Earnings Per Share of Common Stock*
1978						
	First	$164,815	$18,117	$ 7,149	$ 3,336	$0.29
	Second	140,584	21,875	11,450	7,614	0.66
	Third	160,456	29,272	17,973	14,134	1.22
	Fourth	147,583	23,195	12,859	9,055	0.79
1977						
	First	$146,282	$18,844	$ 7,151	$ 3,338	$0.35
	Second	134,498	17,769	6,051	2,215	0.20
	Third	156,577	24,337	12,739	8,900	0.77
	Fourth	152,020	23,052	11,658	7,854	0.68

*Based on quarterly weighted average number of shares.

It is the Company's opinion that the quarterly financial data has been prepared by the application of consistent accounting practices and policies and reflects all adjustments necessary for a fair presentation of the quarterly results of operations.

The significant increases in second, third and fourth quarter 1978 earnings are due in part to rate increases that became effective in February and June of 1978. Third and fourth quarter earnings for both years were also increased by the effect of a summer rate surcharge.

K. ESTIMATED FUTURE COSTS RELATED TO SPENT NUCLEAR FUEL AND GENERATING PLANTS

Presently there is no facility in operation to reprocess spent nuclear fuel and, as a result, the Company's spent nuclear fuel assemblies may have to be stored indefinitely. No provision has been made for the costs of indefinite storage, because such ultimate costs cannot be reasonably estimated at this time. The Company is, however, in the process of expanding storage facilities at the Pilgrim Station site sufficient to store spent fuel through approximately the year 1990. The added capital costs of these expanded storage facilities are estimated to be $2.8 million, excluding construction overhead costs, which will be amortized over the useful life of the facility.

The depreciation rate for Pilgrim Unit 1 does not include provision for the cost of decommissioning the Unit at the end of its useful life; however, such costs will be included in the depreciation rate when they can be reasonably determined by the Company and approved by the appropriate regulatory authorities.

The Company also participates as an investor in other nuclear generating units. At this time, the Company cannot reasonably estimate the ultimate cost of indefinite storage of spent nuclear fuel assemblies and the cost of decommissioning those units.

L. REPLACEMENT COST INFORMATION (UNAUDITED)

The impact of the rate of inflation experienced in recent years has resulted in replacement costs of productive capacity that are significantly greater than the historical costs of such assets reported in the Company's financial statements. In compliance with reporting requirements, quantitive replacement cost information is disclosed in the Company's 1978 Annual Report to the Securities and Exchange Commission (SEC) in Form 10-K.

INFORMATION REGARDING JOINT-OWNED ELECTRIC PLANTS AND LONG-TERM PURCHASED POWER CONTRACTS

The Company owns 59.026% of the Unit 2 nuclear facility to be constructed at Pilgrim Station (see note G). In addition, the Company is a joint owner of Yarmouth Unit #4, which was constructed by Central Maine Power Company; included in the accompanying December 31, 1978 balance sheet is the Company's proportionate share (5.888%) of plant in service and accumulated depreciation of $10,684,000 and $32,000, respectively.

The Company has certain long-term contracts for the purchase of electric power. Information relating to contract terms and significance, expiration dates and other pertinent data is disclosed in the Company's 1978 Annual Report to the SEC in Form 10-K.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Directors of
Boston Edison Company

We have examined the balance sheets of Boston Edison Company at December 31, 1978 and 1977 and the related statements of income, retained earnings and sources of construction funds for each of the five years in the period ended December 31, 1978. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated January 24, 1978, our opinion on the financial statements referred to therein was qualified with respect to certain revenues collected subject to refund. As explained in Note G.2. to the financial statements, the Company has adequately provided for possible refunds of revenues collected from certain wholesale customers that are pending final determination by regulatory authorities. Accordingly, our present opinion on the financial statements for each of the four years in the period ended December 31, 1977 is no longer qualified with respect to such revenues.

In our opinion, the financial statements referred to above present fairly the financial position of Boston Edison Company at December 31, 1978 and 1977 and the results of its operations and sources of construction funds for each of the five years in the period ended December 31, 1978 in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
January 24, 1979

Coopers & Lybrand

SELECTED OPERATING STATISTICS

	1978	1977	1976	1975	1974	1973
Capability—MW:						
New-Boston Station	760	760	760	760	760	760
Pilgrim Station	670	670	670	670	670	670
Mystic Station	1,026	1,020	1,047	1,056	633	633
Edgar Station	—	297	294	294	294	291
L Street Station	48	48	43	46	46	46
Yarmouth Unit #4	35	—	—	—	—	—
Gas Turbines	267	237	234	232	232	232
Total	2,806	3,032	3,048	3,058	2,635	2,632
Contract Purchases	317	261	216	315	394	257
Contract Sales	(329)	(323)	(313)	(453)	(497)	(353)
Net Capability at Year-end	2,794	2,970	2,951	2,920	2,532	2,536
Net Capability at Peak	2,716	2,980	2,926	2,905	2,606	2,671
Capability Responsibility to NEPOOL at Peak	2,462	2,895	2,765	2,631	2,585	2,283
Edison Territory Hourly Peak—MW	2,031	2,013	1,970	1,933	1,891	2,030
Edison Territory Load Factor	57.7%	57.2%	58.7%	57.9%	59.7%	59.0%
Generating Station Economy—BTU per Net kWh Generated	10,149	10,190	10,290	10,250	10,363	10,309
Average Cost of Fuel—Cents per Million BTU:						
Fossil	204.20	218.28	188.68	200.92	196.15	80.50
Nuclear	25.61	14.77	19.72	16.41	21.49	23.05
Composite	142.57	168.89	149.16	150.97	159.13	61.19
Capability (net kW):						
Fossil	80%	81%	81%	80%	77%	77%
Nuclear	20%	19%	19%	20%	23%	23%
Generation (system kWh):						
Fossil	70%	79%	80%	78%	82%	71%
Nuclear	30%	21%	20%	22%	18%	29%
Plant Investment (000):						
Additions (gross)	$126,625	$118,075	$95,552	$105,534	$114,352	$134,061
Retirements	64,869	11,475	12,888	26,760	16,210	12,890
Accumulated Depreciation	367,954	387,614	354,577	322,454	305,630	279,290
Amount of Depreciable Plant	1,474,742	1,441,653	1,386,772	1,312,886	1,124,990	1,091,914
Total Plant Investment	1,676,496	1,614,740	1,508,140	1,425,476	1,346,702	1,248,560
Per Average Customer (dollars)	3,053	2,963	2,777	2,627	2,489	2,324
Per Average Employee (dollars)	433,764	405,408	377,318	356,191	326,949	298,985
Per $1 Base Operating Revenue(dollars)	3.91	4.04	3.98	4.50	4.81	4.47
Electric Plant in Service per Edison Territory Hourly Peak (dollars per kW)	825	802	693	673	587	532
Number of Employees at Year-end	3,837	3,921	3,999	3,972	4,042	4,183

SELECTED SALES STATISTICS

	1978	1977	1976	1975	1974	1973
Electric Energy: (kWh in thousands)						
Source:						
Net system output:						
Generated	13,004,323	11,387,793	10,768,527	10,224,573	9,316,510	12,373,004
Purchased	1,330,998	1,454,494	1,397,566	1,604,852	1,477,803	1,458,366
Interchange	(1,746,756)	(1,043,802)	(455,177)(a)	(607,749)	375,772	(1,661,658)
Total	12,588,565	11,798,485	11,710,916(a)	11,221,676	11,170,085	12,169,712
Disposition:						
Sales:						
Commercial	4,428,213	4,276,644	4,144,283	3,924,396	3,691,526	3,755,949
Residential	2,559,654	2,538,806	2,488,673	2,441,688	2,404,665	2,524,436
Industrial	1,749,563	1,779,245	1,756,663	1,702,007	1,778,969	2,051,011
Street Lighting	120,838	116,334	108,094	105,708	100,074	97,743
Total Retail	8,858,268	8,711,029	8,497,713	8,173,799	7,975,234	8,429,139
Sales for Resale—Total Requirements	453,184	439,561	426,116(b)	742,972	1,053,168	1,205,250
Edison Territory Total	9,311,452	9,150,590	8,923,829(b)	8,916,771	9,028,402	9,634,389
Sales for Resale—Partial Requirements	2,315,731	1,705,129	1,805,299(b)	1,417,205	1,269,359	1,668,557
Total—Edison System	11,627,183	10,855,719	10,729,128	10,333,976	10,297,761	11,302,946
Miscellaneous Usage:						
Company	112,477	100,124	91,685	83,005(c)	13,880	19,570
Transmission	323,167	283,584	395,672(a)	303,969	350,535	345,158
Distribution	399,852	440,077	449,926(a)	460,491	463,560	453,359
Other	125,886	118,981	44,505(a)	40,235	44,349	48,679
Total	12,588,565	11,798,485	11,710,916(a)	11,221,676	11,170,085	12,169,712
Kilowatthours—Annual Growth Percent:						
Commercial	3.5	3.2	5.6	6.3	(1.7)	12.3
Residential	0.8	2.0	1.9	1.5	(4.7)	5.7
Industrial	(1.7)	1.3	3.2	(4.3)	(13.3)	4.6
Street Lighting	3.9	7.6	2.3	5.6	2.4	7.3
Total Retail	1.7	2.5	4.0	2.5	(5.4)	8.3
Sales for Resale—Total Requirements	3.1	3.2	(42.6)(b)	(29.5)	(12.6)	(30.5)
Edison Territory Total	1.8	2.5	0.1(b)	(1.2)	(6.3)	1.2
Sales for Resale—Partial Requirements	35.8	(5.5)	27.4(b)	11.6	(23.9)	332.8
Total—Edison System	7.1	1.2	3.8	0.4	(8.9)	14.1
Territory Sales by Class: (%)						
Commercial	48	47	46	44	41	39
Residential	27	28	28	27	27	26
Industrial	19	19	20	19	20	21
Other	6	6	6	10	12	14
Sales Statistics:						
Residential Averages:						
Annual kWh Use	5,310	5,303	5,195	5,088	5,024	5,318
Revenue per kWh	5.85¢	5.59¢	5.48¢	5.36¢	5.06¢	3.57¢
Annual Bill	$310.62	$296.33	$284.46	$272.88	$253.96	$190.01
Customer						
Meters at Year-end	594,713	592,720	591,335	591,524	593,752	592,415
Average Number	549,063	544,989	542,996	542,629	541,126	537,270

(a) Restated to reflect a 1976 metering adjustment.
(b) In November 1976 the Town of Reading changed from a total requirements customer to a partial requirements customer. The entire year of 1976 has been restated to effect these changes.
(c) Adjusted from prior years due to changes in reporting of station service energy.

SELECTED FINANCIAL STATISTICS

	1978	1977	1976	1975	1974*	1973*
Operating Revenues (000)	$613,438	$589,377	$553,986	$501,122	$459,532	$317,227
Balance for Common (000)	$34,139	$22,307	$26,151	$23,361	$24,128	$24,199
Earnings Per Share	$2.96	$2.06	$2.74	$2.45	$2.53	$2.78
Dividends Per Share	$2.44	$2.44	$2.44	$2.44	$2.44	$2.44
Payout Ratio	82%	118%	89%	100%	96%	88%
Book Value per Share	$31.00	$30.48	$31.96	$31.61	$31.54	$31.45
Cash Flow Per Share	$7.91	$8.58	$10.00	$8.33	$6.32	$7.35
Return on Average Common Equity	9.63%	6.80%	8.63%	7.76%	8.11%	8.55%
Year-end Dividend Yield	10.22%	9.48%	8.91%	10.61%	15.87%	9.38%
Fixed Charges Coverage (SEC)	2.50x	2.26x	2.27x	2.05x	1.74x	1.87x
Capitalization:						
Long-Term Debt	52%	54%	56%	58%	60%	58%
Preferred and Preference Equity	15%	15%	16%	13%	9%	9%
Common Equity	33%	31%	28%	29%	31%	33%
Funds Generated Internally (000)	$63,137	$66,187	$72,037	$56,126	$36,972	$42,527
Construction Expenditures (000)	$118,155	$108,688	$104,713	$110,934	$103,683	$129,632
Per Cent Internal Generation	53%	61%	69%	51%	36%	33%
Stockholders at Year-end	57,667	57,302	51,720	52,427	51,317	49,659
Shares Outstanding:						
(Wtd. Ave.)	11,534,500	10,851,704	9,534,500	9,534,500	9,534,500	8,701,167
(Year-end)	11,534,500	11,534,500	9,534,500	9,534,500	9,534,500	9,534,500
Stock Price—High	26⅛	28⅜	27⅜	24¾	29¼	39⅛
—Low	22⅛	24⅞	22⅜	15½	14	24¼
—Year-end	23⅞	25¾	27⅜	23	15⅜	26
Year-end Market Value (000)	$275,386	$297,012	$261,007	$219,294	$146,593	$247,897
Trading Volume (Shares)	2,087,000	1,982,000	1,570,000	1,563,000	2,245,000	1,267,000
Market/Book (Year-end)	.77	.84	.86	.73	.49	.83
Price/Earnings (Year-end)	8.1	12.5	10.0	9.4	6.1	9.4

*Restated, see note G

Quarterly Stock Data

Following are the reported high and low sales prices of Boston Edison Company's common stock on the New York Stock Exchange for the quarters of 1978 and 1977 and the dividends per share paid during those quarters:

	1978			1977		
	High	Low	Dividends	High	Low	Dividends
First Quarter	26⅛	22½	.61	27⅜	25¾	.61
Second Quarter	24⅞	22⅛	.61	28	25⅜	.61
Third Quarter	25½	23⅛	.61	28⅜	26	.61
Fourth Quarter	25⅞	22⅜	.61	26¾	24⅞	.61

Additional Financial Data

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Mention here is not intended to give increased emphasis to a particular note, but merely to avoid repetition of detailed financial data. The notes in their entirety are an integral part of the financial statements.

DIRECTORS

Mrs. Norman L. Cahners, *Trustee*
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Thomas J. Galligan, Jr., *President, Boston Edison Company*
Kenneth I. Guscott, *President, Ken Guscott Associates (management consultants)*
Philip B. Hamilton, *Former Chairman of the Board, Dennison Manufacturing Company (manufacturers of office machines and paper converters)*
Edward B. Hanify, *Attorney-at-Law, Partner, Ropes & Gray*
Joseph P. Healey, *President, BayBank Middlesex, N.A.*
Richard D. Hill, *Chairman of the Board and Chief Executive Officer, First National Boston Corporation (bank holding company)*
Bernard J. O'Keefe, *President, EG&G, Inc. (technological services)*
Herbert Roth, Jr., *President and Chief Executive Officer, LFE Corporation (manufacturer of equipment and systems for traffic and industrial process control)*
Francis M. Staszesky, *Executive Vice President, Boston Edison Company*
Joseph P. Tyrrell, *Senior Vice President, Boston Edison Company*

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Thomas J. Galligan, Jr.
Edward B. Hanify
Joseph P. Healey
Bernard J. O'Keefe

Audit Committee
Kenneth I. Guscott
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Richard D. Hill

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Thomas J. May, *Assistant Treasurer*
Marc S. Alpert, *Assistant Treasurer*
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George Jeas, *Assistant to the Executive Vice President*

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