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October 6, 1999

Request for Threshold Determination
or Consent under 10 C.F.R. § 50.80

U.S. Nuclear Regulatory Commission
Attention: Docket Control Desk
One White Flint North
11555 Rockville Pike
Rockville, Maryland 20852

Re: NRC Docket No. 50-423 (Millstone Unit 3);
Central Maine Power Company - Merger of Parent Holding Company

Dear Sir or Madam:

Central Maine Power Company (Central Maine) currently holds an undivided 2.5 percent ownership interest in Millstone Unit 3 and is a Nuclear Regulatory Commission licensee with respect to this interest[1]. The purposes of this letter are: 1) to inform the Nuclear Regulatory Commission (NRC) of the proposed acquisition of the parent holding company of Central Maine and 2) to request the NRC's concurrence, based on a threshold review, that the proposed acquisition does not, in fact, constitute a transfer subject to Section 50.80 of Title 10 of the Code of Federal Regulations. To the extent that the NRC finds that the acquisition of the parent holding company constitutes an indirect transfer of Central Maine's license, Central Maine requests the NRC's consent to the indirect transfer of control of NRC Operating License NPF-49 issued for Millstone Unit 3. Attachment A to this letter provides the NRC with information pertinent to this request for consent.

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[1] Central Maine also owns equity interests in four corporations that are NRC licensees for the Maine Yankee, Yankee Rowe, Haddam Neck and Vermont Yankee nuclear power plants, but Central Maine is not an NRC licensee with respect to any of these plants.

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Background

Central Maine is a subsidiary of CMP Group, Inc. which holds all of the common stock of Central Maine; both are corporations incorporated under the laws of the State of Maine. The NRC previously reviewed and approved this structure. Specifically, by letter dated March 4, 1998, Central Maine submitted an application for consent under 10 C.F.R. § 50.80 for the restructuring of Central Maine, which resulted in CMP Group, Inc. (referred to as "HoldCo" in that correspondence) becoming the parent holding company of Central Maine. At that time, Central Maine requested the NRC's consent to any "indirect" transfer of control of the Millstone Unit 3 license, to the extent that the NRC determined that such consent was required under Section 184 of the Atomic Energy Act of 1954, as amended, and 10 C.F.R. § 50.80. By Order issued June 2, 1998, supported by the Staff's Safety Evaluation, the Commission approved the application regarding the restructuring, subject to Central Maine providing the Director of the NRC's Office of Nuclear Reactor Regulation a copy of any application of Central Maine to transfer to its parent or any affiliates any of its facilities having a depreciated book value in excess of ten percent (10%) of Central Maine's consolidated net utility plant investment. A copy of the Order and the Staff's Safety Evaluation are attached for ease of reference as Attachment B.

On June 14, 1999, CMP Group, Inc. and Energy East Corporation (Energy East) signed a definitive merger agreement for the acquisition of CMP Group by Energy East, subject to regulatory approvals. Energy East is an investor-owned holding company with offices in New York and Connecticut. Through its subsidiaries, it is an energy delivery, products and services company with operations in New York, Massachusetts, New Hampshire, Maine, Vermont and New Jersey. In the merger, Energy East will acquire all of the common stock of CMP Group. CMP Group, upon completion of the transaction, will become a wholly-owned subsidiary of Energy East and will continue its corporate existence under the laws of the State of Maine. After the completion of the acquisition, all of Central Maine's common stock will continue to be owned by the surviving CMP Group, and Central Maine will retain its headquarters at its present offices in Augusta, Maine. All of the members of the board of directors of Central Maine and Central Maine's President after the transaction will be citizens of the United States.

Request for Threshold Determination

NRC regulations in 10 C.F.R. § 50.80 require NRC review of, and written consent to, indirect as well as direct transfers of operating licenses. In the case of Central Maine, no direct transfer of the license or interest in Millstone 3 will result from the proposed acquisition of CMP Group by Energy East. Northeast Nuclear Energy Corporation (NNECo), a co-owner of

Millstone Unit 3, has exclusive authority under the license to operate the facility. NNECo is not involved in the proposed acquisition by Energy East; NNECo would continue to have exclusive responsibility for the management, operation and maintenance of Millstone Unit 3. No physical or operational changes to Millstone Unit 3 will result from the proposed merger. No transfer of assets from Central Maine will result from the merger of CMP Group and Energy East. No change in the Millstone Unit 3 license is required because Central Maine will remain the owner of its present 2.5 percent ownership interest in the facility.

After the merger is completed, Central Maine will continue to be a public utility subject to regulation by the Maine Public Utilities Commission (Maine PUC) under the laws of the State of Maine, providing the same utility services as it did prior to the acquisition.[2] The Federal Energy Regulatory Commission (FERC) will still regulate Central Maine's wholesale electric rates and transmission service. As a consequence, Central Maine will remain an "electric utility" within the meaning of 10 C.F.R. § 50.2, since it will continue to be "an entity that generates or distributes electricity and which recovers the cost of this electricity, either directly or indirectly, through rates established by the entity itself or by a separate regulatory authority." The proposed acquisition of Central Maine's parent will have no impact on the revenues and expenses of Central Maine relative to the operation of Millstone Unit 3, or on the ability of Central Maine to fund its pro-rata share of decontamination and decommissioning costs for the facility. Central Maine's responsibility for such costs and its obligations under 10 C.F.R. Part 140 and 10 C.F.R. § 50.54(w) will not be affected. As a result of the acquisition, Central Maine believes that it and the non-utility subsidiaries of CMP Group will be able to compete more effectively in the changing commercial and regulatory environment, including decisions of the FERC that promote additional competition at the wholesale level.

Central Maine requests an NRC threshold determination, pursuant to NUREG SR1577, rev. 1, Section III.1.e, that the acquisition of CMP Group by Energy East does not require the NRC's consent under 10 C.F.R. § 50.80. The acquisition does not entail a merger of Central Maine, a formation of a holding company of Central Maine or an acquisition of or divestiture by Central Maine and, therefore, consent may not be required under Section 50.80. The transaction

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[2] The Maine Electric Utility Restructuring Act of 1997 (35-A MRSA § 3201 et seq.) requires all investor-owned utilities in the State of Maine, including Central Maine, to 1) divest their non-nuclear generating assets and generation-related activities by March 1, 2000, at which time all retail customers in Maine will have the right to purchase electric generating services directly from competitive providers licensed by the Maine PUC, 2) limit their electric utility operations to transmission and distribution services after that date, and 3) create separate corporate entities for any marketing and sale of electricity to retail customers.

does not affect Central Maine's status as an "electric utility" or affect the corporate ownership or identity of the licensee (i.e., it will remain a subsidiary of a holding company, CMP Group, Inc., which will continue to own Central Maine to the same extent it does now). Therefore, not only will the licensee's financial qualifications not be adversely affected as a consequence of the acquisition, but also Central Maine is exempt from a financial qualifications review in accordance with NRC regulation.

The consummation of Energy East's acquisition of CMP Group, Inc. is dependent upon the receipt of various regulatory and shareholder approvals and is currently expected to occur in the middle of the year 2000, or earlier if all approvals have been obtained. Any requisite NRC approval is a condition to Securities and Exchange Commission and, possibly, Connecticut Department of Public Utility Control approvals. Accordingly, Central Maine respectfully requests that the NRC complete its threshold determination of the proposed acquisition by November 15, 1999 and, if required, provide its consent pursuant to 10 C.F.R. § 50.80 by December 31, 1999.

If the NRC has any questions with regard to the proposed transaction, please contact me directly at 404-885-3130.

Sincerely yours,

Arthur H. Domby

AHD/lrb

Enclosures: Attachment A - "Information related to the Proposed Acquisition of CMP Group, Inc. (Parent of Central Maine Power Company) by Energy East Corporation"

Attachment B - "Order Approving the Application Regarding the Proposed Restructuring of Central Maine Power Company By Establishment of a Holding Company" with Staff Safety Evaluation.

xc: Attached List

U.S. Nuclear Regulatory Commission
October 6, 1998

MAILING LIST

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ATTACHMENT A

INFORMATION RELATED TO THE PROPOSED ACQUISITION OF CMP GROUP, INC. (PARENT OF CENTRAL MAINE POWER COMPANY) BY ENERGY EAST CORPORATION

I. GENERAL INFORMATION CONCERNING CENTRAL MAINE POWER COMPANY

(1) NAME OF LICENSEE

Central Maine Power Company

(2) ADDRESS

83 Edison Drive
Augusta, Maine 04336

(3) DESCRIPTION OF BUSINESS

Central Maine Power Company (Central Maine) is a Maine corporation which is a public utility company primarily engaged in the transmission, sale, and distribution of electricity in the State of Maine. Central Maine serves more than 533,000 electric customers in an 11,000 square mile service area in central and southern Maine. This area contains more than three-quarters of the State's population, in addition to major commercial, manufacturing and recreational areas, including the cities of Portland (the State's largest city) and Augusta (the State's capital). Central Maine is a "public utility" subject to regulation by the Maine Public Utilities Commission (Maine PUC) under the laws of the State of Maine. In addition, the Federal Energy Regulatory Commission (FERC) regulates Central Maine's wholesale electric power rates and transmission service.

The Maine PUC, in a March 19, 1999 Order (Docket No. 97-580), set out the "principles" that it will follow in implementing the provisions of a 1997 law which restructures the electric utilities in Maine (hereinafter "Phase I Order"). Central Maine will continue to recover its costs associated with its sources of electric power that is provided to retail customers through rates set by the Maine PUC. These costs would include Central Maine's pro-rata portion of Millstone Unit 3 operation and maintenance expenses under the Joint Sharing Agreement with the other co-owners of the Unit. Also, consistent with and as required by the restructuring law, on April 7, 1999, Central Maine completed the sale of its fossil, hydroelectric and biomass generating assets to an affiliate of FPL Group, Inc. To meet its service obligation to its customers, Central Maine is purchasing energy from plants included in the sale until March 1, 2000, the date that retail customers in Maine will be allowed to choose their electricity provider. Central Maine continues to hold a 2.5 percent undivided ownership interest as a tenant-in-common in Millstone Unit 3 located in Waterford, Connecticut, and a 4 percent equity interest in Vermont Yankee Nuclear Power Corporation, which owns and operates a nuclear electric-generating plant in Vernon, Vermont.[1] In addition, Central Maine is a party to contracts with non-utility generators (NUG).

The Maine restructuring law requires that entitlements to energy and capacity under the Joint Sharing Agreement for Millstone 3, the power purchase agreement

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[1] Central Maine also owns a 38 percent equity interest in Maine Yankee Atomic Power Company, which owns a nuclear facility in Wiscasset, Maine, a 6 percent equity interest in Connecticut Yankee Atomic Power Company, which owns a nuclear plant located in Haddam, Connecticut, and a 9.5 percent equity interest in Yankee Atomic Electric Company, which owns a nuclear plant in Rowe, Massachusetts. The nuclear plants owned by these three "Yankee" companies have been permanently shut down and are in the process of being decommissioned. These Yankee companies and Vermont Yankee are the licensees (as owner and operator) of the Yankee nuclear plants. Central Maine is not a Nuclear Regulatory Commission licensee with respect to any of the Yankee plants.

between Central Maine and Vermont Yankee, and the NUG contracts be sold prior to March 1, 2000.[2] Bids from perspective buyers are due by October 1, 1999. The Maine restructuring law, the Rules of the Maine PUC promulgated thereunder, pertinent orders of the Maine PUC, and the auction process being used by Central Maine do not contemplate or require the sale of Central Maine's ownership interest in Millstone Unit 3, Vermont Yankee or any other operating nuclear facility. The Maine restructuring law and pertinent Maine PUC order expressly require only the sale of energy and capacity to which Central Maine is entitled from these nuclear facilities.

On June 15, 1999, CMP Group, Inc. (CMP Group), the parent holding company of Central Maine, and Energy East Corporation (Energy East) announced the proposed acquisition of CMP Group by Energy East, as discussed below.

Additional information concerning Central Maine is set forth in the combined 1998 Annual Report on Form 10-K of CMP Group and Central Maine filed with the Securities and Exchange Commission (SEC) in March 1999, and the most recent joint Quarterly Report on Form 10-Q of CMP Group and Central Maine filed with the SEC on August 10, 1999, attached hereto as Exhibit 1.

(4) NRC LICENSE HELD BY CMP

Millstone Unit 3 (NRC Operating License NPF-49, Docket No. 50-423) was licensed under Section 103 of the Atomic Energy Act, as amended. Central Maine holds a 2.5 percent undivided ownership interest in Millstone Unit 3 as a tenant-in-common with 13 other electric utilities in New England which own the remaining 97.5 percent of

[2] See 35-A M.R.S.A. Section 3204.4 and Chapter 307 of the Rules of the Maine Public Utilities Commission.

this Unit. Northeast Nuclear Energy Corporation is the licensed operator of Millstone Unit 3.[3]

(5) ORGANIZATION AND MANAGEMENT OF CENTRAL MAINE

Central Maine is a subsidiary of CMP Group, which owns all of the outstanding common stock of Central Maine.

(a) Central Maine Officers

The names and titles of the current officers of Central Maine, all of whom are citizens of the United States, are as follows:

Name	Title
David M. Jagger	Chairman of the Board of Directors
Charles H. Abbott	Vice Chairman of the Board of Directors
Sara J. Burns	President
Michael R. Cutter	Vice President
Curtis I. Call	Treasurer
Anne M. Pare	Secretary
William M. Finn	Assistant Secretary

Sara J. Burns will remain the President of Central Maine upon completion of the acquisition of CMP Group by Energy East.

The mailing address for all of the officers of Central Maine, except Messrs. Jagger and Abbott, before and after the acquisition of CMP Group by Energy East is: Central Maine Power Company, 83 Edison Drive, Augusta, Maine 04336.

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[3] On August 7, 1997, Central Maine and other minority owners of Millstone Unit 3 filed suit in Massachusetts Superior Court against Northeast Utilities and its trustees, and initiated an arbitration claim against two of its subsidiaries, alleging imprudent management of the Unit that resulted in an extended outage. The minority owners are seeking to recover certain additional costs from such alleged mismanagement, including replacement power costs. An arbitration hearing is scheduled in November, 1999.

(b) Central Maine Directors

The names and addresses of the current directors of Central Maine, all of whom are citizens of the United States, are set forth as follows:

Name	Address
Charles H. Abbott	Skelton, Taintor & Abbott, 95 Main Street, P.O. Box 3200, Auburn, ME 04212
Lawrence A. Bennigson	86 Beacon Street, Boston, MA 02108
Sara J. Burns	Central Maine Power Company, 83 Edison Drive, Augusta, ME 04336
Charleen M. Chase	Community Concepts, Inc., P.O. Box 278, Market Square, South Paris, ME 04281
Duane D. Fitzgerald	1002 Washington Street, Bath, ME 04530
David T. Flanagan	CMP Group, Inc., 83 Edison Drive, Augusta, ME 04336
Robert H. Gardiner	Maine Public Broadcasting Corporation, 1450 Lisbon Street, Lewiston, ME 04240
David M. Jagger	Jagger Brothers, P.O. Box 188, Water Street, Springvale, ME 04083
Peter J. Moynihan	103 Brookside Road, Portland, ME 04103
William J. Ryan	Peoples Heritage Financial Group, Inc., One Portland Square, P.O. Box 9540, Portland, ME 04112
Lee M. Schepps	4522 N. Lindhurst, Dallas, TX 75229
Kathryn M. Weare	The Cliff House, P.O. Box 2274, Bald Head Cliff, Shore Road, Ogunquit, ME 03907
Lyndel J. Wishcamper	Wishcamper Properties, Inc., 177 High Street, Portland, ME 04101

After the acquisition, the size of the Central Maine board of directors will be reduced to approximately five members, including the President of Central Maine (Ms. Burns) and officers of CMP Group and Energy East. The agreement for the acquisition

of CMP Group by Energy East,[4] attached hereto as Exhibit 3, contemplates an advisory board, appointed at Central Maine's discretion, consisting of the current directors of Central Maine. This board would advise Central Maine's directors and management on various matters, including community relations, customer service, economic development, employee development and relations and other matters as requested by the Central Maine board.

II. GENERAL INFORMATION CONCERNING CMP GROUP, INC.

CMP Group is a holding company organized effective September 1, 1998 under the laws of the State of Maine with offices located at 83 Edison Drive, Augusta, Maine. CMP Group common stock is traded on the New York Stock Exchange. CMP Group currently owns all of the outstanding common stock of Central Maine and of certain former non-utility subsidiaries of Central Maine. The current officers of CMP Group, all of whom are citizens of the United States, are as follows:

Name	
David M. Jagger	Chairman of the Board of Directors
Charles H. Abbott	Vice Chairman of the Board of Directors
David T. Flanagan	President and Chief Executive Officer
Arthur W. Adelberg	Executive Vice President
David E. Marsh	Chief Financial Officer
F. Michael McClain	Vice President, Corporate Development
Gerald C. Poulin	Vice President, Generation
Anne M. Pare	Treasurer, Corporate Counsel and Secretary
William M. Finn	Assistant Secretary

CMP Group was created to provide increased management and financial flexibility to position Central Maine (and the non-utility subsidiaries then owned by

[4] Agreement and Plan of Merger by and among CMP Group, Inc., Energy East Corporation and EE Merger

Central Maine) to operate in a changing business and regulatory environment, while at the same time maintaining Central Maine's principal business focus on its core utility business. As the parent of non-utility subsidiaries formerly owned by Central Maine, CMP Group has greater flexibility in pursuing non-utility business opportunities. By Order issued June 2, 1998, supported by the NRC Staff's Safety Evaluation in Docket No. 50-423, the Nuclear Regulatory Commission approved the application regarding the creation of CMP Group. After the acquisition of CMP Group by Energy East is completed, David T. Flanagan, CMP Group's current President and Chief Executive Officer, will serve as Chairman, President and Chief Executive Officer of CMP Group.

The names and addresses of the current directors of CMP Group, all of whom are citizens of the United States are as follows:

Name	Addresses
Charles H. Abbott	Skelton, Taintor & Abbott, 95 Main Street, P.O. Box 3200, Auburn, ME 04212
Lawrence A. Bennigson	86 Beacon Street, Boston, MA 02108
Charleen M. Chase	Community Concepts, Inc., P.O. Box 278, Market Square, South Paris, ME 04281
Duane D. Fitzgerald	1002 Washington Street, Bath, ME 04530
David T. Flanagan	CMP Group, Inc., 83 Edison Drive, Augusta, ME 04336
Robert H. Gardiner	Maine Public Broadcasting Corporation, 1450 Lisbon Street, Lewiston, ME 04240
David M. Jagger	Jagger Brothers, P.O. Box 188, Water Street, Springvale, ME 04083
Peter J. Moynihan	103 Brookside Road, Portland, ME 04103
William J. Ryan	Peoples Heritage Financial Group, Inc., One Portland Square, P.O. Box 9540, Portland, ME 04112

Corp. dated as of June 14, 1999.

Lee M. Schepps	4522 N. Lindhurst, Dallas, TX 75229
Kathryn M. Weare	The Cliff House, P.O. Box 2274, Bald Head Cliff, Shore Road, Ogunquit, ME 03907
Lyndel J. Wishcamper	Wishcamper Properties, Inc., 17. High Street, Portland, ME 04101

Upon the consummation of the transaction, CMP Group's current President and Chief Executive Officer (Mr. Flanagan) and two current directors of CMP Group will be elected as members of the board of directors of Energy East. Mr. Flanagan will also become President of Energy East, and CMP Group's current Executive Vice President, Arthur W. Adelberg, will become a Senior Vice President and the Chief Financial Officer of Energy East.

III. GENERAL INFORMATION CONCERNING ENERGY EAST CORPORATION

Energy East is a holding company organized under the laws of the State of New York with its offices located at P.O. Box 12904, Albany, New York 12212 and One Canterbury Green, P.O. Box 1196, Stamford, Connecticut 06901. Through its subsidiaries, Energy East is an energy delivery, products and services company doing business in New York, New Jersey, Massachusetts, Vermont, Maine and New Hampshire. Through its subsidiary New York State Electric & Gas Corporation (NYSEG), Energy East provides energy services to nearly 826,000 electric customers and 244,000 natural gas customers in upstate New York. Energy East Enterprises, Inc., a wholly-owned subsidiary of Energy East, owns natural gas distribution interests in Vermont, New Hampshire and Maine. Energy East also owns interests in non-utility subsidiaries. Energy East, through its subsidiaries, is strategically focused on the

distribution of energy in the northeastern United States and intends to grow selectively its electric and natural gas distribution businesses.[5]

In addition to its agreement to acquire CMP Group, on June 29, 1999 Energy East entered into a definitive merger agreement under which CTG Resources, Inc. will become a wholly-owned subsidiary of Energy East. CTG Resources is the parent company of Connecticut Natural Gas Corporation, a natural gas distribution company that serves customers principally in greater Hartford and Greenwich, Connecticut, and The Energy Network, Inc., which provides energy-related products and services, including the operation of building heating and cooling systems through a subsidiary. Energy East has also entered into a definitive agreement under which Connecticut Energy Corporation, the parent of The Southern Connecticut Gas Company, will become a wholly-owned subsidiary of Energy East.

The individuals who are currently the principal officers of Energy East, all of whom are citizens of the United States, and their respective titles are as follows:

Name	
Wesley W. Von Schack	Chairman, President and Chief Executive Officer
Kenneth M. Jasinski	Executive Vice President and General Counsel
Michael I. German	Senior Vice President
Robert D. Kump	Treasurer
Robert E. Rude	Controller
Daniel W. Farley	Secretary

A copy of Energy East's most recent Quarterly Report on Form 10-Q filed with the SEC on August 10, 1999 is contained in Exhibit 3 hereto.

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[5] On June 24, 1999 NYSEG announced that it will sell its 18 percent ownership interest in the Nine Mile Point Unit 2 nuclear plant to AmerGen Energy Company, a joint venture of PECO Energy Company and

IV. DESCRIPTION OF THE PROPOSED ACQUISITION

On June 14, 1999, CMP Group and Energy East signed a definitive agreement for the acquisition of CMP Group by Energy East, subject to regulatory approvals. In order to accomplish this acquisition, EE Merger Corp., a Maine corporation that is a wholly-owned subsidiary of Energy East, will merge with and into CMP Group, with CMP Group being the surviving corporation. Upon completion of the acquisition, CMP Group will become a wholly-owned subsidiary of Energy East. The transaction, which has been unanimously approved by the respective boards of directors of CMP Group and Energy East, is expected to occur shortly after all of the conditions precedent to the transaction's consummation have occurred, including receipt of required regulatory and shareholder approvals.

As a result of the transaction, CMP Group and Energy East will advance the companies' strategic approach of increased size that is necessary for success in the new competitive energy marketplace, as their combined resources will permit them to grow selectively their energy distribution businesses in the northeastern United States. Additional information related to the proposed acquisition of CMP Group by Energy East is set forth in the Petition for Approval of Reorganizations and Affiliated Interest Transactions, which Central Maine and its affiliates filed with the Maine PUC on July 1, 1999, in Docket No. 99-411; a copy is attached as Exhibit 4 hereto.

British Energy. The sale furthers NYSEG's strategy to exit the electric generation business, including the sale of fossil-and nuclear-fueled generating plants.

V. SUMMARY OF IMPACT OF THE ACQUISITION OF CMP GROUP BY ENEPGY EAST

The proposed reorganization will have no adverse impact on the ownership or operation of Millstone Unit 3 or change the managerial, technical or financial qualification of the licensee and owners and operators of this plant. Upon the completion of the CMP Group acquisition by Energy East:

(1) Central Maine will continue to hold its existing 2.5 percent undivided ownership interest in Millstone Unit 3;

(2) Central Maine's principal business focus will continue to be its core utility business, as required by Maine law;

(3) Central Maine will remain a subsidiary of CMP Group, the surviving corporation resulting from the combination of CMP Group and the subsidiary of Energy East;[6]

(4) Central Maine will continue to be an "electric utility" within the meaning of 10 CFR § 50.2 in that Central Maine will be subject to regulation by the Maine PUC and FERC, and there will be no change in the manner in which Central Maine obtains funds to support its obligations with respect to Millstone Unit 3;

(5) All of the directors and officers of Central Maine and CMP Group will be U.S. citizens; and

(6) The Millstone Unit 3 operating licensee will continue to operate Millstone Unit 3 without any change in management, operation or technical or financial qualification of the other Millstone Unit 3 licensees.

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[6] In the event the SEC, whose approval of the acquisition of CMP Group by Energy East is also necessary under the Public Utility Holding Company Act of 1935, as amended (PUHCA), does not permit Energy

VI. OTHER NUCLEAR REGULATORY CONSIDERATIONS

(1) FOREIGN OWNERSHIP, CONTROL OR DOMINATION

Currently, the shares of common stock of Central Maine are held in total by CMP Group. The shares of common stock of CMP Group are widely held, and all of the directors and officers of Central Maine and CMP Group are U.S. citizens. Upon the completion of the transaction, CMP Group will become a wholly-owned subsidiary of Energy East and will continue its corporate existence under the laws of the State of Maine.[7] CMP Group will continue to hold all of Central Maine's common stock. The shares of common stock of Energy East are widely held and will continue to be widely held after the completion of the transaction, and all of the directors and principal officers of Energy East will be U.S. citizens. Consequently, Energy East, CMP Group and Central Maine will not be owned, controlled, or dominated by any alien, foreign corporation, or foreign government within the meaning of Section 103 of the Atomic Energy Act.

(2) CENTRAL MAINE'S FINANCIAL QUALIFICATIONS

As previously stated, Central Maine is licensed pursuant to Section 103 of the Atomic Energy Act, as amended, and 10 CFR Part 50 to hold an undivided 2.5% ownership interest in Millstone Unit 3. "Electric utilities" licensed pursuant to Section 103 of the Atomic Energy Act are exempt from the requirement to demonstrate financial qualifications. Because Central Maine's rates will continue to be subject to regulation by

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East to maintain CMP Group as an intermediate holding company under the provisions of PUHCA, Energy East would hold Central Maine directly.

[7] See note 6, supra.

the Maine PUC and FERC following completion of the transaction, Central Maine will remain an "electric utility" within the meaning of 10 CFR § 50.2. Moreover, the transaction will not adversely affect Central Maine's ability to obtain funds necessary to recover its pro-rata share of costs for the operation, maintenance, repair, decontamination and decommissioning of Millstone Unit 3. Central Maine's liability for such costs and for obligations under 10 CFR Part 140 and 10 CFR Section 50.54(w) will not be affected by the transaction.

(3) DECOMMISSIONING FUNDING

The proposed transaction will not affect the ability of Central Maine to provide the funds necessary to pay for its pro-rata share of costs for the decontamination and decommissioning of Millstone Unit 3. Section 3209 of the Maine Electric Utility Restructuring Act of 1997 requires the Maine PUC to include "decommissioning expenses associated with a nuclear unit" in Central Maine's rates "[a]s required by federal law, rule or order." Central Maine includes in its transmission and distribution ("T & D") revenue requirement the decommissioning trust fund payments for Millstone Unit 3. The Maine PUC, in a March 19, 1999, Order (Docket No. 97-580) agreed that the Maine Legislature explicitly authorized decommissioning charges to be passed on to customers in Central Maine's service territory through transmission and distribution rates. The Maine PUC held:

> Prudent and reasonable decommissioning costs are legitimate costs of operating (or having operated) a nuclear power plant. As such, the prudent and reasonable expenses should be recovered from T & D rate payers as stranded costs. The bulk of the decommissioning expenses are for plants that are regulated by FERC, and consequently FERC will decide the prudence and reasonableness of those decommissioning expenses.

Phase I Order at 101.[8] Consequently, the proposed transaction will not change Central Maine's existing decommissioning funding arrangements for its pro-rata share of projected decommissioning costs for Millstone Unit 3. Moreover, Central Maine remains subject to the NRC Order of June 2, 1998, to provide the Director of Nuclear Reactor Regulation with a copy of any application to any other regulatory authority, at the time it is filed, to transfer (excluding grants of a security interest or lien) from Central Maine to CMP Group or any other affiliated company, facilities for the production, transmission or distribution of electric energy having a depreciated book value exceeding 10 percent of Central Maine's consolidated net utility plant, as recorded on Central Maine's books of account.[9]

(4) TECHNICAL QUALIFICATIONS

The proposed transaction will not result in any change in the design or operation of Millstone Unit 3, nor any change in the terms or conditions of the existing licenses or Technical Specifications related to the plant. The plant personnel having control over licensed activities will not change as a result of the transaction.

(5) ANTITRUST CONSIDERATIONS

Central Maine, based on its 2.5 percent ownership interest in Millstone Unit 3, is currently entitled to 2.5 percent of the electrical output of the plant. The submission of

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[8] Relative to FERC review, Central Maine, as an owner of equity interests in "Yankee" corporations that own the Vermont Yankee, Yankee Rowe, Haddam Neck and Maine Yankee nuclear power plants, is obligated for its pro-rata share of decommissioning funding for these plants under existing purchase power agreements. For retail rate-making the Maine PUC has traditionally relied on the State of Connecticut's Department of Public Utility Control's decommissioning reviews to set decommissioning funding requirements for Millstone Unit 3, rather than conducting its own review.

[9] Central Maine has proposed to write-off its Millstone Unit 3 book investment against previously received asset sale proceeds. The Maine PUC will set Central Maine's stranded costs associated with Millstone Unit 3 in a future proceeding based, in part, on the compensation received by Central Maine for the sale of its share of the output of the plant after the Unit's two-year outage that ended July, 1998.

antitrust information is not required in connection with licensing actions which do not affect the ownership of a licensed facility or entitlement to the power output from such facility, particularly if they involve a de minimis interest. See e.g. SECY-91-246 (August 7, 1991) "Antitrust Considerations for License Amendments Authorizing New Operating Entities." More dispositive, the Commission has determined recently that an antitrust review of proposed license transfers, including direct transfers after initial issuance of operating licenses, is not required by the Atomic Energy Act, as amended, and that, from a policy as well as legal perspective, such a review should not be conducted. Kansas Gas and Electric Company (Wolf Creek Generating Station, Unit 1), CLI-99-19, June 18, 1999. The proposed transaction, with Central Maine remaining a licensee and involving only the acquisition of its parent by Energy East, would not constitute a direct or indirect transfer so as to require an antitrust review by the NRC.

VII. EFFECTIVE DATE OF THE REORGANIZATION

The acquisition requires the approval of other regulatory agencies, including the Maine PUC, the Connecticut Department of Public Utility Control, the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, as amended, the FERC and the Federal Communications Commission. Filing of the requisite notification with the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the expiration of the associated waiting period are also required. A meeting of CMP Group's shareholders to vote on the transaction will be convened is scheduled to be held October 7, 1999. CMP Group and Energy East intend to consummate the transaction as soon as

possible after all regulatory and shareholder approvals have been obtained. Central Maine respectfully requests that the NRC expedite its review of this request on a schedule that will permit the issuance of any required NRC consents as promptly as possible and, in any event, by December 31, 1999.

VIII. REQUESTED NRC ACTION

For the reasons stated above, Central Maine respectfully submits that the proposed acquisition of CMP Group by Energy East is consistent with the applicable provisions of the Atomic Energy Act, NRC regulations and NRC orders issued pursuant thereto. Central Maine therefore respectfully requests that, to the extent required by Section 184 of the Atomic Energy Act and 10 CFR § 50.80, the NRC consent to any indirect transfer of control of any NRC licenses that may occur in connection with this transaction.

September 23, 1999 DRAFT

EXHIBIT LIST

Exhibit 1: Joint 1998 Annual Report on Form 10-K of CMP Group and Central Maine filed with the Securities and Exchange Commission (SEC) in March, 1999.
Joint Quarterly Report on Form 10-Q of CMP Group and Central Maine filed with the SEC on August 10, 1999.

Exhibit 2: Agreement and Plan of Merger By and Among CMP Group, Inc., Energy East and EE Merger Corp. dated June 14, 1999 (without Schedules).

Exhibit 3: Energy East's Quarterly Report on Form 10-Q filed with the SEC on August 10, 1999.

Exhibit 4: Petition for Approval of Reorganizations and Affiliate Interest Transactions filed with the Maine PUC on July 1, 1999 (Docket No. 99-411) (without Appendix 1).

Supplemental Prefiled Testimony of Arthur W. Adelberg, July 22, 1999.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
X

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from _____ to _____

Commission File Number	Registrant, State of Incorporation, Address, and Telephone Number	I.R.S. Employer Identification No.
001-14786	CMP GROUP, INC. 83 Edison Drive, Augusta, Maine 04336 (207) 623-3521	01-0519429
1-5139	CENTRAL MAINE POWER COMPANY 83 Edison Drive, Augusta, Maine 04336 (207) 623-3521	01-0042740

Securities registered pursuant to Section 12(b) of the Act:

Registrant	Title of each class	Name of each exchange on which registered
CMP Group, Inc.	Common Stock, $5 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Registrant	Title of each class	Name of each exchange on which registered
Central Maine Power Company	6% Preferred Stock $100 Par Value (Voting, Noncallable)	-
	Dividend Series Preferred Stock $100 Par Value (Callable)	-

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

CMP Group, Inc.	Yes x	No _
Central Maine Power Company	Yes x	No _

This combined Form 10-K is separately filed by CMP Group, Inc., and Central Maine Power Company. Information contained herein relating to either individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrant.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

CMP Group, Inc. x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant. The aggregate market value of such common equity held by non-affiliates of the Company was:

CMP Group, Inc.	$603,585,605 on March 24, 1999 (based, in the case of the common stock of CMP Group, Inc., on the last reported sale price thereof on the New York Stock Exchange on March 24, 1999).
Central Maine Power Company	$0 (all held by CMP Group, Inc.)

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

As of March 24, 1999, the number of shares of Common Stock outstanding for each registrant was as follows:

Registrant	Shares
CMP Group, Inc., Common Stock, $5 Par Value	32,442,552
Central Maine Power Company, Common Stock, $5 Par Value (All held by CMP Group, Inc.)	31,211,471

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated:(1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933.

Portions of the definitive proxy statement for CMP Group, Inc.'s 1999 Annual Meeting of Shareholders are incorporated by reference in Part III hereof.

CMP GROUP, INC. and
CENTRAL MAINE POWER COMPANY

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GLOSSARY

The following abbreviations or acronyms are used in the tex. of this Form 10-K as defined below.

Term	Definition
Form 10-K	Annual Report on Form 10-K
ARP	Alternative Rate Plan
APB	Accounting Principles Board
Assigned Agreements	Maine Yankee's Power Contracts, Additional Power Contracts and Capital Funds Agreements, as amended, with its Sponsors.
Central Maine	Central Maine Power Company, a regulated electric utility and subsidiary of CMP Group.
Central Securities	Central Securities Corporation, a wholly owned subsidiary of Central Maine which owns and manages real estate.
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act.
CMP Group	CMP Group, Inc., is the holding company organized effective September 1, 1998, which owns all of the common stock of Central Maine Power Company, Union Water Power Company, MaineCom Services, CNEX, MainePower, TeleSmart and New England Gas Development.
CMP Group System	CMP Group and its wholly-owned and directly and indirectly controlled subsidiaries.
CMP Natural Gas	CMP Natural Gas, L.L.C., a limited-liability company owned by subsidiaries of CMP Group and Energy East to distribute natural gas in Maine.
CNEX	A wholly owned subsidiary of CMP Group, (previously called CMP International Consultants), which provides utility consulting (domestic and international) and research.
Cumberland Securities	Cumberland Securities Corporation, a wholly owned subsidiary of Central Maine which owns and manages real estate.
Connecticut Yankee	Connecticut Yankee Atomic Power Company
D&P	Duff & Phelps Credit Rating Co.
DOE	United States Department of Energy

GLOSSARY

Term	Definition
DOJ	United States Department of Justice
EITF	Emerging Issues Task Force of FASB
Energy East	Energy East Corporation, a New York holding company and the parent company of NYSEG effective May 1, 1998
EPA	United States Environmental Protection Agency.
EPS	Earnings per share
ERAM	Electric Revenue Adjustment Mechanism
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FPL	FPL Group, Inc.
Indenture	General and Refunding Mortgage Indenture between Central Maine and State Street Bank and Trust Company, Trustee, dated as of April 15, 1976, as amended and supplemented.
IPO	Initial Public Offering
IRS	United States Internal Revenue Service
ISO	Independent System Operator
Kwh	Kilowatt-hour
MaineCom	MaineCom Services, a CMP Group subsidiary which arranges fiber-optic data service for bulk carriers.
MainePower	A wholly owned subsidiary of CMP Group created in September 1998.
MEPCO	Maine Electric Power Company, Inc., a 78-percent owned subsidiary of Central Maine which owns a 345-KV transmission line from Wiscasset, Maine, to New Brunswick, Canada.
MRS	Monitored Retrievable Storage
Moody's	Moody's Investors Service
MPUC	Maine Public Utilities Commission

GLOSSARY

Term	Definition
Maine Yankee	Maine Yankee Atomic Power Company, a 38-percent owned subsidiary of Central Maine.
NB Power	New Brunswick Power Corporation.
NEON	NorthEast Optic Network, Inc., a corporation of which MaineCom owns 38.5-percent of the common stock, which is building a fiber optic network in New England and New York.
NEPOOL	New England Power Pool
NERC	North American Electric Reliability Council
NORVARCO	A wholly-owned subsidiary of Central Maine. NORVARCO is one of two general partners with 50% interests in Chester SVC Partnership, which owns a static var compensator facility located in Chester, Maine.
NPCC	Northeast Power Coordinating Council
NRC	United States Nuclear Regulatory Commission
NYSEG	New York State Electric & Gas Corporation, a utility subsidiary of Energy East.
NUG	Non-utility generator
New England Gas Development	New England Gas Development Corporation, a wholly-owned subsidiary of CMP Group created in September 1998 to hold up to a 50-percent ownership interest in CMP Natural Gas.
OASIS	Open Access Same-time Information System.
OI	Nuclear Regulatory Commission's Office of Investigations
OPA	Maine Office of the Public Advocate
Plant	Maine Yankee nuclear generating plant at Wiscasset, Maine
PURPA	Public Utility Regulatory Policies Act of 1978.
RCRA	Resource Conservation and Recovery Act.
SAB	Securities and Exchange Commission's Staff Accounting Bulletins.
S&P	Standard & Poor's Corp.

GLOSSARY

Term	Definition
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
Secondary Purchasers	28 municipal and cooperative utilities that had purchased Maine Yankee power under identical contracts with Maine Yankee sponsors.
SFAS	Statement of Financial Accounting Standards
TeleSmart	A wholly owned subsidiary of CMP Group which provides accounts receivable management.
Union Water	The Union Water Power Company, a wholly owned subsidiary of CMP Group.
Vermont Yankee	Vermont Yankee Nuclear Power Corporation.
Waste Act	Federal Low-level Radioactive Waste Policy Amendments Act.
Yankee Atomic	Yankee Atomic Electric Company

Basis of Presentation. This Annual Report on Form 10-K is a combined report of CMP Group and Central Maine, a regulated electric-utility subsidiary of CMP Group whose financial position and results of operations account for substantially all of CMP Group's consolidated financial position and results of operations. The Notes to Consolidated Financial Statements apply to both CMP Group and Central Maine. CMP Group's consolidated financial statements include the accounts of CMP Group and its wholly owned or controlled subsidiaries, which are Central Maine, Union Water, CNEX, TeleSmart and MaineCom. Central Maine's consolidated financial statements include its accounts as well as those of its wholly owned or controlled subsidiaries, MEPCO, NORVARCO, Cumberland Securities and Central Securities. Certain immaterial majority owned subsidiaries, which were previously accounted for on the equity method, were consolidated in September 1998.

Note re Forward-Looking Statements

This Report on Form 10-K contains forecast information items that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. CMP Group and Central Maine undertake no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are urged to carefully review and consider the factors in the succeeding paragraph.

Factors that could cause actual results to differ materially include, among other matters, the outcome of the FERC proceeding involving Maine Yankee's rates, decommissioning costs and issues related to the closing of the Maine Yankee nuclear generating plant; the actual costs of decommissioning the Maine Yankee plant; failure to resolve any significant aspect of the "Year 2000 problem"; electric utility industry restructuring, including the ongoing state and federal activities that will determine Central Maine's ability to recover its stranded costs and establish its revenue requirements and rate design as a transmission-and-distribution utility commencing March 1, 2000; the results of Central Maine's planned sale of its generating assets; Central Maine's ability to recover its costs resulting from the January 1998 ice storms that damaged its transmission and distribution system; future economic conditions; earnings-retention and dividend-payout policies; developments in the legislative, regulatory, and competitive environments in which CMP Group and Central Maine operate; CMP Group's investment in unregulated businesses; and other circumstances that could affect anticipated revenues and costs, such as unscheduled maintenance or repair requirements at nuclear plants and other facilities, and compliance with laws and regulations.

PART I

Item 1. BUSINESS.

Introduction

General. CMP Group is a holding company organized effective September 1, 1998, which owns all of the common stock of Central Maine and the former non-utility subsidiaries of Central Maine. As part of the reorganization, all of the shares of Central Maine's common stock were converted into an equal number of shares of CMP Group common stock, which are listed on the New York Stock Exchange under the symbol

CTP. The reorganization was approved by Central Maine's shareholders on May 21, 1998, and on various dates in 1998 by the appropriate state and federal regulatory agencies. CMP Group's principal executive offices are located at 83 Edison Drive, Augusta, Maine, where its general telephone number is (207) 623-3521. For a discussion of business opportunities being pursued by CMP Group, see "Expansion of Lines of Business," below.

Central Maine is a public utility incorporated in Maine in 1905. Central Maine is primarily engaged in the business of generating, purchasing, transmitting, distributing and selling electric energy for the benefit of retail customers in southern and central Maine and wholesale customers, principally other utilities. Its principal executive offices are located at 83 Edison Drive, Augusta, Maine 04336, where its general telephone number is (207) 623-3521.

Central Maine is the largest electric utility in Maine, serving approximately 533,000 customers in its 11,000 square-mile service area in southern and central Maine and having $939 million in consolidated electric operating revenues in 1998 (reflecting consolidation of financial statements with its majority-owned subsidiary, MEPCO, and with the wholly-owned Cumberland Securities, Central Securities and NORVARCO. Central Maine's service area contains most of Maine's industrial and commercial centers, including Portland (the state's largest city), South Portland, Westbrook, Lewiston, Auburn, Rumford, Bath, Biddeford, Saco, Sanford, Kittery, Augusta (the state's capital), Waterville, Fairfield, Skowhegan and Rockland, and approximately 964,000 people, representing about 78 percent of the total population of the state. Central Maine's industrial and commercial customers include major producers of pulp and paper products, producers of chemicals, plastics, electronic components, processed food, and footwear, and shipbuilders. Large pulp-and-paper industry customers account for approximately 56 percent of Central Maine's industrial sales and approximately 21.6 percent of total service-area sales.

The following topics are discussed under the general heading of Business. Where applicable, the discussions make reference to the various other Items of this report.

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Regulation and Rates

General. Central Maine is subject to the regulatory authority of the MPUC as to retail rates, accounting, service standards, territory served, the issuance of securities maturing more than one year after the date of issuance, certification of generation and transmission projects and various other matters. Central Maine is also subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") under Parts I, II and III of the Federal Power Act for some phases of its business, including licensing of its hydroelectric stations, accounting, rates relating to wholesale sales and to interstate transmission and sales of energy and certain other matters. Other activities of CMP Group and Central Maine from time to time are subject to the jurisdiction of various other state and federal regulatory agencies.

The Maine Yankee Plant and the other nuclear generating facilities in which Central Maine has an interest are subject to extensive regulation by the federal Nuclear Regulatory Commission ("NRC"). The NRC is empowered to authorize the siting, construction, operation and decommissioning of nuclear reactors after consideration of public health, safety, environmental and antitrust matters. Under its continuing jurisdiction, the NRC may, after appropriate proceedings, require modification of units for which operating licenses are in effect, or impose new conditions on such licenses, and may require that the operation of a unit cease or that the level of operation of a unit be temporarily or permanently reduced.

The United States Environmental Protection Agency ("EPA") administers programs which affect Central Maine's thermal and hydroelectric generating facilities as well as the nuclear facilities in which it has an interest. The EPA has broad authority in administering these programs, including the ability to require installation of pollution-control and mitigation devices. CMP Group and Central Maine is also subject to regulation by various state, local and other federal authorities with regard to land use and other environmental matters. For further discussion of environmental considerations as they affect CMP Group and Central Maine, see "Environmental Matters", below, and Item 3, "Legal Proceedings" - "Legal and Environmental Matters."

Under the Federal Power Act, Central Maine's hydroelectric projects (including storage reservoirs) on navigable waters of the United States are required to be licensed by the FERC. Central Maine is a licensee, either by itself or in some cases with other parties, for 26 FERC-licensed projects, some of which include more than one generating unit. Eleven licenses expired in 1993, one expired in 1997, and fourteen expire after 2000. Central Maine filed all applications for relicensing the projects whose licenses were scheduled to expire in 1993 and 1997 and has been authorized to continue to operate those projects under annual licenses pending action by the FERC. Central Maine's hydroelectric generating and storage facilities are included in the generating assets Central Maine has contracted to sell to FPL Group, Inc. For further discussion of the pending sale, see "Agreement for Sale of Generating Assets," below.

The United States has the right upon expiration of a license to take over and thereafter maintain and operate a project upon payment to the licensee of the lesser of its "net investment" or the fair value of the property taken, and any severance damages, less certain amounts earned by the licensee in excess of specified rates of return. If the United States does not exercise its statutory right, the FERC is authorized to issue a new license to the original licensee, or to a new licensee upon payment to the original licensee of the amount the United States would have been obligated to pay had it taken over the project. The United States has not asserted such a right with respect to any of Central Maine's licensed projects. The FERC, however, denied a license renewal for a non-utility-owned hydroelectric project on the Kennebec River in Maine, which ultimately resulted in an agreement to remove the dam in 1999.

Alternative Rate Plan

On January 1, 1995, Central Maine's ARP was put into effect. Instead of rate changes based on the level of costs incurred and capital investments, the ARP provides for one annual adjustment of an inflation-based cap on each of Central Maine's rates, with no separate reconciliation and recovery of fuel and purchased-power costs. Under the ARP, the MPUC is continuing to regulate Central Maine's operations and prices, provide for continued recovery of deferred costs, and specify a range for its rate of return. The MPUC confirmed in its order approving the ARP that the ARP is intended to comply with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." As a result, Central Maine will continue to apply the provisions of SFAS No. 71 to its accounting transactions and its future financial statements.

The ARP contains a mechanism that provides price-caps on Central Maine's retail rates to be adjusted annually on each July 1, commencing in 1995, by a percentage combining (1) a price index, (2) a productivity offset, (3) a sharing mechanism, and (4) flow-through items and mandated costs. The price cap applies to all of Central Maine's retail rates, and includes fuel and purchased power costs that previously had been treated separately. Under the ARP, fuel expense is no longer subject to reconciliation or specific rate recovery, but is subject to the annual indexed price-cap changes.

A specified standard inflation index is the basis for each annual price-cap change. The inflation index is reduced by the sum of two productivity factors, a general productivity offset of 1.0%, and a second formula-based offset that started in 1996 and was intended to reflect the limited effect of inflation on Central Maine's purchased-power costs during the proposed five-year initial term of the ARP.

The sharing mechanism may adjust the subsequent year's July price-cap change in the event Central Maine's earnings are outside a range of 350 basis points above or below Central Maine's allowed return on equity (starting at the 10.55% allowed return in 1995) and indexed annually for changes in capital costs. Outside that range, profits and losses could be shared equally by Central Maine and its customers in computing the price-cap adjustment. The ROE used for earnings sharing is scheduled to be increased to 11.5% effective with the July 1999 price change.

The ARP also provides for partial flow-through to ratepayers of cost savings from non-utility generator contract buy-outs and restructuring, recovery of energy-management costs, and penalties for failure to attain customer-service and energy-efficiency targets. The ARP also generally defines mandated costs that would be recoverable by Central Maine notwithstanding the index-based price cap. To receive such treatment, the annual revenue requirement related to a mandated cost must exceed $3 million and have a disproportionate effect on Central Maine or the electric-power industry.

On May 13, 1998, Central Maine submitted its 1998 ARP compliance filing to the MPUC. In keeping with its pledge of limiting increases to the inflation index, Central Maine voluntarily limited its request to 1.78%, which was the inflation rate for 1997 under the ARP. Central Maine also proposed a rate reduction of approximately ten percent contingent on the consummation of, and ratemaking associated with, Central Maine's planned sale of generating assets. The filing also reported information on the costs of restoring service to Central Maine's customers after the January 1998 ice storm, as required by the earlier MPUC order allowing Central Maine to defer those costs. Effective July 11, 1998, the MPUC approved a stipulated 1.33%

increase. The amount of the increase remains subject to change, based on the outcome of the pending FERC proceeding related to the permanent shutdown of the Maine Yankee plant. Depending on FERC's decision, the price increase could increase or decrease, ranging from a ceiling of 1.78% to a floor of 0.22%. However, the Offer of Settlement pending before the FERC in Maine Yankee's rate case, which has been approved by the MPUC, provides that the 1998 ARP increase will not be adjusted.

The components of the last three ARP price increases approved by the MPUC are as follows:

	1998	1997	1996
Inflation Index	1.78%	2.12%	2.55%
Productivity Offset	(1.00)	(1.00)	(1.00)
Qualifying Facility Offset	(.29)	(.42)	-
Earnings Sharing	1.12	-	.32
Flowthrough and Mandated Items	(.28)	.40	(.61)
	1.33%	1.10%	1.26%

Electric-Utility Industry Restructuring

Stranded Costs. The enactment by Congress of the Energy Policy Act of 1992 accelerated planning by electric utilities, including Central Maine, for a transition to a more competitive industry. In Maine, legislation that will restructure the electric-utility industry by March 1, 2000, was enacted by the Maine Legislature in May 1997, and is discussed in detail under this heading below. Such a departure from traditional regulation, however, could have a substantial impact on the value of utility assets and on the ability of electric utilities to recover their costs through rates. In the absence of full recovery, utilities would find their above-market costs to be "stranded", or unrecoverable, in the new competitive setting.

Central Maine has substantial exposure to cost stranding relative to its size. In general, its stranded costs reflect the excess costs of Central Maine's purchased-power obligations over the market value of the power, and the costs of deferred charges and other regulatory assets. The major portion of Central Maine's stranded costs is related to above-market costs of purchased-power obligations arising from Central Maine's long-term, noncancelable contracts for the purchase of capacity and energy from NUGs, with lesser estimated amounts related to Central Maine's deferred regulatory assets.

There is a high degree of uncertainty that surrounds stranded-cost estimates, resulting from having to rely on projections and assumptions about future conditions, including, among others, estimates of the future market for power. Higher market rates lower stranded-cost exposure, while lower market rates increase it. In addition to market-related impacts, any estimate of the ultimate level of stranded costs depends on such factors as state and federal regulations, the extent, timing and form that competition for electric service will take, the ongoing level of Central Maine's costs of operations, regional and national economic conditions, growth of Central Maine's sales, the timing of any changes that may occur from state and federal initiatives on restructuring, and the extent to which regulatory policies and decisions ultimately address recovery of stranded costs, including the application of value from the sale of Central Maine's generating assets.

The estimated market rate for power is based on anticipated regional market conditions and future costs of producing power. The present value of future purchased-power obligations and Central Maine's generating costs reflects the underlying costs of those sources of generation in place today, with reductions for contract expirations and continuing depreciation. Deferred regulatory-asset totals include the current uncollected balances and existing amortization schedules for purchased-power contract restructuring and buyouts negotiated by Central Maine to lessen the impact of these obligations, along with energy management costs, financing costs, and other regulatory commitments.

Maine Restructuring Legislation. The 1997 Maine restructuring legislation requires the MPUC, when retail access to generation begins on March 1, 2000, to provide a "reasonable opportunity" to recover stranded costs through the rates of the transmission-and-distribution company, comparable to the utility's opportunity to recover stranded costs before the implementation of retail access under the legislation. Stranded costs are defined as the legitimate, verifiable and unmitigable costs made unrecoverable as a result of the restructuring required by the legislation and will be determined by the MPUC as provided in the legislation. The MPUC has been conducting separate adjudicatory proceedings to determine the stranded costs for each Maine utility, along with the corresponding revenue requirements and stranded-cost charges to be charged by each transmission-and-distribution utility. The first phase of the Central Maine proceeding was completed in early 1999 and is discussed under the heading "MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design," below.

In addition, the legislation requires utilities to use all reasonable means to reduce their potential stranded costs and to maximize the value from generation assets and contracts. The MPUC must consider a utility's efforts to mitigate its stranded costs in determining the amount of the utility's stranded costs. Stranded costs and the related rates charged to customers will be prospectively adjusted as necessary to correct substantial inaccuracies in the year 2003 and at least every three years thereafter.

The principal restructuring provisions of the legislation provide for customers to have direct retail access to generation services and for deregulation of competitive electric providers, commencing March 1, 2000, with transmission-and-distribution companies continuing to be regulated by the MPUC. By that date, subject to possible extensions of time granted by the MPUC to improve the sale value of generation assets, investor-owned utilities are required to divest all generation assets and generation-related business activities, with two major exceptions: (1) non-utility generator contracts with qualifying facilities and contracts with demand-side management or conservation providers, brokers or hosts, and (2) ownership interests in nuclear power plants. However, the MPUC can require Central Maine to divest its interest in Maine Yankee Atomic Power Company on or after January 1, 2009. As discussed below under "Agreement for Sale of Generating Assets," Central Maine has contracted to sell its non-nuclear generating assets and, after a favorable court decision, is proceeding toward a completion of the sale by April 7, 1999. The legislation also requires investor-owned utilities, after February 29, 2000, to sell their rights to the capacity and energy from all generation assets, including the purchased-power contracts that had not previously been divested pursuant to the legislation, with certain immaterial exceptions.

Upon the commencement of retail access on March 1, 2000, Central Maine, as a transmission-and-distribution utility, will be prohibited from selling electric energy to retail customers. Any competitive electricity provider that is affiliated with Central Maine would be allowed to sell electricity outside Central Maine's service territory without limitation as to amount, but within Central Maine's service

territory the affiliate would be limited to providing not more than 33 percent of the total kilowatt-hours sold within Central Maine's service territory, as determined by the MPUC. CMP Group does not now intend to engage in the sale of electric energy after March 1, 2000.

Other features of the legislation include the following:

(a) After the effective date of the legislation, if an entity purchases 10 percent or more of the stock of a distribution utility, including Central Maine, the purchasing entity and any related entity would be prohibited from selling generation service to any retail customer in Maine.

(b) The legislation encourages the generation of electricity from renewable resources by requiring competitive providers, as a condition of licensing, to demonstrate to the MPUC that no less than 30 percent of their portfolios of supply sources for retail sales in Maine are accounted for by renewable resources.

(c) The legislation requires the MPUC to ensure that standard-offer service is available to all consumers, but any competitive provider affiliated with Central Maine would be limited to providing such service for only up to 20 percent of the electric load in Central Maine's service territory.

(d) Beginning March 1, 2002, or, by MPUC rule, as early as March 1, 2000, the providing of billing and metering services will be subject to competition.

(e) A customer who significantly reduces or eliminates consumption of electricity due to self-generation, conversion to an alternative fuel, or demand-side management may not be assessed an exit fee or re-entry fee in any form for such reduction or elimination of consumption or for the re-establishment of service with a transmission-and-distribution utility.

(f) Finally, the legislation provides for programs for low-income assistance, energy conservation research and development on renewable resources, assistance for utility employees laid off as a result of the legislation, and recovery of nuclear-plant decommissioning costs "[a]s required by federal law, rule or order", all funded through transmission-and-distribution utility rates and charges.

Legislative bills that would amend certain provisions of the 1997 legislation have been submitted to the 1999 session of the Maine Legislature. CMP Group and Central Maine cannot predict whether any changes to the 1997 legislation will be enacted.

MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design. The MPUC has completed the first phase of the proceeding contemplated by Maine's restructuring legislation that will ultimately determine the recovery of Central Maine's stranded costs, its revenue requirements, and the design of its rates to be effective when Central Maine becomes a transmission-and-distribution utility at the time retail access to generation begins in Maine on March 1, 2000. On December 23, 1998, the MPUC Hearing Examiners in the proceeding issued their report, in the form of a recommended decision. Central Maine disagreed with a number of the individual recommendations in the stranded-costs and revenue-requirements areas and filed exceptions to those recommendations. The MPUC deliberated the recommendations on February 10 and 11, 1999, indicated disagreement with some of the recommendations, and issued its written order on March 19, 1999.

The MPUC stressed in its order that it was deciding the "principles" by which it would set Central Maine's transmission-and-distribution rates, effective March 1, 2000, but was not calculating the rates themselves because such calculations at that time would rely excessively on estimates. The MPUC pointed out that it

would hold a "Phase II" hearing to set the actual rates and determine the recoverable stranded costs after processing information expected to become available during 1999.

With respect to stranded costs, the MPUC indicated that it would set the amount of recoverable stranded costs for Central Maine later in the proceeding pursuant to its mandate under the restructuring statute to provide transmission-and-distribution utilities a reasonable opportunity to recover such costs that is equivalent to the utility's opportunity to recover these costs prior to the commencement of retail access. The MPUC also reviewed the prescribed methodology for determining the amount of a utility's stranded costs, including among other factors the application of excess value from divested generation assets to offset stranded costs. At the beginning of the proceeding Central Maine had estimated its total stranded costs to be approximately $1.3 billion.

In the area of revenue requirements, the Phase I order did not include definitive amounts, but did contain the MPUC's conclusions as to the appropriate cost of common equity for Central Maine as a transmission-and-distribution company beginning March 1, 2000. Central Maine had recommended a 12-percent cost of common equity with a 55-percent common equity component in the capital structure. The MPUC, after weighing conflicting recommendations, decided on a common-equity cost of 10.50 percent with a common-equity component of 47 percent, and an overall weighted-average cost of capital of 8.68 percent.

In dealing with rate design, the MPUC limited itself in the first phase of the proceeding primarily to establishing principles that would guide it in designing Central Maine's rates to be effective March 1, 2000. The MPUC indicated that it would focus on (1) facilitating the transition to a competitive market for generation, and (2) implementing a "no-losers" policy, i.e., that the new rate design would cause no Central Maine customer's bill to increase on March 1, 2000. Applying the latter principle, the MPUC rejected a newly designed standby rate for self-generators proposed by Central Maine in favor of a design generally similar to Central Maine's current rate for the class. The MPUC stated that it planned to undertake a comprehensive rate design and alternative rate plan proceeding for Central Maine prior to March 1, 2002, when it could consider experience gained with the cost structures of other transmission-and-distribution utilities after the commencement of retail access to generation.

The Phase I order resulted from an extended proceeding with many points of view represented and covers a wide variety of rate-related subjects. Definitive findings by the MPUC in a number of the subject areas await the second phase of the proceeding, which must be completed before March 1, 2000. CMP Group and Central Maine cannot predict the definitive amount of stranded costs the MPUC will determine that Central Maine will be entitled to recover pursuant to the mandate of the restructuring statute, or the revenue requirements and rate design that will result from Phase II of the MPUC proceeding.

Agreement for Sale of Generation Assets

On January 6, 1998, Central Maine announced that it had reached agreement to sell all of its hydro, fossil and biomass power plants with a combined generating capacity of 1,185 megawatts for $846 million in cash, including approximately $18 million for assets of Union Water, to Florida-based FPL Group. The related book value for these assets was approximately $218.9 million at December 31, 1998. In addition, as part of its agreement with FPL Group, Central Maine entered into energy buy-back agreements to assist in fulfilling its obligation to supply its customers with power until March 1, 2000. Subsequently, an agreement was reached to sell related storage facilities to FPL Group for an additional $3.6 million ($1.5 million for the assets and

$2.1 million for lease revenue associated with the properties that Central Maine will retain), including $1.15 million for Union Water assets. The related book value of these assets was approximately $11.9 million at December 31, 1998.

Central Maine's interests in the power entitlements from approximately 50 power-purchase agreements with non-utility generators representing approximately 488 megawatts, its 2.5-percent interest in the Millstone Unit No. 3 nuclear generating unit in Waterford, Connecticut, its 3.59-percent interest in the output of the Vermont Yankee nuclear generating plant in Vernon, Vermont, and its entitlement in the NEPOOL Phase II interconnection with Hydro-Quebec all attracted insufficient interest to be included in the pending sale. Central Maine will continue to seek buyers for those assets. Central Maine did not offer for sale its interests in the Maine Yankee (Wiscasset, Maine), Connecticut Yankee (Haddam, Connecticut) and Yankee Atomic (Rowe, Massachusetts) nuclear generating plants, all of which are in the process of being decommissioned.

Substantially all of the generating assets included in the sale are subject to the lien of Central Maine's General and Refunding Mortgage Indenture dated as of April 15, 1976 (the "Indenture"). Therefore, substantially all of the proceeds from sale must be deposited initially with the trustee under the Indenture at the closing of the sale to free the generating assets from the lien of the indenture. Central Maine plans to use some of the proceeds on deposit with the trustee to redeem or repurchase bonds under the terms of the Indenture, and may discharge the Indenture. In addition, the proceeds could provide the flexibility to redeem or repurchase outstanding equity securities. Central Maine must also provide for payment of applicable taxes resulting from the sale. The manner and timing of the ultimate application of the sale proceeds after closing are in any event subject to various factors, including indenture provisions, regulatory requirements, market conditions and terms of outstanding securities.

On November 17, 1998, FPL Group announced that its subsidiary, FPL Energy Maine, Inc. ("FPL Energy") had filed a civil action in the United States District Court for the Southern District of New York requesting a declaratory judgment that Central Maine could not meet essential terms of the January agreement. FPL Group asserted that based on October 1998 FERC rulings on transmission access, as well as other issues, it believed that Central Maine could not comply with the conditions in the purchase contract and that FPL Energy should not be bound to complete the transaction.

FPL Energy contended in its complaint that the FERC rulings (1) constituted a material adverse effect under the purchase agreement and substantially lessened the value of Central Maine's generating assets, and (2) precluded Central Maine from obtaining all federal, state and local consents and approvals required for the ownership, operation and maintenance of the generating assets in a manner substantially consistent with Central Maine's historical ownership, operation, and maintenance thereof, as required by the purchase agreement. In addition, FPL Energy asserted that the FERC rulings limited the ability of the prospective buyer to get power from the Central Maine generating assets to market unconstrained by transmission limitations resulting from new generators being added to the NEPOOL system, and therefore, based on the doctrine of frustration of purpose, FPL Energy should be "excused without further obligation or liability from effecting the purchase of [Central Maine's] generating assets." Central Maine, FPL Energy, NEPOOL, and other parties interested in New England transmission-access issues requested rehearing of the FERC rulings.

On November 23, 1998, the MPUC granted its approval of the sale to FPL Energy of the generating assets contemplated by the purchase agreement, finding the sale to be in the public interest. The MPUC also

made the findings required as a prerequisite to a FERC designation of the generating facilities as "exempt wholesale generators," which had been requested by FPL Energy.

On November 24, 1998, the FERC approved the sale of the Central Maine generating assets to FPL Energy, after making the required finding that the sale was consistent with the public interest, and accepted certain implementing agreements for filing. In discussing an issue raised by an intervenor the FERC stated that by purchasing the generating assets FPL Energy would be "stepping into the shoes of Central Maine" with respect to access to the Central Maine and NEPOOL transmission system, but did not disturb the earlier transmission-access rulings. The FERC granted its approval of the transfer of hydroelectric and water storage licenses on December 28, 1998, and the approval by FERC of exempt-wholesale-generator status for the generating facilities, was granted on February 24, 1999.

On March 11, 1999, the hearing on FPL Energy's request for a declaratory judgment was held in the United States District Court for the Southern District of New York. On the same day the presiding judge ruled that FPL Energy was not entitled to the declaratory judgment and entered judgment for Central Maine and its affiliated defendants on all counts of the complaint. Thereafter on that day FPL Energy announced that it would not appeal the decision, but would proceed to a closing of the sale on or before April 7, 1999, as required by the sale agreement, and the parties are preparing for the closing.

Expansion of Lines of Business

General. CMP Group is also preparing for competition by expanding its business opportunities through investments that capitalize on core competencies. MaineCom Services is a subsidiary that arranges fiber-optic data service for bulk carriers, offering support for cable television or "super-cellular" personal communication vendors, and providing other telecommunications consulting services. TeleSmart is a wholly-owned accounts receivable management subsidiary. Another wholly-owned subsidiary, CNEX, formerly CMP International Consultants, provides utility consulting (domestic and international) and research. The wholly-owned Union Water Power Company provides management of rivers and recreational facilities, locating of underground utility facilities and infrared photography, real estate brokerage and management, modular housing, engineering and environmental services, integrated energy solutions, and utility construction services. Union Water's operating divisions include On Target Utility Services, UnionLand Services, Maine HomeCrafters, E/PRO, and Combined Energies™. These subsidiaries often utilize skills of former Central Maine employees and regularly compete for business with other companies.

Natural Gas Distribution. CMP Group and Energy East, through subsidiaries, have entered into a joint-venture agreement to pursue opportunities to distribute natural gas at retail in many Maine communities that are not currently served with that fuel. They would offer natural-gas service in several areas of Maine, primarily the Augusta, Bangor, Bath-Brunswick, Bethel, Windham and Waterville areas, none of which currently has a natural-gas distribution system in place. The gas would be drawn from two new gas-pipeline projects now under development by unrelated parties that would carry Canadian gas through Maine and into the regional energy market using substantial portions of electric transmission-line corridors owned by Central Maine and MEPCO. On July 24, 1998, the MPUC authorized the joint venture to serve the areas it had applied to serve. The new company (now "CMP Natural Gas, L.L.C.", equally owned by subsidiaries of CMP Group and Energy East) would face competition from a new gas utility affiliated with Bangor Hydro-Electric Company in the Bangor area, and in the Bath-Brunswick area, from an existing gas utility, Northern Utilities, Inc., which has been serving other areas of Maine, including the Portland and Lewiston-Auburn areas. CMP

Group's level of investment is dependent on the overall economic feasibility of natural gas as a competitive energy option in Maine, a sufficient expression of customer interest in gas service from CMP Natural Gas, and the prospects for achieving an acceptable return on investment.

Fiber Optic Network. CMP Group, through its wholly-owned subsidiary MaineCom Services, owns 38.5 percent of the common stock of Northeast Optic Network, Inc. ("NEON"), which is a facilities-based provider of technologically advanced, high-bandwidth, fiber optic transmission capacity for communications carriers on local loop, inter-city and interstate facilities. NEON is currently expanding its fiber optic network to encompass over 1,000 fiber optic cable route miles, or more than 65,000 fiber strand miles, in New England and New York, utilizing primarily electric-utility rights-of-way, including some of Central Maine's in Maine and some owned by other electric utilities including Northeast Utilities, another substantial minority stockholder, in Connecticut, Massachusetts and New Hampshire. As of December 31, 1998, NEON had completed construction of approximately 600 route miles, or 49,000 fiber miles, of its planned system and is currently engineering, constructing, or acquiring additional routes with a goal of creating a continuous fiber optic link between New York City and Portland, Maine, with access into and around Boston and numerous other major service areas in the Northeast.

On August 5, 1998, NEON completed initial public offerings of $48.0 million of common stock and $180.0 million of senior notes, and Central Maine, as part of the common-stock offering, sold some of the shares in NEON it then owned for proceeds of approximately $3.1 million. In addition, with some of the proceeds of the offering NEON repaid approximately $18 million Central Maine had advanced under an earlier construction loan agreement. CMP Group believes there is a growing need for such a fiber optic network in the Northeast and that NEON's outside financing will provide substantial assistance in completing construction of the network, but cannot predict the results of this venture. The common stock of NEON is listed on the Nasdaq Stock Market's National Market under the symbol "NOPT".

Permanent Shutdown of Maine Yankee Plant

On August 6, 1997, the Board of Directors of Maine Yankee voted to permanently cease power operations at its nuclear generating plant at Wiscasset, Maine (the "Plant") and to begin decommissioning the Plant. As reported in detail in Central Maine's Annual Report on Form 10-K for the year ended December 31, 1997, the Plant had experienced a number of operational and regulatory problems and did not operate after December 6, 1996. The decision to close the Plant permanently was based on an economic analysis of the costs, risks and uncertainties associated with operating the Plant compared to those associated with closing and decommissioning it. The Plant's operating license from the NRC was scheduled to expire on October 21, 2008.

FERC Rate Case. On November 6, 1997, Maine Yankee submitted to FERC for filing certain amendments to the Power Contracts (the "Amendatory Agreements") and revised rates to reflect the decision to shut down the Plant and to request approval of an increase in the decommissioning component of its formula rates. Maine Yankee's submittal also requested certain other rate changes, including recovery of unamortized investment (including fuel) and certain changes to its billing formula, consistent with the non-operating status of the Plant. By Order dated January 14, 1998, the FERC accepted Maine Yankee's new rates for filing, subject to refund after a minimum suspension period, and set Maine Yankee's Amendatory Agreements, rates and issues concerning the prudence of the Plant-shutdown decision for hearing.

By Complaint dated December 9, 1997, the Maine Office of the Public Advocate ("OPA") sought a FERC investigation of Maine Yankee's actions leading to the decision to shut down the Plant, including actions associated with the management and operation of Maine Yankee since 1993. The MPUC had initiated an investigation in Maine earlier, raising generally similar issues. By decision dated May 4, 1998, the FERC consolidated the OPA Complaint with the comprehensive rate proceeding. In addition, 28 municipal and cooperative utilities that had purchased in the aggregate approximately 6.2 percent of the output of the Plant from Maine Yankee's sponsors (the "Secondary Purchasers") intervened in the FERC proceeding, raising similar prudence issues and other issues specific to their status as indirect purchasers from Maine Yankee.

In support of its request for an increase in decommissioning collections, Maine Yankee submitted with its initial FERC filing a 1997 decommissioning cost study performed by TLG Services, Inc. ("TLG"). During 1998, Maine Yankee engaged in an extensive competitive bid process to engage a Decommissioning Operations Contractor ("DOC") to perform certain major decontamination and dismantlement activities at the Plant on a fixed-price, turnkey basis. As a result of that process, a consortium headed by Stone & Webster Engineering Corporation ("Stone & Webster") was selected to perform such activities under a fixed-price contract. The contract provides for, among other undertakings, construction of an independent spent fuel storage installation ("ISFSI") and completion of major decommissioning activities and site restoration by the end of 2004. The DOC process resulted in fixing certain costs that had been estimated in the earlier decommissioning cost estimate performed by TLG.

Since the filing of the rate request, Maine Yankee and the active intervenors, including among others the MPUC Staff, the OPA, Central Maine and other owners, the Secondary Purchasers, and a Maine environmental group (the "Settling Parties"), engaged in extensive discovery and negotiations. Those parties participated in settlement discussions that resulted in an Offer of Settlement filed by those parties with the FERC on January 19, 1999. On February 8, 1999, the FERC Trial Staff recommended that the presiding judge certify the settlement to the FERC and that the FERC approve it. Upon approval by the FERC, the settlement would constitute a full settlement of all issues raised in the consolidated FERC proceeding, including decommissioning-cost issues and issues pertaining to the prudence of the management, operation, and decision to permanently cease operation of the Plant. A separately negotiated settlement filed with the FERC on February 5, 1999, would resolve the issues raised by the Secondary Purchasers by limiting the amounts they will pay for decommissioning the Plant and by settling other points of contention affecting individual Secondary Purchasers. On February 24, 1999, the FERC Trial Staff recommended certification and approval of the settlement with the Secondary Purchasers. On March 10, 1999, the presiding judge certified to the FERC that both Offers of Settlement were uncontested and joined in the Trial Staff's comments that both were "fair, reasonable and in the public interest."

The Offer of Settlement provides for Maine Yankee to collect $33.6 million in the aggregate annually, effective January 15, 1998, consisting of (1) $26.8 million for estimated decommissioning costs, and (2) $6.8 million for ISFSI-related costs. The original filing with FERC on November 6, 1997, called for an aggregate annual collection rate of $36.4 million for decommissioning and the ISFSI, based on the TLG estimate. Under the settlement the amount collected annually could be reduced to approximately $26 million if Maine Yankee is able to (1) use for construction of the ISFSI funds held in trust under Maine law for spent-fuel disposal, and (2) access approximately $6.8 million being held by the State of Maine for eventual payment to the State of Texas pursuant to a compact for low-level nuclear waste disposal, the future of which is now in question after rejection of the selected disposal site in west Texas by a Texas regulatory agency. Both would require authorizing legislation in Maine, which Maine Yankee is committed to use its best efforts to obtain.

The Offer of Settlement also provides for recovery of all unamortized investment (including fuel) in the Plant, together with a return on equity of 6.50 percent, effective January 15, 1998, on equity balances up to maximum allowed equity amounts. The Settling Parties also agreed in the proposed settlement not to contest the effectiveness of the Amendatory Agreements submitted to FERC as part of the original filing, subject to certain limitations including the right to challenge any accelerated recovery of unamortized investment under the terms of the Amendatory Agreements after a required informational filing with the FERC by Maine Yankee. In addition, the settlement contains incentives for Maine Yankee to achieve further savings in its decommissioning and ISFSI-related costs and resolves issues concerning restoration and future use of the Plant site and environmental matters of concern to certain of the intervenors in the proceeding.

As a separate part of the Offer of Settlement, Central Maine, the other two Maine utilities which own interests in Maine Yankee, the MPUC Staff, and the OPA entered into a further agreement resolving retail rate issues and other issues specific to the Maine parties, including those that had been raised concerning the prudence of the operation and shutdown of the Plant (the "Maine Agreement"). Under the Maine Agreement Central Maine would continue to recover its Maine Yankee costs in accordance with its most recent ARP order from the MPUC without any adjustment reflecting the outcome of the FERC proceeding. To the extent that Central Maine has collected from its retail customers a return on equity in excess of the 6.50 percent contemplated by the Offer of Settlement, no refunds would be required, but such excess amounts would be credited to the customers to the extent required by the ARP.

The final major provision of the Maine Agreement requires the Maine owners, for the period from March 1, 2000, through December 1,2004, to hold their Maine retail ratepayers harmless from the amounts by which the replacement power costs for Maine Yankee exceed the replacement power costs assumed in the report to the Maine Yankee Board of Directors that served as a basis for the Plant shutdown decision, up to a maximum cumulative amount of $41 million. Central Maine's share of that amount would be $31.16 million for the period. The Maine Agreement, which was approved by the MPUC on December 22, 1998, also sets forth the methodology for calculating such replacement power costs.

CMP Group and Central Maine believe that the Offer of Settlement, including the Maine Agreement, constitutes a reasonable resolution of the issues raised in the Maine Yankee FERC proceeding, and that approval of the Offer of Settlement by the FERC would eliminate significant uncertainties concerning CMP Group's and Central Maine's future financial performance. Although all of the active parties to the proceeding, including the FERC Trial Staff, support or, with respect to certain individual provisions, do not oppose, the Offer of Settlement, CMP Group and Central Maine cannot predict with certainty whether or in what form it will be approved by the FERC.

Other Maine Yankee Shareholders. Periodically-higher nuclear-related costs have affected the financial condition of other stockholders of Maine Yankee in varying degrees. A default by a Maine Yankee stockholder in making payments under its Power Contract or Capital Funds Agreement could have a material adverse effect on Maine Yankee, depending on the magnitude of the default. CMP Group and Central Maine cannot predict, however, what effect, if any, the financial and regulatory difficulties experienced by some Maine Yankee stockholders might have on Maine Yankee or Central Maine.

Non-utility Generation

After enactment of the federal Public Utility Regulatory Policies Act of 1978 ("PURPA") and companion legislation in Maine, Central Maine became an industry leader in developing supplies of energy from non-utility generators ("NUGs"), including cogeneration plants and small power producers. These sources supplied 3.2 billion kilowatt-hours of electricity to Central Maine in 1998, representing 32 percent of total generation, a decrease from 35 percent in 1997. The Company's contracts with non-utility generators, however, which were entered into pursuant to the mandates of PURPA and vigorous state implementation of its policies, contributed the largest part of Central Maine increased costs and resulting rate increases in the years immediately prior to implementation of the ARP in 1995, and constitute the largest part of its strandable costs.

PURPA provided substantial economic incentives to NUGs by allowing cogenerators and small power producers to sell their entire electrical output to an electric utility at the utility's avoided-cost rate, which has often been substantially higher than market rates, while purchasing their own electric energy requirements at the utility's established rate for that customer class. Thus Central Maine in a number of cases has been required to pay a higher price for energy purchased from a NUG than the NUG, which in some cases is a large customer of Central Maine, has paid Central Maine for the NUG's energy requirements. In addition, prices paid by Central Maine under NUG contracts have often been well above current wholesale market prices.

Central Maine has reduced its NUG costs by implementing buyouts and restructurings of its NUG contracts, whenever practicable. As a result, in accordance with prior MPUC policy and the ARP, since January 1992 $99 million of buyout or restructuring costs have been included in Deferred Charges and Other Assets on Central Maine's balance sheet and will be amortized over their respective fuel savings periods. Central Maine will continue to seek opportunities to reduce its NUG costs, but cannot predict what level of additional savings it will be able to achieve. Central Maine offered to sell its NUG power entitlements as part of the auction of its generating assets, but the offer attracted insufficient interest to be included in its pending sale.

Financing and Related Considerations

At the annual meeting of the stockholders of Central Maine on May 15, 1997, the holders of Central Maine's outstanding preferred stock consented to the issuance of $350 million in principal amount of Central Maine's medium-term notes in addition to the $150 million in principal amount to which they had previously consented. This expansion of the medium-term note program to a maximum of $500 million in principal amount outstanding at any one time was implemented to increase Central Maine's financing flexibility in anticipation of industry restructuring and increased competition. During 1998, Central Maine issued medium-term notes totaling $312 million in principal amount and such notes in the amount of $18 million matured during the year. As of December 31, 1998, $337 million of medium-term notes were outstanding. During 1998, Central Maine redeemed, repurchased, or paid at maturity a total of approximately $417 million of mortgage bonds, preferred stock, and other debt. For a discussion of Central Maine's 1998 financing activity and its available financing facilities, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations"-"Liquidity and Capital Resources," below.

Securities Ratings

The current ratings assigned Central Maine's securities by the three major securities-rating agencies are shown below:

	Mortgage Bonds	Unsecured Notes	Commercial Paper	Preferred Stock
S&P	BBB+	BB+	A-3	BB+
Moody's	Baa3	Ba1	P3	Ba1
D&P	BBB-	BB+	D-3	BB

"Year 2000" Computer Issues

The "Year 2000 problem" arose because many existing computer programs use only the last two digits to refer to a year. Therefore those computer programs do not properly recognize a year that begins with "20" instead of the familiar "19". If not corrected, many computer applications could fail or create erroneous results, with potentially serious and widespread adverse consequences.

CMP Group, through Central Maine, began its Year 2000 problem remediation efforts in 1996, and since that time has developed a broad-based and comprehensive project plan for addressing Year 2000 issues. The plan includes both Information Technology ("IT") and non-IT systems, addresses both centralized and distributed systems, and encompasses systems critical to the generation, transmission, and distribution of electric energy as well as the traditional business systems necessary to the CMP Group System.

As planned, by the end of 1998 CMP Group had completed much of the work associated with Year 2000 readiness for IT infrastructure and centralized business systems. The remaining work in those areas is scheduled to be completed during the first six months of 1999. All vendors associated with this remaining work have indicated availability of products and services that CMP Group believes should permit CMP Group to be Year 2000 ready by June 1999.

CMP Group's target completion date for Year 2000 power generation and delivery systems is also June 1999, consistent with the DOE's published request in May 1998 and the overall electric-utility industry guidelines prepared by the North American Electric Reliability Council ("NERC"). CMP Group has contracted with the appropriate vendors to complete critical generation control system remediation work by June 1999, and believes it is on schedule to meet this target.

In addition to the internal Year 2000 readiness activities discussed above, CMP Group is actively participating in a joint ISO/NEPOOL initiative designed to assess, and assure, power reliability within the NEPOOL area. This initiative encompasses all participants, including Central Maine, within the New England area.

CMP Group also has an active program in place to identify and address issues associated with third-party providers. The program addresses business relationships with all third-party providers, but focuses on those suppliers deemed critical to CMP Group's business. At this time CMP Group has no indication that any third-party with which CMP Group has a material relationship is expecting a Year 2000-related business interruption. CMP Group will continue to monitor and assess its third-party relationships.

CMP Group estimates it will incur approximately $4.0 million of costs associated with making the necessary modifications identified to date to both the centralized and non-centralized systems. As of December 31, 1998, approximately $3.4 million of such costs has been incurred.

CMP Group recognizes that failure to correct problems associated with Year 2000 issues has the potential to result in material operational and financial risks if the affected systems either cease to function or produce erroneous results. Such risks could include inability to operate fossil and/or hydro generating facilities, disruptions in the operation of Central Maine's transmission and distribution systems, an inability to access interconnections with other utilities, and disruptions to Central Maine's major business systems (customer information and service, administrative, financial).

Central Maine believes, however, that the most likely worst case scenario resulting from these risks would be a temporary, and short-term, disruption of electric service. This could occur either as a failure on the part of Central Maine to successfully address all critical Year 2000 issues, as a failure on the part of a critical third-party provider, or as a failure on the part of other entities, including ISO-New England, to successfully maintain the short-term reliability of power supply and delivery on a regional basis. Central Maine does not expect that any such short-term service disruption would have a material impact on its operations, liquidity, or financial condition.

In order to minimize these risks, and the potential recovery time, from Year 2000 problems, CMP Group is actively involved in contingency planning. Although CMP Group has extensive knowledge and specific experience in disaster/recovery planning and execution, CMP Group recognizes the importance of Year 2000 specific contingency planning. Accordingly, Central Maine is participating in the integrated contingency planning effort headed by the North American Electric Reliability Council, and the Northeast Power Coordinating Council. Further, Central Maine will be developing comprehensive Year 2000 specific contingency plans for its own independent operations.

CMP Group believes its plans are adequate to attain Year 2000 readiness, and that the contingency plans currently under development both internally and at a regional level should substantially mitigate the risks discussed above.

Environmental Matters

Federal, state and local environmental laws and regulations cover air and water quality, land use, power plant and transmission line siting, noise and aesthetics, solid and hazardous waste and other environmental matters. Compliance with these laws and regulations impacts the manner and cost of electric service by requiring, among other things, changes in the design and operation of existing facilities and changes or delays in the location, design, construction and operation of new facilities. These environmental regulations most significantly affect Central Maine's electric power generating facilities, which are to be sold to FPL Group, as discussed above. In addition, certain environmental proceedings under federal and state hazardous substance and hazardous waste regulations (such as the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") and the Resource Conservation and Recovery Act ("RCRA") and similar state statutes) are discussed below under Item 3, "Legal Proceedings" - "Legal and Environmental Matters." Central

Maine estimates that its capital expenditures for improvements needed to comply with environmental laws and regulations were approximately $14.3 million for the five years from 1994 through 1998.

Storm Damage to Central Maine's System

On January 7 through 9, 1998, an ice storm of unprecedented breadth and severity struck Central Maine's service territory, causing power outages for approximately 280,000 of Central Maine's 528,000 customers, and substantial widespread damage to Central Maine's transmission and distribution system. To restore its electrical system, Central Maine supplemented its own crews with utility and tree-service crews from throughout the northeastern United States and the Canadian maritime provinces, with assistance from the Maine national guard. Central Maine's incremental non-capital costs of the repair effort were $50.7 million, most of which is labor-related. In addition, approximately $1.7 million of carrying costs have been deferred as of December 31, 1998.

On January 15, 1998, the MPUC issued an order allowing Central Maine to defer on its books the incremental non-capital costs associated with Central Maine's efforts to restore service in response to the damage resulting from the storm. The order required Central Maine, as part of its annual filing under the ARP, to file information on the amounts deferred under the order and to submit a proposal as to how the costs associated with the order should be recovered under the ARP. In the 1998 ARP filing Central Maine stated that once the final cost of the storm was determined and the status of federal assistance was known Central Maine would propose a plan for recovery of its costs. Based on the MPUC order, Central Maine has deferred $52.4 million in storm related costs as of December 31, 1998. In October 1998, the MPUC staff issued its draft report of its summary investigation of the Maine utilities' response to the January ice storm. This report found no basis for formal adjudicatory investigation into the response and supports the utilities' actions. On May 1, 1998, President Clinton signed a Congressional appropriation bill that included $130 million for Presidentially declared disasters in 1998, including storm-damage cost reimbursement for electric utilities. On November 5, 1998 the United States Department of Housing and Urban Development ("HUD") announced that of those funds, $2.2 million had been awarded to Maine, with none designated for utility infrastructure, which Central Maine and the Maine Congressional delegation protested as inadequate and inconsistent with Congressional intent. On March 10, 1999, HUD published a notice in the Federal Register inviting parties to re-apply for storm-damage cost reimbursement. Central Maine cannot predict what portion of its ice storm-related costs it will ultimately recover through federal assistance, if any, or from its customers, or when any such recovery will take place.

Employee Information

A local union affiliated with the International Brotherhood of Electrical Workers (AFL-CIO) represents operating and maintenance employees in each of Central Maine's operating divisions, and certain office and clerical employees. At December 31, 1998, Central Maine had 1,607 full-time employees, of whom approximately 45 percent were represented by the union.

In April 1998 Central Maine and the union agreed to a two-year labor contract extension that provided for an annual wage increase of 2.5 percent on May 1, 1998 and 2.5 percent on May 1, 1999.

On March 2, 1998, Central Maine and the Union reached agreement on a contract covering 158 employees in power-generation positions. This contract is similar to the agreement covering other Central Maine employees

except that it provided for a 2.5 percent general wage increase effective March 1, 1998. The contract will expire on July 31, 1999 and, at the time of the closing of the generation-asset sale, is expected to be absorbed by FPL Group, along with most of the generation-related employees.

Item 2. PROPERTIES.

Existing Facilities

Central Maine's electric properties form a single integrated system which is connected at 345 kilovolts and 115 kilovolts with the lines of Public Service Company of New Hampshire at the southerly end and at 115 kilovolts with Bangor Hydro-Electric Company at the northerly end of Central Maine's system. Central Maine's system is also connected with the system of The New Brunswick Power Corporation and with Bangor Hydro-Electric Company, in each case through the 345-kilovolt interconnection constructed by MEPCO, a 78 percent-owned subsidiary of Central Maine. At December 31, 1998, Central Maine had approximately 2,293 circuit-miles of overhead transmission lines, 19,438 pole-miles of overhead distribution lines and 1,434 miles of underground and submarine cable.

Central Maine operates 32 hydroelectric generating stations, of which 31 are owned fully by Central Maine, with an estimated net capability of 373 megawatts, and it purchases an additional 74 megawatts of non-utility hydroelectric generation in Maine. Central Maine also operates two oil-fired steam-electric generating stations, William F. Wyman Station in Yarmouth, Maine and Mason Station in Wiscasset, Maine. Central Maine's share of William F. Wyman Station has an estimated net capability of 594 megawatts. Mason Station has five units totaling 145 megawatts although two of the units (42 megawatts) are retired. The oil-fired stations are located on tidewater, permitting waterborne delivery of fuel. Central Maine also has internal combustion generating facilities with an estimated aggregate net capability of 42 megawatts. These facilities are included in the pending sale of Central Maine's generating assets to FPL Group.

Central Maine also has ownership interests in five nuclear generating facilities in New England, three of which have permanently ceased operations. The largest is a 38-percent interest in Maine Yankee Atomic Power Company ("Maine Yankee") which, as discussed above, has permanently shut down its plant in Wiscasset, Maine. In addition, the Company owns a 9.5 percent interest in Yankee Atomic Electric Company ("Yankee Atomic"), discussed below, which has permanently shut down its plant located in Rowe, Massachusetts, a 6 percent interest in Connecticut Yankee Atomic Power Company ("Connecticut Yankee"), discussed below, which has permanently shut down its plant in Haddam, Connecticut, and a 4 percent interest in Vermont Yankee Nuclear Power Corporation ("Vermont Yankee"), which owns an operating plant in Vernon, Vermont (collectively, with Maine Yankee, the "Yankee Companies"). In addition to the four Yankee Companies, pursuant to a joint-ownership agreement, the Company has a 2.5 percent direct ownership interest in the Millstone 3 nuclear unit ("Millstone 3") in Waterford, Connecticut.

	Maine Yankee	Yankee Atomic	Connecticut Yankee	Vermont Yankee	Millstone Unit 3
Ownership Share	38%	9.5%	6%	4%	2.5%
Operating Status	Permanently shut down	Permanently shut down February 26,	Permanently shut down December 4,	Operating	Operating

	Maine Yankee	Yankee Atomic	Connecticut Yankee	Vermont Yankee	Millstone Unit 3
	August 6, 1997	1992	1996		
Location	Wiscasset, Maine	Rowe, Massachusetts	Haddam, Connecticut	Vernon, Vermont	Waterford, Connecticut
Capacity Share	N/A	N/A	N/A	19 MW	29 MW
Equity Interest at December 31, 1998	$30.0 Million	$1.9 Million	$6.3 Million	$2.1 Million	N/A

Maine Yankee. In August 1997, the Board of Directors of Maine Yankee Atomic Power Company voted to permanently shut down and decommission the Maine Yankee plant. The Plant had experienced a number of operational and regulatory problems and did not operate after December 6, 1996. The decision to close the Plant was based on an economic analysis of the costs, risks and uncertainties associated with operating the Plant compared to those associated with closing and decommissioning it. For a detailed discussion of the issues relating to the Maine Yankee Plant, see Item 1 "Business" - "Permanent Shutdown of the Maine Yankee Plant," above.

Connecticut Yankee. In December 1996, the Board of Directors of Connecticut Yankee Atomic Power Company voted to permanently shut down and decommission the Connecticut Yankee plant for economic reasons. The plant did not operate after July 22, 1996. Central Maine estimates its share of the cost of Connecticut Yankee's continued compliance with regulatory requirements, recovery of its plant investment, decommissioning and closing the plant to be approximately $29.9 million and has recorded a corresponding regulatory asset and liability on the consolidated balance sheet. Central Maine is currently recovering through rates an amount adequate to recover these expenses. Issues relating to Connecticut Yankee's decommissioning rates, as well as the prudence of operating that plant and the decision to cease operations, remain pending before the FERC.

Yankee Atomic. In 1993 the FERC approved a settlement agreement regarding recovery of decommissioning costs and plant investment, and all issues with respect to the prudence of the decision to discontinue operation of the Yankee Atomic plant. Central Maine estimates its remaining share of the cost of Yankee Atomic's continued compliance with regulatory requirements, recovery of its plant investment, decommissioning and closing the plant, to be approximately $7.8 million. This estimate has been recorded by Central Maine as a corresponding regulatory asset and liability on Central Maine's balance sheet. Central Maine's current share of costs related to the shutdown of Yankee Atomic is being recovered through rates.

Vermont Yankee. The Vermont Yankee plant is an operating unit. Its NRC operating license is scheduled to expire in the year 2012.

Millstone Unit 3. Pursuant to a joint ownership agreement, Central Maine has a 2.5 percent direct ownership interest in the Millstone 3 nuclear unit in Waterford, Connecticut, which is operated by Northeast Utilities. This facility was off-line from March 31, 1996, to July 1998, due to NRC concerns regarding license requirements. For a discussion of a lawsuit and arbitration claim filed by Central Maine and other minority owners of Millstone 3 against the operators of the unit, see Item 3 "Legal Proceedings"-"Millstone Unit No. 3 Litigation," below.

Central Maine is obligated to pay its proportionate share of the operating expenses, including depreciation and a return on invested capital, of each of the Yankee Companies referred to above for periods expiring at various dates to 2012. Pursuant to the joint ownership agreement for Millstone 3, Central Maine is similarly obligated to pay its proportionate share of the operating costs of Millstone 3. Central Maine is also required to pay its share of the estimated decommissioning costs of each of the Yankee Companies and Millstone 3. The estimated decommissioning costs are paid as a cost of energy in the amounts allowed in rates by the FERC.

MEPCO. MEPCO owns and operates a 345-kilovolt transmission interconnection, completed in 1971, extending from Central Maine's substation at Wiscasset to the Canadian border where it connects with a line of The New Brunswick Power Corporation ("NB Power") under an interconnection agreement. MEPCO transmits power between NB Power and various New England utilities pursuant to MEPCO's Open Access Transmission Tariff.

New England Power Pool Facilities. NEPOOL, of which the Company is a member, contracted in connection with its Hydro-Quebec projects to purchase power from Hydro-Quebec. The contracts entitle Central Maine to 44.5 megawatts of capacity credit in the winter and 127.25 megawatts of capacity credit during the summer. Central Maine also entered into facilities-support agreements for its share of the related transmission facilities, with its share of the support responsibility and of associated benefits being approximately 7 percent of the totals. Central Maine is making facilities-support payments on approximately $25.4 million, its share of the construction cost for the transmission facilities incurred through December 31, 1998.

Maine Yankee Low-Level Waste Disposal. The federal Low-Level Radioactive Waste Policy Amendments Act (the "Waste Act"), enacted in 1986, required states either alone or in multistate compacts to provide for the disposal of low-level radioactive waste generated within their borders. Subsequently, the states of Maine, Texas and Vermont entered into a compact for the disposal of low-level waste at a site in Texas. The compact provides for Texas to take Maine's low-level waste over a 30-year period for disposal at a then-planned facility in west Texas. In return, Maine would be required to pay $25 million, assessed to Maine Yankee by the State of Maine, payable in two equal installments, the first after ratification by Congress and the second upon commencement of operation of the Texas facility; or, as a possible alternative, the states could agree to a financing arrangement for the payment, in which case Maine Yankee's share, along with interest, could be paid out over an extended period of time. In addition, Maine Yankee would be assessed a total of $2.5 million for the benefit of the Texas county in which the facility would be located and would also be responsible for its pro-rata share of the Texas governing commission's operating expenses.

The bill providing for ratification of the compact was before several sessions of the Congress before finally being approved on September 2, 1998, and signed by the President on September 21, 1998. However, on October 22, 1998, the Texas Natural Resources Conservation Commission voted to deny a permit for the proposed west Texas site for the facility.

Since the Maine Yankee Plant has permanently stopped operating, the compact is less beneficial to Maine Yankee than it would have been if the Plant had remained in operation, due to the new schedule for Maine Yankee's shipments and the uncertainty associated with the schedule for opening a Texas facility. Although other potential sites in Texas have been proposed by various parties, CMP Group and Central Maine cannot predict whether or when a facility in Texas will be licensed and built. Maine Yankee intends to utilize its on-

site storage facility as well as dispose of low-level waste at an active South Carolina site or other available sites in the interim and continue to cooperate with the State of Maine in pursuing all appropriate options. CMP Group and Central Maine are unable to predict whether or when the state of Maine may assess any payments required under the compact.

Nuclear Insurance. The Price-Anderson Act is a federal statute providing, among other things, a limit on the maximum liability for damages resulting from a nuclear incident. Coverage for the liability is provided for by existing private insurance and retrospective assessments for costs in excess of those covered by insurance, up to $88.095 million for each reactor owned, with a maximum assessment of $10 million per reactor in any year. However, after appropriate exemptive action by the NRC Maine Yankee, and therefore its sponsors, are not responsible for retrospective assessments resulting from any event or incident occurring after January 7, 1999. Based on Central Maine's stock ownership in the Yankee companies and its 2.5 percent direct ownership interest in the Millstone 3 nuclear unit, Central Maine's retrospective premium for post-January 7, 1999, events or incidents could be as high as $6 million in any year, for a cumulative total of $52.9 million.

In addition to the insurance required by the Price-Anderson Act, the nuclear generating facilities mentioned above carry additional nuclear property-damage insurance. This additional insurance is provided from commercial sources and from the nuclear electric utility industry's insurance company through a combination of current premiums and retrospective premium adjustments. In recognition of the reduced risk posed by the shutdown of the Maine Yankee Plant and its defueled reactor, Maine Yankee substantially reduced its property-damage coverage effective January 19, 1999.

Construction Program

Central Maine's plans for improvements and expansion of its facilities are under continuing review. Actual construction expenditures depend on the availability of capital and other resources, load forecasts, customer growth, general business conditions, and, starting in 1999, the consummation of the sale of its generating assets. Recent economic and regulatory considerations have led Central Maine to hold its planned 1999 capital investment outlays, including deferred demand-side management expenditures, to minimum levels. During the five-year period ended December 31, 1998, Central Maine's construction and acquisition expenditures amounted to $219.7 million (including investment in jointly-owned projects and excluding MEPCO). The program is currently estimated at approximately $56 million for 1999 and $228 million for 2000 through 2003.

The following table sets forth Central Maine's estimated capital expenditures as discussed above, assuming completion of the generation asset sale in the spring of 1999:

Type of Facilities	1999	2000-2003	Total
	(Dollars in Millions)		
Generating Projects	$ 3	$ -	$ 3
Transmission	3	22	25
Distribution	32	132	164
General facilities and Other	18	74	92
Total	$56	$228	$284

Additionally, Central Maine, in conjunction with the Independent System Operator-New England, is conducting system impact and facilities studies to accommodate the interconnection of 19 merchant plants totaling in excess of 6,000 megawatts proposing to interconnect to its system and neighboring systems over the next three years. One of these facilities has an expected on-line date in the latter half of 1999. Central Maine anticipates spending approximately $25,000,000 in 1999 for the construction and/or upgrade of transmission line and substation facilities associated with this project as well as two other projects expected to be on-line in 2000. The extent of transmission upgrades necessary to accommodate the proposed merchant plants, and the entity ultimately responsible for these costs, depends on the results of the studies mentioned above, the number of proposed plants that actually are developed, and approval of the criteria for determining needed transmission upgrades, which are being developed within the context of NEPOOL's Congestion Management System be filed later in 1999 as required by the FERC.

Demand-side Management

Central Maine's demand-side-management initiatives have included programs aimed at residential, commercial and industrial customers. Among the residential efforts have been programs that offer free or low-cost weatherization, water heater wraps and energy-efficient light bulbs. Among the commercial and industrial efforts, in addition to operating programs that offer energy-efficient lighting products and water-heater wraps, Central Maine has provided incentives to customers who install conservation measures of any kind that increase the efficiency of the use of electricity.

NEPOOL

Central Maine is a member of the New England Power Pool (NEPOOL), which is open to electric utilities in New England under a 1971 agreement that provides for coordinated planning and operation of approximately 99 percent of the electric power production, purchases and transmission in New England. The NEPOOL Agreement, which was recently revised to comply with the new regulatory requirements discussed in the three succeeding paragraphs, imposes obligations concerning generating capacity reserve and the use of major transmission lines, and provides for central dispatch of the region's facilities.

On April 24, 1996, the FERC issued Order No. 888, which requires all public utilities that own, control or operate facilities used for transmitting electric energy in interstate commerce to file open access non-discriminatory transmission tariffs that offer both load-based, network and contract-based, point-to-point service, including ancillary service to eligible customers containing minimum terms and conditions of non-discriminatory service. This service must be comparable to the service they provide themselves at the wholesale level; in fact, these utilities must themselves take the wholesale transmission service they provide under the filed tariffs. The order also permits public utilities and transmitting utilities the opportunity to recover legitimate, prudent and verifiable wholesale stranded costs associated with providing open access and certain other transmission services. It further requires public utilities to functionally separate transmission from generation marketing functions and communications. The intent of this order is to promote the transition of the electric utility industry to open competition. Order No. 888 also clarifies federal and state jurisdiction over transmission in interstate commerce and local distribution and provides for deference of certain issues to state recommendations. The FERC subsequently issued Orders No. 888-A and 888-B which generally reaffirm Order No. 888 and clarify certain terms.

On July 9, 1996, Central Maine and MEPCO submitted compliance filings to meet the new pro-forma tariff non-price minimum terms and conditions of non-discriminatory transmission service and since then have made additional filings revising their tariffs in response to subsequent FERC and NEPOOL Orders. Central Maine and MEPCO have been transmitting energy pursuant to their filed tariffs, subject to refund.

On April 24, 1996, the FERC also issued Order No. 889, which requires public utilities to functionaliy separate their wholesale power marketing and transmission operation functions and to obtain information about their transmission system for their own wholesale power transactions in the same way their competitors do through the Open Access Same-time Information System ("OASIS"). The rule also prescribed standards of conduct and protocols for obtaining the information. The standards of conduct are designed to prevent employees of a public utility engaged in marketing functions from obtaining preferential information. In 1998, both Central Maine and MEPCO submitted standards of conduct filings that further clarified the separation of the wholesale power marketing and transmission operations functions. The NEPOOL Agreement and open-access transmission tariff have been revised to reflect the new regulatory requirements and are pending FERC approval.

Fuel Supply

Central Maine's total kilowatt-hour production by energy source for each of the last two years and as estimated for 1999, assuming completion of the generation asset sale in the first half of 1999, is shown below.

	Actual		Estimated
Source	1998	1997	1999
Nuclear	2%	2%	3%
Hydro	16	16	10
Oil	35	35	4
Non-utility	32	35	35
Other purchases	13	10	37
Biomass	2	2	1
FPL-Hydro Buyback	-	-	7
FPL-Oil Buyback	-	-	3
	100%	100%	100%

The 1999 estimated kilowatt-hour output from oil and purchased power may vary depending upon the relative costs of Company-generated power and power purchased through independent producers and other sources.

Oil. Central Maine's William F. Wyman Station in Yarmouth, Maine, its Mason Station in Wiscasset, Maine, and its internal combustion electric generating units are oil-fired. Central Maine's last contract for the supply of fuel oil requirements at market prices was allowed to expire in 1993. Since then Central Maine has been purchasing its fuel-oil requirements on the open market.

The average cost per barrel of fuel oil purchased by Central Maine during the five calendar years commencing with 1994 was $12.93, $16.16, $18.18, $17.04 and $12.39, respectively. A substantial portion of the fuel oil burned by Central Maine and the other member utilities of NEPOOL is imported. The availability and cost of oil to Central Maine, both under contract and in the open market, could be adversely affected by policies and events in oil-producing nations and other factors affecting world supplies and domestic governmental action.

Maine Yankee Spent Fuel. Like other nuclear plant operators, Maine Yankee entered into a contract with the United States Department of Energy ("DOE") for disposal of its spent nuclear fuel, as required by the Nuclear Waste Policy Act of 1982, pursuant to which a fee of one dollar per megawatt-hour was assessed against net generation of electricity and paid to the DOE quarterly. Under this Act, the DOE was given the responsibility for disposal of spent nuclear fuel produced in private nuclear reactors. In addition, Maine Yankee is obligated to make a payment with respect to generation prior to April 7, 1983 (the date current DOE assessments began). Maine Yankee elected under terms of its DOE contract to make a single payment of this obligation prior to the first delivery of spent fuel to DOE, which was scheduled to begin by January 31, 1998. The payment would consist of $50.4 million (all of which Maine Yankee previously collected from its customers, but for which a reserve was not funded), which is the approximate one-time fee charge, plus interest accrued at the 13-week treasury-bill rate compounded on a quarterly basis from April 7, 1983, through the date of the actual payment. Current costs incurred by Maine Yankee under this contract are recoverable under the terms of its Power Contracts with its sponsoring utilities, including Central Maine. Maine Yankee has accrued and billed $82.8 million of interest cost for the period April 7, 1983, through December 31, 1998.

Maine Yankee has formed a trust to provide for payment of its long-term spent fuel obligation, and is funding the trust with deposits at least semiannually which began in 1985, with currently projected annual deposits of approximately $1.3 million through December 2003. Deposits are expected to total approximately $78.2 million, with the total liability, including interest due at the time of disposal, estimated to be approximately $168.7 million at December 31, 2003. Maine Yankee estimates that trust fund deposits plus estimated earnings will meet this total liability if funding continues without material changes.

Maine Yankee's spent fuel is currently stored in the spent fuel pool at the Plant site. Federal legislation enacted in December 1987 directed the DOE to proceed with the studies necessary to develop and operate a permanent high-level waste (spent fuel) disposal site at Yucca Mountain, Nevada. The legislation also provided for the possible development of a Monitored Retrievable Storage ("MRS") facility and abandoned plans to identify and select a second permanent disposal site. An MRS facility would provide temporary storage for high-level waste prior to eventual permanent disposal. The DOE has indicated that the permanent disposal site is not expected to open before 2010, although originally scheduled to open in 1998.

In 1997 the two branches of the United States Congress approved separate bills to comprehensively reform the federal spent nuclear fuel program. In the spring of 1998 House and Senate members resolved differences between the bills, which would have required the DOE to establish an interim storage facility and begin accepting spent fuel from nuclear power plants by 2003. On June 2, 1998, the Senate fell short of the 60 votes needed to end debate on the bill and the bill was not brought to a vote in the House.

In 1994 several nuclear utilities other than Maine Yankee filed suit against the DOE. The utilities sought a declaration from the United States Court of Appeals for the District of Columbia Circuit that the Nuclear Waste Policy Act of 1982 required the DOE to take responsibility for spent nuclear fuel in 1998. In July 1996 the court held that the DOE was obligated "to start disposing of [spent nuclear fuel] no later than January 31, 1998." The DOE did not appeal the decision, but announced in December 1996 that it anticipated it would be unable to start accepting spent nuclear fuel for disposal by January 31, 1998. A large number of nuclear utilities and state regulators filed a new lawsuit against the DOE in January 1997 seeking to force the DOE to honor its obligation to store spent nuclear fuel and seeking other appropriate relief.

In November 1997 the U.S. Court of Appeals for the District of Columbia Circuit confirmed the DOE's obligation. On February 19, 1998, Maine Yankee filed a petition in the same court seeking to compel the DOE to take Maine Yankee's spent fuel from the Plant site "as soon as physically possible," alleging that removing the spent fuel on the DOE's indicated schedule would delay the decommissioning of the Maine Yankee Plant indefinitely. On May 5, 1998, the Court dismissed Maine Yankee's lawsuit, as well as that of the other nuclear utilities and state regulators, saying that petitioners' failure to pursue remedies under the standard contract rendered their appeal not appropriate at that time for review. On June 2, 1998, Maine Yankee filed a claim for money damages in the U.S. Court of Federal Claims for the costs associated with the DOE's failure to begin to take fuel in 1998. On November 3, 1998, the Court granted summary judgment in favor of Maine Yankee, ruling that the DOE had violated its contractual obligations and leaving the amount of damages incurred by Maine Yankee for later determination by the Court. Maine Yankee expects the hearing on its claim to take place in late 1999 or early 2000. Maine Yankee intends to pursue its claim for damages vigorously, but as an alternative to DOE disposal is considering construction of an independent spent-fuel storage installation ("ISFSI") on the Plant site.

Item 3. LEGAL PROCEEDINGS.

Generating Asset Sale. For a discussion of a lawsuit involving the sale of Central Maine's generating assets, see Item 1. "Business"-"Agreement for Sale of Generation Assets," above.

Legal and Environmental Matters. CMP Group, Central Maine and certain of their affiliates are subject to regulation by federal and state authorities with respect to air and water quality, the handling and disposal of toxic substances and hazardous and solid wastes, and the handling and use of chemical products. Electric utility companies generally use or generate in their operations a range of potentially hazardous products and by-products that are the focus of such regulation. CMP Group and Central Maine believe that their current practices and operations are in compliance with all existing environmental laws except for such non-compliance as would not have a material adverse effect on their financial positions. Central Maine reviews its overall compliance and measures the liability quarterly by assessing a range of reasonably likely costs for each identified site using currently available information, including existing technology, presently enacted laws and regulations, experience gained at similar sites, and the probable level of involvement and financial condition of other potentially responsible parties. These estimates include costs for site investigations, remediation, operation and maintenance, monitoring and site closure.

New and changing environmental requirements could hinder the construction and/or modification of generating units, transmission and distribution lines, substations and other facilities, and could raise operating costs significantly. As a result, Central Maine may incur significant additional environmental costs, greater than amounts reserved, in connection with the generation and transmission of electricity and the storage, transportation and disposal of by-products and wastes. Central Maine may also encounter significantly increased costs to remedy the environmental effects of prior waste handling activities. The cumulative long-term cost impact of increasingly stringent environmental requirements cannot accurately be estimated.

Central Maine has recorded a liability, based upon currently available information, for what it believes are the estimated environmental remediation costs that it expects to incur for identified waste disposal sites. In most cases, additional future environmental cleanup costs are not reasonably estimatable due to a number of factors, including the unknown magnitude of possible contamination, the appropriate remediation methods, the possible effects of future legislation or regulation and the possible effects of technological changes.

Central Maine cannot predict the schedule or scope of remediation due to the regulatory process and involvement of non-governmental parties. At December 31, 1998, the liability recorded by Central Maine for its estimated environmental remediation costs amounted to $1.9 million, which management has determined to be the most probable amount within the range of $1.9 million to $8.6 million. Such costs may be higher if Central Maine is found to be responsible for cleanup costs at additional sites or identifiable possible outcomes change.

Millstone Unit No. 3 Litigation. On August 7, 1997, Central Maine and other minority owners of Millstone Unit No. 3 filed suit in Massachusetts Superior Court against Northeast Utilities and its trustees, and initiated an arbitration claim against two of its subsidiaries, alleging mismanagement of the unit by the defendants. The minority owners are seeking to recover their additional costs resulting from such mismanagement, including their replacement power costs. Since August 1997 the parties have been engaged in resolving preliminary issues and in extensive pre-hearing discovery on a schedule calling for an arbitration hearing in the fall of 1999. Central Maine cannot predict the outcome of the litigation and arbitration or whether the current schedule will be maintained.

Proposed Federal Income Tax Adjustments. On September 3, 1997, Central Maine received from the Internal Revenue Service ("IRS") a Revenue Agent's Report summarizing all adjustments proposed by the IRS as a result of its audit of Central Maine's federal income tax returns for the years 1992 through 1994, and on September 12, 1997, Central Maine received a notice of deficiency relating to the proposed disallowances. There are two significant disallowances among those proposed by the IRS. The first is a disallowance of Central Maine's write-off of the under-collected balance of fuel and purchased-power costs and the unrecovered balance of its unbilled Electric Revenue Adjustment Mechanism ("ERAM") revenues, both as of December 31, 1994, which were charged to income in 1994 in connection with the adoption of the Alternative Rate Plan ("ARP") effective January 1, 1995. The second major adjustment would disallow Central Maine's 1994 deduction of the cost of the buyout of the Fairfield Energy Venture purchased-power contract by Central Maine in 1994. The aggregate tax impact, including both federal and state taxes, of the unresolved issues amounts to approximately $39.0 million, over 90 percent of which is associated with the two major disallowances. The two major disallowances relate largely to the timing of the deductions and would not affect income except for the cumulative interest impact which, through December 31, 1998, amounted to $18.8 million, or a decrease in net income of $11.1 million, and which could increase interest expense by approximately $500,000 per month until either the tax deficiency is paid or the issues are resolved in favor of Central Maine, in which case no interest would be due. If the IRS were to prevail, Central Maine believes the deductions would be amortized over periods of up to twenty, post-1994, tax years. Central Maine believes its tax treatment of the unresolved issues was proper and as a result the potential interest has not been accrued. On December 10, 1997, Central Maine filed a petition in the United States Tax Court contesting the entire amount of the deficiencies and sought review of the asserted deficiencies by an IRS Appeals Officer to determine whether all or part of the dispute could be resolved in advance of a court determination. As of March 17, 1999, four of the seven issues in dispute had been resolved, but not the two major disallowances. Central Maine will continue to work toward resolving the remaining issues, but a trial may be necessary for one or more of those issues. Absent such a resolution, Central Maine plans to pursue vigorously the Tax Court litigation, but cannot predict the result.

Shareholder Suit. On September 25, 1997, a lawsuit was filed in the United States District Court for the Southern District of New York by a New Jersey resident claiming to be a shareholder of Central Maine against the members of Central Maine's board of directors, including the then President and Chief Executive

Officer, and three former directors. The complaint contained a derivative claim that the defendants recklessly mismanaged the oversight and operation of the Maine Yankee Plant and an individual claim that the defendants had failed to make timely and adequate disclosures of information in connection with issues surrounding the Plant. The complaint did not seek damages against Central Maine, but requested that the defendants disgorge the compensation they had received during the period of alleged mismanagement, pay to Central Maine costs incurred allegedly as a result of the claimed actions, and cause Central Maine to take steps to prevent such actions.

The defendants moved to dismiss the suit for failure of the plaintiff to make a pre-suit demand on Central Maine's board of directors, as required by Maine law, and on February 18, 1998, the suit was dismissed. On April 2, 1998, the board received such a demand from the plaintiff. On December 17, 1998, after investigation of plaintiff's allegations, the board rejected the demand.

Item 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

Item 4.1 EXECUTIVE OFFICERS OF THE REGISTRANT.

CMP Group, Inc. The following are the present executive officers of CMP Group with all positions and offices held. There are no family relationships between any of them, nor are there any arrangements or understandings pursuant to which any were selected as officers.

Name, Age, and Year First Became Officer	Office
David M. Jagger, 57, 1998	Chairman of the Board of Directors
Charles H. Abbott, 63, 1998	Vice Chairman of the Board of Directors
David T. Flanagan, 51, 1998	President and Chief Executive Officer
Arthur W. Adelberg, 47, 1998	Executive Vice President
David E. Marsh, 51, 1998	Chief Financial Officer
Gerald C. Poulin, 57, 1999	Vice President, Generation
F. Michael McClain, 49, 1998	Vice President, Corporate Development
Anne M. Pare, 45, 1998	Treasurer, Corporate Counsel and Secretary

Central Maine Power Company. The following are the present executive officers of Central Maine with all positions and offices held. There are no family relationships between any of them, nor are there any arrangements or understandings pursuant to which any were selected as officers.

Name, Age, and Year First Became Officer	Office
David M. Jagger, 57, 1996	Chairman of the Board of Directors
Charles H. Abbott, 63, 1996	Vice Chairman of the Board of Directors
Sara J. Burns, 43, 1997	President
Michael R. Cutter, 45, 1997	Vice President
Curtis I. Call, 45, 1997	Treasurer
Anne M. Pare, 45, 1996	Secretary and Clerk

Each of the executive officers of CMP Group and Central Maine has for the past five years been an officer or employee of CMP Group, Central Maine, or an affiliate company, except Messrs. Jagger and Abbott, who have been non-employee directors since 1988, and Mr. McClain. Mr. McClain joined Central Maine February 23, 1998. Prior to his employment with Central Maine, he was Group Vice President and Chief Operating Officer, Petroleum Group, Dead River Company from 1981 to 1996.

PART II

Item 5 MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

CMP Group's common stock has been traded on the New York Stock Exchange since September 1, 1998. Prior to that date the numbers in the table below refer to Central Maine's common stock. As of December 31, 1998, there were 32,590 holders of record of CMP Group common stock.

Price Range of and Dividends on Common Stock

	Market Price		Dividends
	High	Low	Declared
1998			
First Quarter	$17-13/16	$15-¼	$0.225
Second Quarter	20-3/8	17-1/16	0.225
Third Quarter	20-1/2	16-15/16	0.225
Fourth Quarter	20	16-¾	0.225
1997			
First Quarter	$11-5/8	10-1/2	$0.225
Second Quarter	12-3/4	10	0.225
Third Quarter	13-9/16	12-1/16	0.225
Fourth Quarter	15-1/2	12-7/8	0.225

Under the most restrictive terms of the Indenture securing Central Maine's General and Refunding Mortgage Bonds and of Central Maine Articles of Incorporation, no dividend may be paid on the common stock of Central Maine if such dividend would reduce retained earnings below $29.6 million. At December 31, 1998, Central Maine's retained earnings were $76.3 million, of which $46.7 million was not so restricted. There are currently no such restrictions on the payment of dividends by CMP Group. Future dividend decisions will be subject to future earnings levels and the financial condition of CMP Group and Central Maine and will reflect the evaluation by their Board of Directors of then existing circumstances.

Item 6. SELECTED FINANCIAL DATA.

The following table sets forth selected consolidated financial data of CMP Group and Central Maine for the five years ended December 31, 1994 through 1998. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in Items 7 and 8 hereof. The selected consolidated financial data for the years ended December 31, 1994 through 1998 are derived from the audited consolidated financial statements of Central Maine.

Selected Consolidated Financial Data

(Dollars in Thousands, Except Per Share Amounts)

	CMP Group	Central Maine				
	1998	1998	1997	1996	1995	1994
Electric operating revenue	$ 938,739	$ 938,561	$ 954,176	$ 967,046	$ 916,016	$ 904,883
Net income (loss)	52,910	54,823	13,422	60,229	37,980	(23,265)
Long-term obligations	346,281	343,834	400,923	587,987	622,251	638,841
Redeemable preferred stock	18,910	18,910	39,528	53,528	67,528	80,000
Total assets	2,262,884	2,223,480	2,298,966	2,010,914	1,992,919	2,046,007
Earnings (loss) per common share	$ 1.63	$ 1.56	$0.16	$1.57	$0.86	$(1.04)
Dividends declared per common share	$0.90	$0.675*	$0.90	$0.90	$0.90	$0.90

*1998 fourth quarter dividend of $0.225 per share was declared and paid in January 1999.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CMP GROUP AND CENTRAL MAINE POWER COMPANY

This is a combined Report on Form 10-K of CMP Group and Central Maine. Therefore, our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) applies to both CMP Group and Central Maine. CMP Group's consolidated financial statements include the accounts of CMP Group and its wholly owned and controlled subsidiaries, including Central Maine (collectively, the CMP Group System). Central Maine's consolidated financial statements include its accounts as well as those of its wholly owned and controlled subsidiaries. The MD&A should be read in conjunction with the consolidated financial statements included herein.

Note re Forward-Looking Statements

This Report on Form 10-K contains forecast information items that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. CMP Group and Central Maine undertake no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are urged to carefully review and consider the factors in the succeeding paragraph.

Factors that could cause actual results to differ materially include, among other matters, the outcome of the FERC proceeding involving Maine Yankee's rates, decommissioning costs and issues related to the closing of the Maine Yankee nuclear generating plant; the actual costs of decommissioning the Maine Yankee plant; failure to resolve any significant aspect of the "Year 2000 problem"; electric utility industry restructuring, including the ongoing state and federal activities that will determine Central Maine's ability to recover its stranded costs and establish its revenue requirements and rate design as a transmission-and-distribution utility commencing March 1, 2000; the results of Central Maine's planned sale of its generating assets; Central Maine's ability to recover its costs resulting from the January 1998 ice storms that damaged its transmission and distribution system; future economic conditions; earnings-retention and dividend-payout policies;

developments in the legislative, regulatory, and competitive environments in which CMP Group and Central Maine operate; CMP Group's investment in unregulated businesses; and other circumstances that could affect anticipated revenues and costs, such as unscheduled maintenance or repair requirements at nuclear plants and other facilities; and compliance with laws and regulations.

Formation of Holding Company

General. CMP Group is a holding company organized effective September 1, 1998, which owns all of the common stock of Central Maine and the former non-utility subsidiaries of Central Maine. As part of the reorganization, all of the shares of Central Maine's common stock were converted into an equal number of shares of CMP Group common stock, which are listed on the New York Stock Exchange under the symbol CTP. The reorganization was approved by Central Maine's shareholders on May 21, 1998, and on various dates in 1998 by the appropriate state and federal regulatory agencies.

Results of Operations

	CMP Group		Central Maine	
		(dollars in millions)		
Net income (loss)				
Twelve months ended:				
December 31, 1998	$52.9	$1.63/share	$54.8	
December 31, 1997	5.2	$0.16/share	13.4	
Increase	$47.7		$41.4	
Earnings (loss) applicable to common stock				
Twelve months ended:				
December 31, 1998	N/A		$50.0	$1.56/share
December 31, 1997	N/A		5.2	$0.16/share
Increase			$44.8	

The 1998 results benefited significantly from a net benefit of $25 million related to the expiration of a high-cost non-utility power contract; a $27.5 million decrease in purchased power capacity costs, chiefly due to the closing of the Maine Yankee nuclear plant and a $4 million decrease in fuel cost for Central Maine generation reflecting lower oil prices. In addition, the following major, non-operating, non-recurring events had a significant impact on earnings: 1) MaineCom, a subsidiary of CMP Group, sold its 40-percent interest in New England Fibre Communications. The sale resulted in a net after-tax gain of approximately $5.7 million or $0.18 per share. 2) Central Maine sold shares then owned directly in NEON, now a 38.5-percent-owned equity investment of MaineCom, as part of the initial public offering of NEON common stock. The net after-tax gain was approximately $1.9 million, or $0.06 per share. 3) Central Maine finalized the sale of transmission-line easements and land. The net after-tax gain of approximately $5.6 million resulted in increased earnings of approximately $0.17 per share.

CMP Group electric operating revenue decreased by $15.4 million or 1.6 percent to $938.7 million in 1998, and decreased by $12.9 million or 1.3 percent in 1997 to $954.2. Lower sales volume due to the January ice

storm, warmer weather, weaker sales to the pulp and paper industry, and the impact of the Asian economic crisis, were the major reasons for the decreased revenue in 1998. The major components of the change in electric operating revenue are as follows:

	1998	1997
Revenue from Central Maine service-area kwh sales	$(20.2)	$ 17.9
Revenues from non-territorial sales	6.2	(27.1)
Other operating revenue	4.5	(1.5)
MEPCO fuel cost recovery	(5.9)	(2.2)
	$(15.4)	$(12.9)

Service Area Kwh Sales. Central Maine's service area sales of electricity totaled approximately 9.05 billion kilowatt-hours for the year ended December 31, 1998, down slightly from the 9.4 billion kilowatt-hour level of a year ago.

Central Maine's service-area sales for the years 1998, 1997 and 1996 are shown in the following table:

(Kilowatt-hours in millions)

	1998		1997		1996	
	KWH	% change	KWH	% change	KWH	% change
Residential	2,761	(2.0)%	2,817	(0.4)%	2,829	1.0%
Commercial	2,563	1.3	2,529	1.6	2,489	0.5
Industrial	3,487	(7.8)	3,784	2.6	3,689	4.0
Wholesale and lighting	242	6.1	228	5.3	217	58.9
Total Service-Area Sales	9,053	(3.2)%	9,358	1.5 %	9,224	2.9%

The primary factors in the service-area kilowatt-hour sales overall decrease in 1998 were the reduction in residential sales due to warm winter temperatures, customer outages resulting from the January 1998 ice storm and lost sales in the paper industry within the industrial sector.

The primary factors in the service-area kilowatt-hour sales increases in 1997 were the growth experienced by the paper mills and strong sales to other industrial sectors. Nearly half of that growth directly related to an expansion by a large industrial customer. The increase in 1996 was residential customers' taking advantage of Central Maine's water-heating programs, increased sales in the pulp and paper industry, and the addition of a wholesale customer.

The average number of residential customers increased by 4,607 in 1998, 4,822 in 1997 and 5,157 in 1996, while average usage per residential customer declined 3.0 percent in 1998, 1.5 percent in 1997 and 0.15 percent in 1996.

The 1998 increase in commercial sales reflects increased sales in the retail and service sectors, which rebounded strongly after the warm winter temperatures and the ice storm experienced early in 1998, due to the relatively healthy economy and a strong tourist season in Central Maine's service territory.

Industrial sales levels are significantly affected by sales to the pulp-and-paper industry, which accounts for approximately 56 percent of industrial sales and approximately 22 percent of total service-area sales. Sales to the pulp-and-paper sector decreased by 14.4 percent in 1998, 0.8 percent in 1997 and increased by 3.7 percent in 1996. The decrease in 1998 was due primarily to the closing of two pulp and paper mills and the expiration of a buy-sell contract with a third paper mill. In addition, the weakness in Asian economies progressively impacted Maine's manufacturing sector in 1998, resulting in lower than expected kwh sales in the industrial sector. The decrease in 1997 was due primarily to the permanent shutdown of one of the paper mills in 1997. The increase in 1996 reflects special arrangements Central Maine has made with several paper companies to back down some of their self-generation and buy electricity from Central Maine at a discounted rate. Refer to "Alternative Rate Plan" and "Competition and Economic Development," below, and Note 4 to Consolidated Financial Statements, "Commitments and Contingencies - Competition," for additional information regarding Central Maine's actions to preserve its remaining large-industrial-customer base and other customer groups. Sales to all other industrial customers as a group increased 2.2 percent in 1998, 8.2 percent in 1997 and 4.5 percent in 1996.

Operating Expenses

Central Maine's purchased power-energy expense decreased by $50 million in 1998. The decrease is due primarily to the buyout, restructuring, and expiration of contracts with non-utility generators. Central Maine's purchased power-capacity expense decreased $27.5 million in 1998 due primarily to the permanent shutdown of the Maine Yankee Plant in August 1997.

Central Maine incurred additional expenses of $46.0 million in 1997 over 1996 to replace Maine Yankee energy and pay its share of capacity charges at the plant. In addition, shutdowns at Millstone Unit No. 3 and Connecticut Yankee Plants increased 1997 replacement-power cost by $5.0 million.

CMP Group maintenance expense increased $7.1 million for the year ended December 31, 1998 compared to 1997. This increase was due primarily to Central Maine's operations personnel working in maintenance capacities as a result of the ice storm in the first quarter, and to subsequent cleanup efforts.

Federal and state income taxes fluctuate with the level of pre-tax earnings and the regulatory treatment of taxes by the MPUC. This expense increased by $33.5 million in 1998 as compared to 1997, as a result of higher pre-tax earnings for the year ended December 31, 1998. The decrease of $23.9 million in 1997 from 1996 is a reflection of lower pre-tax earnings for the year ended December 31, 1997.

Other Income and Expense

Equity in Earnings of Associated Companies for CMP Group decreased by $6.3 million for the year ended December 31, 1998, compared to 1997. The decrease is due primarily to losses recognized due to start-up costs of NEON. See "Expansion of Lines of Business" below for further discussion.

CMP Group's gain on sale of investments and properties increased in 1998 by $22.5 million and by $12.9 million for Central Maine. The increase is due primarily to the following:

	CMP Group	Central Maine
Sale of New England Fibre by MaineCom	$ 9.5	$ -
Sale of stock in NEON	3.1	3.1
Gas pipeline easement sales	6.4	6.4
Sale of land	3.6	3.6
Other - miscellaneous	(.1)	(.2)
	$22.5	$12.9

CMP Group Other Interest Expense increased by $0.7 million for the year 1998 as compared to 1997. The increase was due primarily to higher levels of borrowing on Central Maine's revolving credit facility to meet working capital needs.

Other interest expense increased in 1997 over 1996 primarily due to additional interest incurred for tax audit settlements and amended returns interest.

In July 1997, Central Maine redeemed $14 million of its 8 7/8% Series Preferred Stock at par, under the mandatory and optional sinking-fund provisions of that series. On July 1, 1998, Central Maine redeemed the final $7 million of its 8 7/8% Preferred Stock under the mandatory sinking-fund provision, reducing dividends in total by approximately $932 thousand for 1998 compared to 1997. On April 1, 1998 Central Maine redeemed all of its 7 7/8% Preferred Stock ($30 million), reducing dividends by approximately $1.8 million for the year ended December 31, 1998, compared to 1997. On June 8, 1998, $11.6 million of the outstanding 7.99% Preferred Stock was repurchased, further reducing dividends by approximately $697 thousand for the year ended December 31, 1998, compared to 1997.

Alternative Rate Plan

On January 1, 1995, Central Maine's ARP was put into effect. Instead of rate changes based on the level of costs incurred and capital investments, the ARP provides for one annual adjustment of an inflation-based cap on each of Central Maine's rates, with no separate reconciliation and recovery of fuel and purchased-power costs. Under the ARP, the MPUC is continuing to regulate Central Maine's operations and prices, provide for continued recovery of deferred costs, and specify a range for its rate of return. The MPUC confirmed in its order approving the ARP that the ARP is intended to comply with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." As a result, Central Maine will continue to apply the provisions of SFAS No. 71 to its accounting transactions and its future financial statements. See Note 3, "Regulatory matters," of Notes to Consolidated Financial Statements - "Meeting the Requirements of SFAS No. 71," below.

The ARP contains a mechanism that provides price-caps on Central Maine's retail rates to be adjusted annually on each July 1, commencing in 1995, by a percentage combining (1) a price index, (2) a productivity offset, (3) a sharing mechanism, and (4) flow-through items and mandated costs. The price cap applies to all of Central Maine's retail rates, and includes fuel and purchased power costs that previously had been treated

separately. Under the ARP, fuel expense is no longer subject to reconciliation or specific rate recovery, but is subject to the annual indexed price-cap changes.

A specified standard inflation index is the basis for each annual price-cap change. The inflation index is reduced by the sum of two productivity factors, a general productivity offset of 1.0%, and a second formula-based offset that started in 1996 and was intended to reflect the limited effect of inflation on Central Maine's purchased-power costs during the proposed five-year initial term of the ARP.

The sharing mechanism may adjust the subsequent year's July price-cap change in the event Central Maine's earnings are outside a range of 350 basis points above or below Central Maine's allowed return on equity (starting at the 10.55% allowed return in 1995) and indexed annually for changes in capital costs. Outside that range, profits and losses could be shared equally by Central Maine and its customers in computing the price-cap adjustment. The ROE used for earnings sharing is scheduled to be increased to 11.5% effective with the July 1999 price change.

The ARP also provides for partial flow-through to ratepayers of cost savings from non-utility generator contract buy-outs and restructuring, recovery of energy-management costs, and penalties for failure to attain customer-service and energy-efficiency targets. The ARP also generally defines mandated costs that would be recoverable by Central Maine notwithstanding the index-based price cap. To receive such treatment, the annual revenue requirement related to a mandated cost must exceed $3 million and have a disproportionate effect on Central Maine or the electric-power industry.

On May 13, 1998, Central Maine submitted its 1998 ARP compliance filing to the MPUC. In keeping with its pledge of limiting increases to the inflation index, Central Maine voluntarily limited its request to 1.78%, which was the inflation rate for 1997 under the ARP. Central Maine also proposed a rate reduction of approximately ten percent contingent on the consummation of, and ratemaking associated with, Central Maine's planned sale of generating assets. The filing also reported information on the costs of restoring service to Central Maine's customers after the January 1998 ice storm, as required by the earlier MPUC order allowing Central Maine to defer those costs. Effective July 11, 1998, the MPUC approved a stipulated 1.33% increase. The amount of the increase remains subject to change, based on the outcome of the pending FERC proceeding related to the permanent shutdown of the Maine Yankee plant. Depending on FERC's decision, the price increase could increase or decrease, ranging from a ceiling of 1.78% to a floor of 0.22%. However, the Offer of Settlement pending before the FERC in Maine Yankee's rate case, which has been approved by the MPUC, provides that the 1998 ARP increase will not be adjusted.

The components of the last three ARP price increases approved by the MPUC are as follows:

	1998	1997	1996
Inflation Index	1.78%	2.12%	2.55%
Productivity Offset	(1.00)	(1.00)	(1.00)
Qualifying Facility Offset	(.29)	(.42)	-
Earnings Sharing	1.12	-	.32
Flowthrough and Mandated Items	(.28)	.40	(.6[illegible]
	1.33%	1.10%	[illegible]

Electric-Utility Industry Restructuring

Stranded Costs. The enactment by Congress of the Energy Policy Act of 1992 accelerated planning by electric utilities, including Central Maine, for a transition to a more competitive industry. In Maine, legislation that will restructure the electric-utility industry by March 1, 2000, was enacted by the Maine Legislature in May 1997, and is discussed in detail under this heading below. Such a departure from traditional regulation, however, could have a substantial impact on the value of utility assets and on the ability of electric utilities to recover their costs through rates. In the absence of full recovery, utilities would find their above-market costs to be "stranded", or unrecoverable, in the new competitive setting.

Central Maine has substantial exposure to cost stranding relative to its size. In general, its stranded costs reflect the excess costs of Central Maine's purchased-power obligations over the market value of the power, and the costs of deferred charges and other regulatory assets. The major portion of Central Maine's stranded costs is related to above-market costs of purchased-power obligations arising from Central Maine's long-term, noncancelable contracts for the purchase of capacity and energy from NUGs, with lesser estimated amounts related to Central Maine's deferred regulatory assets.

There is a high degree of uncertainty that surrounds stranded-cost estimates, resulting from having to rely on projections and assumptions about future conditions, including, among others, estimates of the future market for power. Higher market rates lower stranded-cost exposure, while lower market rates increase it. In addition to market-related impacts, any estimate of the ultimate level of stranded costs depends on such factors as state and federal regulations, the extent, timing and form that competition for electric service will take, the ongoing level of Central Maine's costs of operations, regional and national economic conditions, growth of Central Maine's sales, the timing of any changes that may occur from state and federal initiatives on restructuring, and the extent to which regulatory policies and decisions address recovery of stranded costs, including the application of value from the sale of Central Maine's generating assets.

The estimated market rate for power is based on anticipated regional market conditions and future costs of producing power. The present value of future purchased-power obligations and Central Maine's generating costs reflects the underlying costs of those sources of generation in place today, with reductions for contract expirations and continuing depreciation. Deferred regulatory-asset totals include the current uncollected balances and existing amortization schedules for purchased-power contract restructuring and buyouts negotiated by Central Maine to lessen the impact of these obligations, along with energy management costs, financing costs, and other regulatory commitments.

Maine Restructuring Legislation. The 1997 Maine restructuring legislation requires the MPUC, when retail access to generation begins on March 1, 2000, to provide a "reasonable opportunity" to recover stranded costs through the rates of the transmission-and-distribution company, comparable to the utility's opportunity to recover stranded costs before the implementation of retail access under the legislation. Stranded costs are defined as the legitimate, verifiable and unmitigable costs made unrecoverable as a result of the restructuring required by the legislation and will be determined by the MPUC as provided in the legislation. The MPUC has been conducting separate adjudicatory proceedings to determine the stranded costs for each Maine utility, along with the corresponding revenue requirements and stranded-cost charges to be charged by each transmission-and-distribution utility. The first phase of the Central

Maine proceeding was completed in early 1999 and is discussed under the heading "MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design," below.

In addition, the legislation requires utilities to use all reasonable means to reduce their potential stranded costs and to maximize the value from generation assets and contracts. The MPUC must consider a utility's efforts to mitigate its stranded costs in determining the amount of the utility's stranded costs. Stranded costs and the related rates charged to customers will be prospectively adjusted as necessary to correct substantial inaccuracies in the year 2003 and at least every three years thereafter.

The principal restructuring provisions of the legislation provide for customers to have direct retail access to generation services and for deregulation of competitive electric providers, commencing March 1, 2000, with transmission-and-distribution companies continuing to be regulated by the MPUC. By that date, subject to possible extensions of time granted by the MPUC to improve the sale value of generation assets, investor-owned utilities are required to divest all generation assets and generation-related business activities, with two major exceptions: (1) non-utility generator contracts with qualifying facilities and contracts with demand-side management or conservation providers, brokers or hosts, and (2) ownership interests in nuclear power plants. However, the MPUC can require Central Maine to divest its interest in Maine Yankee Atomic Power Company on or after January 1, 2009. As discussed below under "Agreement for Sale of Generating Assets," Central Maine has contracted to sell its non-nuclear generating assets and, after a favorable court decision, is proceeding toward completing the sale by April 7, 1999. The legislation also requires investor-owned utilities, after February 29, 2000, to sell their rights to the capacity and energy from all generation assets, including the purchased-power contracts that had not previously been divested pursuant to the legislation, with certain immaterial exceptions.

Upon the commencement of retail access on March 1, 2000, Central Maine, as a transmission-and-distribution utility, will be prohibited from selling electric energy to retail customers. Any competitive electricity provider that is affiliated with Central Maine would be allowed to sell electricity outside Central Maine's service territory without limitation as to amount, but within Central Maine's service territory the affiliate would be limited to providing not more than 33 percent of the total kilowatt-hours sold within Central Maine's service territory, as determined by the MPUC. CMP Group does not now intend to engage in the sale of electric energy after March 1, 2000.

Other features of the legislation include the following:

(a) After the effective date of the legislation, if an entity purchases 10 percent or more of the stock of a distribution utility, including Central Maine, the purchasing entity and any related entity would be prohibited from selling generation service to any retail customer in Maine.

(b) The legislation encourages the generation of electricity from renewable resources by requiring competitive providers, as a condition of licensing, to demonstrate to the MPUC that no less than 30 percent of their portfolios of supply sources for retail sales in Maine are accounted for by renewable resources.

(c) The legislation requires the MPUC to ensure that standard-offer service is available to all consumers, but any competitive provider affiliated with Central Maine would be limited to providing such service for only up to 20 percent of the electric load in Central Maine's service territory.

(d) Beginning March 1, 2002, or, by MPUC rule, as early as March 1, 2000, the providing of billing and metering services will be subject to competition.

(e) A customer who significantly reduces or eliminates consumption of electricity due to self-generation, conversion to an alternative fuel, or demand-side management may not be assessed an exit fee or re-entry fee in any form for such reduction or elimination of consumption or for the re-establishment of service with a transmission-and-distribution utility.

(f) Finally, the legislation provides for programs for low-income assistance, energy conservation research and development on renewable resources, assistance for utility employees laid off as a result of the legislation, and recovery of nuclear-plant decommissioning costs "[a]s required by federal law, rule or order", all funded through transmission-and-distribution utility rates and charges.

Legislative bills that would amend certain provisions of the 1997 legislation have been submitted to the 1999 session of the Maine Legislature. CMP Group and Central Maine cannot predict whether any changes to the 1997 legislation will be enacted.

MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design. The MPUC has completed the first phase of the proceeding contemplated by Maine's restructuring legislation that will ultimately determine the recovery of Central Maine's stranded costs, its revenue requirements, and the design of its rates to be effective when Central Maine becomes a transmission-and-distribution utility at the time retail access to generation begins in Maine on March 1, 2000. On December 23, 1998, the MPUC Hearing Examiners in the proceeding issued their report, in the form of a recommended decision. Central Maine disagreed with a number of the individual recommendations in the stranded-costs and revenue-requirements areas and filed exceptions to those recommendations. The MPUC deliberated the recommendations on February 10 and 11, 1999, indicated disagreement with some of the recommendations, and issued its written order on March 19, 1999.

The MPUC stressed in its order that it was deciding the "principles" by which it would set Central Maine's transmission-and-distribution rates, effective March 1, 2000, but was not calculating the rates themselves because such calculations at that time would rely excessively on estimates. The MPUC pointed out that it would hold a "Phase II" hearing to set the actual rates and determine the recoverable stranded costs after processing information expected to become available during 1999.

With respect to stranded costs, the MPUC indicated that it would set the amount of recoverable stranded costs for Central Maine later in the proceeding pursuant to its mandate under the restructuring statute to provide transmission-and-distribution utilities a reasonable opportunity to recover such costs that is equivalent to the utility's opportunity to recover these costs prior to the commencement of retail access. The MPUC also reviewed the prescribed methodology for determining the amount of a utility's stranded costs, including among other factors the application of excess value from divested generation assets to offset stranded costs. At the beginning of the proceeding Central Maine had estimated its total stranded costs to be approximately $1.3 billion.

In the area of revenue requirements, the Phase I order did not include definitive amounts, but did contain the MPUC's conclusions as to the appropriate cost of common equity for Central Maine as a transmission-and-distribution company beginning March 1, 2000. Central Maine had recommended a 12-percent cost of common equity with a 55-percent common equity component in the capital structure. The MPUC, after

weighing conflicting recommendations, decided on a common-equity cost of 10.50 percent with a common-equity component of 47 percent, and an overall weighted-average cost of capital of 8.68 percent.

In dealing with rate design, the MPUC limited itself in the first phase of the proceeding primarily to establishing principles that would guide it in designing Central Maine's rates to be effective March 1, 2000. The MPUC indicated that it would focus on (1) facilitating the transition to a competitive market for generation, and (2) implementing a "no-losers" policy, i.e., that the new rate design would cause no Central Maine customer's bill to increase on March 1, 2000. Applying the latter principle, the MPUC rejected a newly designed standby rate for self-generators proposed by Central Maine in favor of a design generally similar to Central Maine's current rate for the class. The MPUC stated that it planned to undertake a comprehensive rate design and alternative rate plan proceeding for Central Maine prior to March 1, 2002, when it could consider experience gained with the cost structures of other transmission-and-distribution utilities after the commencement of retail access to generation.

The Phase I order resulted from an extended proceeding with many points of view represented and covers a wide variety of rate-related subjects. Definitive findings by the MPUC in a number of the subject areas await the second phase of the proceeding, which must be completed before March 1, 2000. CMP Group and Central Maine cannot predict the definitive amount of stranded costs the MPUC will determine that Central Maine will be entitled to recover pursuant to the mandate of the restructuring statute, or the revenue requirements and rate design that will result from Phase II of the MPUC proceeding.

Agreement for Sale of Generation Assets

On January 6, 1998, Central Maine announced that it had reached agreement to sell all of its hydro, fossil and biomass power plants with a combined generating capacity of 1,185 megawatts for $846 million in cash, including approximately $18 million for assets of Union Water, to Florida-based FPL Group. The related book value for these assets was approximately $218.9 million at December 31, 1998. In addition, as part of its agreement with FPL Group, Central Maine entered into energy buy-back agreements to assist in fulfilling its obligation to supply its customers with power until March 1, 2000. Subsequently, an agreement was reached to sell related storage facilities to FPL Group for an additional $3.6 million ($1.5 million for the assets and $2.1 million for lease revenue associated with the properties that CMP will retain), including $1.15 million for Union Water assets. The related book value of these assets was approximately $11.9 million at December 31, 1998.

Central Maine's interests in the power entitlements from approximately 50 power-purchase agreements with non-utility generators representing approximately 488 megawatts, its 2.5-percent interest in the Millstone Unit No. 3 nuclear generating unit in Waterford, Connecticut, its 3.59-percent interest in the output of the Vermont Yankee nuclear generating plant in Vernon, Vermont, and its entitlement in the NEPOOL Phase II interconnection with Hydro-Quebec all attracted insufficient interest to be included in the pending sale. Central Maine will continue to seek buyers for those assets. Central Maine did not offer for sale its interests in the Maine Yankee (Wiscasset, Maine), Connecticut Yankee (Haddam, Connecticut) and Yankee Atomic (Rowe, Massachusetts) nuclear generating plants, all of which are in the process of being decommissioned.

Substantially all of the generating assets included in the sale are subject to the lien of Central Maine's General and Refunding Mortgage Indenture dated as of April 15, 1976 (the "Indenture"). Therefore, substantially all of the proceeds from sale must be deposited initially with the trustee under the Indenture at the closing of the

sale to free the generating assets from the lien of the Indenture. Central Maine plans to use some of the proceeds on deposit with the trustee to redeem or repurchase bonds under the terms of the Indenture, and may discharge the Indenture. In addition, the proceeds could provide the flexibility to redeem or repurchase outstanding equity securities. Central Maine must also provide for payment of applicable taxes resulting from the sale. The manner and timing of the ultimate application of the sale proceeds after closing are in any event subject to various factors, including Indenture provisions, regulatory requirements, market conditions and terms of outstanding securities.

On November 17, 1998, FPL Group announced that its subsidiary, FPL Energy Maine, Inc. ("FPL Energy") had filed a civil action in the United States District Court for the Southern District of New York requesting a declaratory judgment that Central Maine could not meet essential terms of the January agreement. FPL Group asserted that based on October 1998 FERC rulings on transmission access, as well as other issues, it believed that Central Maine could not comply with the conditions in the purchase contract and that FPL Energy should not be bound to complete the transaction.

FPL Energy contended in its complaint that the FERC rulings (1) constituted a material adverse effect under the purchase agreement and substantially lessened the value of Central Maine's generating assets, and (2) precluded Central Maine from obtaining all federal, state and local consents and approvals required for the ownership, operation and maintenance of the generating assets in a manner substantially consistent with Central Maine's historical ownership, operation, and maintenance thereof, as required by the purchase agreement. In addition, FPL Energy asserted that the FERC rulings limited the ability of the prospective buyer to get power from the Central Maine generating assets to market unconstrained by transmission limitations resulting from new generators being added to the NEPOOL system, and therefore, based on the doctrine of frustration of purpose, FPL Energy should be "excused without further obligation or liability from effecting the purchase of [Central Maine's] generating assets." Central Maine, FPL Energy, NEPOOL, and other parties interested in New England transmission-access issues requested rehearing of the FERC rulings.

On November 23, 1998, the MPUC granted its approval of the sale to FPL Energy of the generating assets contemplated by the purchase agreement, finding the sale to be in the public interest. The MPUC also made the findings required as a prerequisite to a FERC designation of the generating facilities as "exempt wholesale generators," which had been requested by FPL Energy.

On November 24, 1998, the FERC approved the sale of the Central Maine generating assets to FPL Energy, after making the required finding that the sale was consistent with the public interest, and accepted certain implementing agreements for filing. In discussing an issue raised by an intervenor the FERC stated that by purchasing the generating assets FPL Energy would be "stepping into the shoes of Central Maine" with respect to access to the Central Maine and NEPOOL transmission system, but did not disturb the earlier transmission-access rulings. The FERC granted its approval of the transfer of hydroelectric and water storage licenses on December 28, 1998, and the approval by FERC of exempt-wholesale-generator status for the generating facilities, was granted on February 24, 1999.

On March 11, 1999, the hearing on FPL Energy's request for a declaratory judgment was held in the United States District Court for the Southern District of New York. On the same day the presiding judge ruled that FPL Energy was not entitled to the declaratory judgment and entered judgment for Central Maine and its

affiliated defendants on all counts of the complaint. Thereafter on that day FPL Energy announced that it would not appeal the decision, but would proceed to a closing of the sale on or before April 7, 1999, as required by the sale agreement, and the parties are preparing for the closing.

Expansion of Lines of Business

General. CMP Group is also preparing for competition by expanding its business opportunities through investments that capitalize on core competencies. MaineCom Services is a subsidiary that arranges, through other investments fiber-optic data service for bulk carriers, offering support for cable television or "super-cellular" personal communication vendors, and providing other telecommunications consulting services. TeleSmart is a wholly-owned accounts receivable management subsidiary. Another wholly-owned subsidiary, CNEX, formerly CMP International Consultants, provides utility consulting (domestic and international) and research. The wholly-owned Union Water Power Company provides management of rivers and recreational facilities, locating of underground utility facilities and infrared photography, real estate brokerage and management, modular housing, engineering and environmental services, integrated energy solutions, and utility construction services. Union Water's operating divisions include On Target Utility Services, UnionLand Services, Maine HomeCrafters, E/PRO, and Combined Energies™. These subsidiaries often utilize skills of former Central Maine employees and regularly compete for business with other companies.

Natural Gas Distribution. CMP Group and Energy East, through subsidiaries, have entered into a joint-venture agreement to pursue opportunities to distribute natural gas at retail in many Maine communities that are not currently served with that fuel. They would offer natural-gas service in several areas of Maine, primarily the Augusta, Bangor, Bath-Brunswick, Bethel, Windham and Waterville areas, none of which currently has a natural-gas distribution system in place. The gas would be drawn from two new gas-pipeline projects now under development by unrelated parties that would carry Canadian through Maine and into the regional energy market using substantial portions of electric transmission-line corridors owned by Central Maine and MEPCO. On July 24, 1998, the MPUC authorized the joint venture to serve the areas it had applied to serve. The new company (now "CMP Natural Gas, L.L.C.", equally owned by subsidiaries of CMP Group and Energy East) would face competition from a new gas utility affiliated with Bangor Hydro-Electric Company in the Bangor area, and in the Bath-Brunswick area, from an existing gas utility, Northern Utilities, Inc., which has been serving other areas of Maine, including the Portland and Lewiston-Auburn areas. CMP Group's level of investment is dependent on the overall economic feasibility of natural gas as a competitive energy option in Maine, a sufficient expression of customer interest in gas service from CMP Natural Gas, and the prospects for achieving an acceptable return on investment.

Fiber Optic Network. CMP Group, through its wholly-owned subsidiary MaineCom Services, owns 38.5 percent of the common stock of Northeast Optic Network, Inc. ("NEON"), which is a facilities-based provider of technologically advanced, high-bandwidth, fiber optic transmission capacity for communications carriers on local loop, inter-city and interstate facilities. NEON is currently expanding its fiber optic network to encompass over 1,000 fiber optic cable route miles, or more than 65,000 fiber strand miles, in New England and New York, utilizing primarily electric-utility rights-of-way, including some of Central Maine's in Maine and some owned by other electric utilities including Northeast Utilities, another substantial minority stockholder, in Connecticut, Massachusetts and New Hampshire. As of December 31, 1998, NEON had completed construction of approximately 600 route miles, or 49,000 fiber miles, of its planned system and is currently engineering, constructing, or acquiring additional routes with a goal of creating a continuous fiber

optic link between New York City and Portland, Maine, with access into and around Boston and numerous other major service areas in the Northeast.

On August 5, 1998, NEON completed initial public offerings of $48.0 million of common stock and $180.0 million of senior notes, and Central Maine, as part of the common-stock offering, sold some of the shares in NEON it then owned for proceeds of approximately $3.1 million. In addition, with some of the proceeds of the offering NEON repaid approximately $18 million Central Maine had advanced under an earlier construction loan agreement. CMP Group believes there is a growing need for such a fiber optic network in the Northeast and that NEON's outside financing will provide substantial assistance in completing construction of the network, but cannot predict the result of this venture. The common stock of NEON is listed on the Nasdaq Stock Market's National Market under the symbol "NOPT".

Permanent Shutdown of Maine Yankee Plant

On August 6, 1997, the Board of Directors of Maine Yankee voted to permanently cease power operations at its nuclear generating plant at Wiscasset, Maine (the "Plant") and to begin decommissioning the Plant. As reported in detail in Central Maine's Annual Report on Form 10-K for the year ended December 31, 1997, the Plant had experienced a number of operational and regulatory problems and did not operate after December 6, 1996. The decision to close the Plant permanently was based on an economic analysis of the costs, risks and uncertainties associated with operating the Plant compared to those associated with closing and decommissioning it. The Plant's operating license from the NRC was scheduled to expire on October 21, 2008.

FERC Rate Case. On November 6, 1997, Maine Yankee submitted to FERC for filing certain amendments to the Power Contracts (the "Amendatory Agreements") and revised rates to reflect the decision to shut down the Plant and to request approval of an increase in the decommissioning component of its formula rates. Maine Yankee's submittal also requested certain other rate changes, including recovery of unamortized investment (including fuel) and certain changes to its billing formula, consistent with the non-operating status of the Plant. By Order dated January 14, 1998, the FERC accepted Maine Yankee's new rates for filing, subject to refund after a minimum suspension period, and set Maine Yankee's Amendatory Agreements, rates and issues concerning the prudence of the Plant-shutdown decision for hearing.

By Complaint dated December 9, 1997, the Maine Office of the Public Advocate ("OPA") sought a FERC investigation of Maine Yankee's actions leading to the decision to shut down the Plant, including actions associated with the management and operation of Maine Yankee since 1993. The MPUC had initiated an investigation in Maine earlier, raising generally similar issues. By decision dated May 4, 1998, the FERC consolidated the OPA Complaint with the comprehensive rate proceeding. In addition, 28 municipal and cooperative utilities that had purchased in the aggregate approximately 6.2 percent of the output of the Plant from Maine Yankee's sponsors (the "Secondary Purchasers") intervened in the FERC proceeding, raising similar prudence issues and other issues specific to their status as indirect purchasers from Maine Yankee.

In support of its request for an increase in decommissioning collections, Maine Yankee submitted with its initial FERC filing a 1997 decommissioning cost study performed by TLG Services, Inc. ("TLG"). During 1998, Maine Yankee engaged in an extensive competitive bid process to engage a Decommissioning Operations Contractor ("DOC") to perform certain major decontamination and dismantlement activities at the Plant on a fixed-price, turnkey basis. As a result of that process, a consortium headed by Stone & Webster

Engineering Corporation ("Stone & Webster") was selected to perform such activities under a fixed-price contract. The contract provides for, among other undertakings, construction of an independent spent fuel storage installation ("ISFSI") and completion of major decommissioning activities and site restoration by the end of 2004. The DOC process resulted in fixing certain costs that had been estimated in the earlier decommissioning cost estimate performed by TLG.

Since the filing of the rate request, Maine Yankee and the active intervenors, including among others the MPUC Staff, the OPA, Central Maine and other owners, the Secondary Purchasers, and a Maine environmental group (the "Settling Parties"), engaged in extensive discovery and negotiations. Those parties participated in settlement discussions that resulted in an Offer of Settlement filed by those parties with the FERC on January 19, 1999. On February 8, 1999, the FERC Trial Staff recommended that the presiding judge certify the settlement to the FERC and that the FERC approve it. Upon approval by the FERC, the settlement would constitute a full settlement of all issues raised in the consolidated FERC proceeding, including decommissioning-cost issues and issues pertaining to the prudence of the management, operation, and decision to permanently cease operation of the Plant. A separately negotiated settlement filed with the FERC on February 5, 1999, would resolve the issues raised by the Secondary Purchasers by limiting the amounts they will pay for decommissioning the Plant and by settling other points of contention affecting individual Secondary Purchasers. On February 24, 1999, the FERC Trial Staff recommended certification and approval of the settlement with the Secondary Purchasers. On March 10, 1999, the presiding judge certified to the FERC that both Offers of Settlement were uncontested and joined in the Trial Staff's comments that both were "fair, reasonable and in the public interest."

The Offer of Settlement provides for Maine Yankee to collect $33.6 million in the aggregate annually, effective January 15, 1998, consisting of (1) $26.8 million for estimated decommissioning costs, and (2) $6.8 million for ISFSI-related costs. The original filing with FERC on November 6, 1997, called for an aggregate annual collection rate of $36.4 million for decommissioning and the ISFSI, based on the TLG estimate. Under the settlement the amount collected annually could be reduced to approximately $26 million if Maine Yankee is able to (1) use for construction of the ISFSI funds held in trust under Maine law for spent-fuel disposal, and (2) access approximately $6.8 million being held by the State of Maine for eventual payment to the State of Texas pursuant to a compact for low-level nuclear waste disposal, the future of which is now in question after rejection of the selected disposal site in west Texas by a Texas regulatory agency. Both would require authorizing legislation in Maine, which Maine Yankee is committed to use its best efforts to obtain.

The Offer of Settlement also provides for recovery of all unamortized investment (including fuel) in the Plant, together with a return on equity of 6.50 percent, effective January 15, 1998, on equity balances up to maximum allowed equity amounts. The Settling Parties also agreed in the proposed settlement not to contest the effectiveness of the Amendatory Agreements submitted to FERC as part of the original filing, subject to certain limitations including the right to challenge any accelerated recovery of unamortized investment under the terms of the Amendatory Agreements after a required informational filing with the FERC by Maine Yankee. In addition, the settlement contains incentives for Maine Yankee to achieve further savings in its decommissioning and ISFSI-related costs and resolves issues concerning restoration and future use of the Plant site and environmental matters of concern to certain of the intervenors in the proceeding.

As a separate part of the Offer of Settlement, Central Maine, the other two Maine utilities which own interests in Maine Yankee, the MPUC Staff, and the OPA entered into a further agreement resolving retail rate issues and other issues specific to the Maine parties, including those that had been raised concerning the prudence of

the operation and shutdown of the Plant (the "Maine Agreement"). Under the Maine Agreement Central Maine would continue to recover its Maine Yankee costs in accordance with its most recent ARP order from the MPUC without any adjustment reflecting the outcome of the FERC proceeding. To the extent that Central Maine has collected from its retail customers a return on equity in excess of the 6.50 percent contemplated by the Offer of Settlement, no refunds would be required, but such excess amounts would be credited to the customers to the extent required by the ARP.

The final major provision of the Maine Agreement requires the Maine owners, for the period from March 1, 2000, through December 1, 2004, to hold their Maine retail ratepayers harmless from the amounts by which the replacement power costs for Maine Yankee exceed the replacement power costs assumed in the report to the Maine Yankee Board of Directors that served as a basis for the Plant shutdown decision, up to a maximum cumulative amount of $41 million. Central Maine's share of that amount would be $31.16 million for the period. The Maine Agreement, which was approved by the MPUC on December 22, 1998, also sets forth the methodology for calculating such replacement power costs.

CMP Group and Central Maine believe that the Offer of Settlement, including the Maine Agreement, constitutes a reasonable resolution of the issues raised in the Maine Yankee FERC proceeding, and that approval of the Offer of Settlement by the FERC would eliminate significant uncertainties concerning CMP Group's and Central Maine's future financial performance. Although all of the active parties to the proceeding, including the FERC Trial Staff, support or, with respect to certain individual provisions, do not oppose, the Offer of Settlement, CMP Group and Central Maine cannot predict with certainty whether or in what form it will be approved by the FERC.

Other Maine Yankee Shareholders. Periodically-higher nuclear-related costs have affected the financial condition of other stockholders of Maine Yankee in varying degrees. A default by a Maine Yankee stockholder in making payments under its Power Contract or Capital Funds Agreement could have a material adverse effect on Maine Yankee, depending on the magnitude of the default. CMP Group and Central Maine cannot predict, however, what effect, if any, the financial and regulatory difficulties experienced by some Maine Yankee stockholders might have on Maine Yankee or Central Maine.

Interests in Other Nuclear Plants

In December 1996, the Board of Directors of Connecticut Yankee Atomic Power Company voted to permanently shut down and decommission the Connecticut Yankee plant for economic reasons. The plant did not operate after July 22, 1996. Central Maine estimates its share of the cost of Connecticut Yankee's continued compliance with regulatory requirements, recovery of its plant investment, decommissioning and closing the plant to be approximately $29.9 million and has recorded a corresponding regulatory asset and liability on the consolidated balance sheet. Central Maine is currently recovering through rates an amount adequate to recover these expenses. Issues relating to Connecticut Yankee's decommissioning rates, as well as the prudence of operating that plant and the decision to cease operations, remain pending before the FERC.

In 1993 the FERC approved a settlement agreement regarding recovery of decommissioning costs and plant investment, and all issues with respect to the prudence of the decision to discontinue operation of the Yankee Atomic plant. Central Maine estimates its remaining share of the cost of Yankee Atomic's continued compliance with regulatory requirements, recovery of its plant investment, decommissioning and closing the plant, to be approximately $7.8 million. This estimate has been recorded by Central Maine as a corresponding

regulatory asset and liability on Central Maine's balance sheet. Central Maine's current share of costs related to the shutdown of Yankee Atomic is being recovered through rates.

The Vermont Yankee plant is an operating unit. Its NRC operating license is scheduled to expire in the year 2012.

Pursuant to a joint ownership agreement, Central Maine has a 2.5 percent direct ownership interest in the Millstone 3 nuclear unit in Waterford, Connecticut, which is operated by Northeast Utilities. This facility was off-line from March 31, 1996, to July 1998, due to NRC concerns regarding license requirements.

On August 7, 1997, Central Maine and other minority owners of Millstone Unit No. 3 filed suit in Massachusetts Superior Court against Northeast Utilities and its trustees, and initiated an arbitration claim against two of its subsidiaries, alleging mismanagement of the unit by the defendants. The minority owners are seeking to recover their additional costs resulting from such mismanagement, including their replacement power costs. Since August 1997 the parties have been engaged in resolving preliminary issues and in extensive pre-hearing discovery on a schedule calling for an arbitration hearing in the fall of 1999. Central Maine cannot predict the outcome of the litigation and arbitration or whether the current schedule will be maintained.

Central Maine is obligated to pay its proportionate share of the operating expenses, including depreciation and a return on invested capital, of each of the Yankee Companies referred to above for periods expiring at various dates to 2012. Pursuant to the joint ownership agreement for Millstone 3, Central Maine is similarly obligated to pay its proportionate share of the operating costs of Millstone 3. Central Maine is also required to pay its share of the estimated decommissioning costs of each of the Yankee Companies and Millstone 3. The estimated decommissioning costs are paid as a cost of energy in the amounts allowed in rates by the FERC.

Non-Utility Generators

In accordance with prior MPUC policy and the ARP, $99 million of power-purchase contract buy-out or restructuring costs incurred since January 1992 are included in Deferred Charges and Other Assets on Central Maine's balance sheet and will be amortized over their respective fuel savings periods. Central Maine has restructured 43 contracts representing 389 megawatts of capacity that should result in approximately $231 million in fuel savings over the next five years.

During 1998 Central Maine purchased or restructured two power-purchase contracts which it expects will result in savings to its customers the equivalent of approximately $40.5 million in net present value.

On February 12, 1999, Central Maine restructured a power-purchase contract with a NUG in Livermore, Maine, which it expects will save its customers the equivalent of $20.4 million in net present value.

On December 31, 1998, two contracts with NUGs from which Central Maine was obligated to purchase electricity at substantially above-market prices expired. As a result, Central Maine expects to reduce power purchases by approximately $2.7 million.

Open-Access Transmission Service Ruling

On April 24, 1996, the FERC issued Order No. 888, which requires all public utilities that own, control or operate facilities used for transmitting electric energy in interstate commerce to file open access non-discriminatory transmission tariffs that offer both load-based, network and contract-based, point-to-point service, including ancillary service to eligible customers containing minimum terms and conditions of non-discriminatory service. This service must be comparable to the service they provide themselves at the wholesale level; in fact, these utilities must themselves take the wholesale transmission service they provide under the filed tariffs. The order also permits public utilities and transmitting utilities the opportunity to recover legitimate, prudent and verifiable wholesale stranded costs associated with providing open access and certain other transmission services. It further requires public utilities to functionally separate transmission from generation marketing functions and communications. The intent of this order is to promote the transition of the electric utility industry to open competition. Order No. 888 also clarifies federal and state jurisdiction over transmission in interstate commerce and local distribution and provides for deference of certain issues to state recommendations. The FERC subsequently issued Orders No. 888-A and 888-B which generally reaffirm Order No. 888 and clarify certain terms.

On July 9, 1996, Central Maine and MEPCO submitted compliance filings to meet the new pro-forma tariff non-price minimum terms and conditions of non-discriminatory transmission service and since then have made additional filings revising their tariffs in response to subsequent FERC and NEPOOL Orders. Central Maine and MEPCO have been transmitting energy pursuant to their filed tariffs, subject to refund.

On April 24, 1996, the FERC also issued Order No. 889, which requires public utilities to functionally separate their wholesale power marketing and transmission operation functions and to obtain information about their transmission system for their own wholesale power transactions in the same way their competitors do through the Open Access Same-time Information System ("OASIS"). The rule also prescribed standards of conduct and protocols for obtaining the information. The standards of conduct are designed to prevent employees of a public utility engaged in marketing functions from obtaining preferential information. In 1998, both Central Maine and MEPCO submitted standards of conduct filings that further clarified the separation of the wholesale power marketing and transmission operations functions. The NEPOOL Agreement and open-access transmission tariff have been revised to reflect the new regulatory requirements and are pending FERC approval.

Competition and Economic Development

Central Maine faces competition in several aspects of its traditional business and anticipates that competition will continue to put pressure on both sales and the prices Central Maine can charge for its product. Alternative fuels and modifications to regulations that in the past had restricted competition from suppliers outside of Central Maine's service territory have expanded customers' energy options, even before the commencement of retail competition on March 1, 2000. As a result, Central Maine continues to pursue retention of its customer base. This increasingly competitive environment has resulted in Central Maine's entering into arrangements with its wholesale customers, as well as with certain industrial, commercial, and residential customers, to provide their energy needs at prices and margins lower than the current averages.

Pursuant to the pricing-flexibility provisions of the ARP, Central Maine offers special prices for high-use residential customers and for industrial and commercial customers with the capacity to change fuel sources. Economic-Development price contracts and the Maine-Made Incentive Program support Central Maine's

business-development initiatives. In 1994, the Company lowered tariffs for its large general-service customers and executed separate five-year definitive agreements with 18 individual customers providing additional reductions. Approximately 44 percent of annual service area kilowatt-hour sales and 31 percent of annual revenues are covered under special tariffs allowed under the pricing flexibility provisions of the ARP. These reductions in rates were offered to customers after consideration of associated NUG cost reductions, savings from further NUG consolidations and other general cost reductions.

"Year 2000" Computer Issues

The "Year 2000 problem" arose because many existing computer programs use only the last two digits to refer to a year. Therefore those computer programs do not properly recognize a year that begins with "20" instead of the familiar "19". If not corrected, many computer applications could fail or create erroneous results, with potentially serious and widespread adverse consequences.

CMP Group, through Central Maine, began its Year 2000 problem remediation efforts in 1996, and since that time has developed a broad-based and comprehensive project plan for addressing Year 2000 issues. The plan includes both Information Technology ("IT") and non-IT systems, addresses both centralized and distributed systems, and encompasses systems critical to the generation, transmission, and distribution of electric energy as well as the traditional business systems necessary to the CMP Group System.

As planned, by the end of 1998 CMP Group had completed much of the work associated with Year 2000 readiness for IT infrastructure and centralized business systems. The remaining work in those areas is scheduled to be completed during the first six months of 1999. All vendors associated with this remaining work have indicated availability of products and services that CMP Group believes should permit CMP Group to be Year 2000 ready by June 1999.

CMP Group's target completion date for Year 2000 power generation and delivery systems is also June 1999, consistent with the DOE's published request in May 1998 and the overall electric-utility industry guidelines prepared by the North American Electric Reliability Council ("NERC"). CMP Group has contracted with the appropriate vendors to complete critical generation control system remediation work by June 1999, and believes it is on schedule to meet this target.

In addition to th. internal Year 2000 readiness activities discussed above, CMP Group is actively participating in a joint ISO/NEPOOL initiative designed to assess, and assure, power reliability within the NEPOOL area. This initiative encompasses all participants, including Central Maine, within the New England area.

CMP Group also has an active program in place to identify and address issues associated with third-party providers. The program addresses business relationships with all third-party providers, but focuses on those suppliers deemed critical to CMP Group's business. At this time CMP Group has no indication that any third-party with which CMP Group has a material relationship is expecting a Year 2000-related business interruption. CMP Group will continue to monitor and assess its third-party relationships.

CMP Group estimates it will incur approximately $4.0 million of costs associated with making the necessary modifications identified to date to both the centralized and non-centralized systems. As of December 31, 1998, approximately $3.4 million of such costs has been incurred.

CMP Group recognizes that failure to correct problems associated with Year 2000 issues has the potential to result in material operational and financial risks if the affected systems either cease to function or produce erroneous results. Such risks could include inability to operate fossil and/or hydro generating facilities, disruptions in the operation of Central Maine's transmission and distribution systems, an inability to access interconnections with other utilities, and disruptions to Central Maine's major business systems (customer information and service, administrative, financial).

Central Maine believes, however, that the most likely worst case scenario resulting from these risks would be a temporary, and short-term, disruption of electric service. This could occur either as a failure on the part of Central Maine to successfully address all critical Year 2000 issues, as a failure on the part of a critical third-party provider, or as a failure on the part of other entities, including ISO-New England, to successfully maintain the short-term reliability of power supply and delivery on a regional basis. Central Maine does not expect that any such short-term service disruption would have a material impact on its operations, liquidity, or financial condition.

In order to minimize these risks, and the potential recovery time, from Year 2000 problems, CMP Group is actively involved in contingency planning. Although CMP Group has extensive knowledge and specific experience in disaster/recovery planning and execution, CMP Group recognizes the importance of Year 2000 specific contingency planning. Accordingly, Central Maine is participating in the integrated contingency planning effort headed by the North American Electric Reliability Council, and the Northeast Power Coordinating Council. Further, Central Maine will be developing comprehensive Year 2000 specific contingency plans for its own independent operations.

CMP Group believes its plans are adequate to attain Year 2000 readiness, and that the contingency plans currently under development both internally and at a regional level should substantially mitigate the risks discussed above.

Liquidity and Capital Resources

Increases in Central Maine's retail rates are limited by Central Maine's ARP. For a discussion of the ARP, including a 1.33-percent rate increase effective July 11, 1998, and a proposed rate reduction contingent on the consummation of Central Maine's planned sale of generating assets in 1999, see Note 3, "Regulatory Matters" - "Alternative Rate Plan."

Approximately $158.3 million and $159.8 million of cash was provided during the year ended December 31, 1998 for CMP Group and Central Maine, respectively, from net income before non-cash items, primarily depreciation, amortization and deferred income taxes. During that period approximately $66.8 million and $73.5 million of cash was used for fluctuations in certain assets and liabilities and from other operating activities for CMP Group and Central Maine, respectively.

Included in net income is $19.1 million for CMP Group and $9.5 million for Central Maine representing gains associated with the sale of investments and properties.

Investing activities, primarily construction expenditures, utilized $17.4 million in cash during 1998 for generation, transmission, distribution, and general construction expenditures for CMP Group and $9.1 for

Central Maine. In order to accommodate existing and future loads on its electric system Central Maine, CMP Group's major subsidiary, is engaged in a continuing construction program. Central Maine's plans for improvements and expansions, its load forecast and its power-supply sources are under a process of continuing review. Actual construction expenditures depend upon the availability of capital and other resources, load forecasts, the timing of its divestiture of its generating assets, customer growth and general business conditions. The ultimate nature, timing and amount of financing for Central Maine's total construction programs, refinancing and energy-management capital requirements will be determined in light of market conditions, earnings and other relevant factors.

CMP Group received proceeds of approximately $21.3 million from the sale of investments and properties. In addition, Central Maine received approximately $20.1 million resulting from the sale of four subsidiaries to CMP Group.

During 1998 CMP Group paid dividends on common stock of $28.9 million, while preferred-stock dividends, paid by Central Maine, utilized $6.7 million of cash. In addition, Central Maine reacquired 1.2 million shares of stock from CMP Group for $19 million following the holding company formation.

Central Maine's Articles of Incorporation limit certain unsecured indebtedness that may be outstanding to 20% of capitalization, as defined without the consent of the holders of Central Maine's preferred stock; 20% of defined capitalization amounted to $143 million as of December 31, 1998. Unsecured indebtedness, as defined, amounted to $131 million as of December 31, 1998. Central Maine's $500 million medium-term note program, having received the consent of Central Maine's preferred stockholders in May 1997, is not included in "unsecured indebtedness" for purposes of the 20-percent limitation.

At the annual meeting of the stockholders of Central Maine on May 15, 1997, the holders of Central Maine's outstanding preferred stock consented to the issuance of $350 million in principal amount of Central Maine's medium-term notes in addition to the $150 million in principal amount to which they had previously consented. This expansion of the medium-term note program was implemented to increase Central Maine's financing flexibility in anticipation of restructuring and increased competition.

During 1998 Central Maine issued $312 million principal amount of its medium-term notes and paid $18 million at maturity, making a total of $337 of medium-term notes outstanding at December 31, 1998 of which $10 million was short-term. During the year Central Maine redeemed, repurchased or paid at maturity the following General and Refunding Mortgage Bonds (stated in principal amounts) and Dividend Series Preferred Stock (in par value), a total of $351 million:

March 30	Series R Bonds, 7-7/8% ($50 million)
March 30	Series N Bonds, 8.50% ($11 million)
April 1	Preferred Stock, 7-7/8% Series ($30 million)
April 15	Series U Bonds, 7.54% ($25 million)
June 8	Preferred Stock, 7.99% Series ($11.6 million)
June 15	Series P Bonds, 7.66% ($31.3 million)

July 1	Preferred Stock, 8 7/8% Series ($7 million)
August 15	Series S Bonds, 6.03% ($60 million)
November 1	Series T Bonds, 6.25% ($75 million)
December 31	Series O Bonds, 7-3/8% ($50 million)

For further details on the financing activities of Central Maine and CMP Group during 1998, see Item 8, "Notes to Consolidated Financial Statements" - Note 10, "Capitalization and Interim Financing," below.

To support its short-term capital requirements, in October 1996, Central Maine entered into a $125 million Credit Agreement with several banks, with BankBoston, N.A., and The Bank of New York acting as agents for the lenders. The arrangement originally had two credit facilities: a $75 million, 364-day revolving credit facility and a $50-million, 3-year revolving credit facility. Effective December 15, 1998, the banks' commitments under the 364-day facility were reduced from $75 million to $25 million by agreement of the parties, and other provisions were amended to reflect the reorganization of Central Maine into a holding-company structure and recognize other changed circumstances. Both credit facilities require annual fees on the total credit lines. The fees are based on Central Maine's credit ratings and allow for various borrowing options including LIBOR-priced, base-rate-priced and competitive-bid-priced loans. Access to commercial paper markets has been substantially precluded based upon Central Maine's past credit ratings. The amount of outstanding short-term borrowing will fluctuate with day-to-day operational needs, the timing of long-term financing, and market conditions. Central Maine had $55 million in outstanding notes as of December 31, 1998 under the credit facilities.

On August 5, 1998, the MPUC approved Central Maine's application to purchase up to 11 million shares of its outstanding common stock over a three-year period, with a limitation of three million shares that may be repurchased prior to the closing of the sale of Central Maine's generating assets. The amount of any stock purchases and their timing by Central Maine or CMP Group will depend on the need for equity in the respective Company's capital structure, investment opportunities and other considerations. Neither Central Maine nor CMP Group has adopted a formal stock-purchase plan.

Environmental Matters

CMP Group and its subsidiaries assess compliance with laws and regulations related to hazardous substance remediation on an ongoing basis. At December 31, 1998, Central Maine had an accrued liability of $1.9 million for remediation costs at various sites. The costs at identified sites may be significantly higher if, among other things, other potentially responsible parties are not financially able to contribute to these costs or identified possible outcomes change. See Note 4, "Commitments and Contingencies." - "Legal and Environmental Matters" for further discussion of this matter.

Storm Damage Central Maine's System

On January 7 through 9, 1998, an ice storm of unprecedented breadth and severity struck Central Maine's service territory, causing power outages for approximately 280,000 of Central Maine's 528,000 customers, and substantial widespread damage to Central Maine's transmission and distribution system. To restore its electrical system, Central Maine supplemented its own crews with utility and tree-service crews from

throughout the northeastern United States and the Canadian maritime provinces, with assistance from the Maine national guard. Central Maine's incremental non-capital costs of the repair effort were $50.7 million, most of which is labor-related. In addition, approximately $1.7 million of carrying costs have been deferred as of December 31, 1998.

On January 15, 1998, the MPUC issued an order allowing Central Maine to defer on its books the incremental non-capital costs associated with Central Maine's efforts to restore service in response to the damage resulting from the storm. The order required Central Maine, as part of its annual filing under the ARP, to file information on the amounts deferred under the order and to submit a proposal as to how the costs associated with the order should be recovered under the ARP. In the 1998 ARP filing Central Maine stated that once the final cost of the storm was determined and the status of federal assistance was finalized Central Maine would propose a plan for recovery of its costs. Based on the MPUC order, Central Maine has deferred $52.4 million in storm related costs as of December 31, 1998. In October 1998, the MPUC staff issued its draft report of its summary investigation of the Maine utilities' response to the January ice storm. This report found no basis for formal adjudicatory investigation into the response and supports the utilities' actions. On May 1, 1998, President Clinton signed a Congressional appropriation bill that included $130 million for Presidentially declared disasters in 1998, including storm-damage cost reimbursement for electric utilities. On November 5, 1998 the United States Department of Housing and Urban Development ("HUD") announced that of those funds, $2.2 million had been awarded to Maine, with none designated for utility infrastructure, which Central Maine and the Maine Congressional delegation protested as inadequate and inconsistent with Congressional intent. On March 10, 1999, HUD published a notice in the Federal Register inviting parties to re-apply for storm-damage cost reimbursement. Central Maine cannot predict what portion of its ice storm-related costs it will ultimately recover through federal assistance, if any, or from its customers, or when any such recovery will take place.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

CMP Group is exposed to interest rate risk through the use of fixed-rate and variable-rate debt and preferred stock as sources of capital. Its exposure to changes in applicable interest rates has increased during 1998, due to its issuance of $312 million of medium-term notes during the year, $227 million of which bear floating, LIBOR-based, rates. Most of the floating-rate medium-term notes issued during 1998 replaced fixed-rate mortgage bonds or other fixed-rate securities.

	Variable Long Term	Fixed Long Term
Weighted Average Rates	6.63%	7.46%
Balance at December 31, 1998	$278,704	$321,476
Maturity Period	1999 - 2018	1999 - 2023

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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Report of Management

The Managements of CMP Group and its subsidiaries ("CMP Group") and Central Maine Power Company and its subsidiaries ("Central Maine") are responsible for the consolidated financial statements and the related financial information appearing in this annual report. The financial statements are prepared in conformity with generally accepted accounting principles and include amounts based on informed estimates and judgments of management. The financial information included elsewhere in this report is consistent, where applicable, with the financial statements.

CMP Group and Central Maine maintain a system of internal accounting controls that are designed to provide reasonable assurance that the respective assets are safeguarded, transactions are executed in accordance with management's authorization, and the financial records are reliable for preparing the financial statements. While no system of internal accounting controls can prevent the occurrence of errors or irregularities with absolute assurance, management's objective is to maintain a system of internal accounting controls that meets their goals in a cost-effective manner.

CMP Group and Central Maine have policies and procedures in place to support and document the internal accounting controls that are revised on a continuing basis. Internal auditors conduct reviews, provide ongoing assessments of the effectiveness of selective internal controls, and report their findings and recommendations for improvement to management.

The Board of Directors of CMP Group have established an Audit Committee, composed entirely of outside directors, which oversees the financial reporting process on behalf of the Board of Directors. The Audit Committee meets periodically with management, internal auditors, and the independent public accountants to review accounting, auditing, internal accounting controls, and financial reporting matters. The internal auditors and the independent public accountants have full and free access to meet with the Audit Committee, with or without management present, to discuss auditing or financial reporting matters.

PricewaterhouseCoopers LLP, independent public accountants, has been retained to audit CMP Group and Central Maine's consolidated financial statements. The accompanying report of independent public accountants is based on their audit, conducted in accordance with generally accepted auditing standards, including a review of selected internal accounting controls and tests of accounting procedures and records.

David T. Flanagan
CMP Group, Inc.
President and Chief Executive Officer

David E. Marsh
CMP Group, Inc.
Chief Financial Officer

Sara J. Burns
Central Maine Power Company
President

Curtis I. Call
Central Maine Power Company
Treasurer

PRICEWATERHOUSECOOPERS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Directors of
CMP Group, Inc. and the Shareholders and
Directors of Central Maine Power Company

In our opinion, the accompanying consolidated financial statements listed in the accompanying index present fairly, in all material respects, the consolidated financial position of CMP Group, Inc. and its subsidiaries ("CMP Group") at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 and the consolidated financial position of Central Maine Power Company and its subsidiaries ("Central Maine") at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of management of CMP Group and Central Maine; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

January 26, 1999

CONSOLIDATED FINANCIAL STATEMENTS

CMP Group, Inc. and Subsidiaries
Consolidated Statement Of Earnings
For the years ended December 31, 1998, 1997 and 1996
(Dollars in thousands, except per-share amounts)

	1998	1997	1996
Revenues (Notes 1 and 3)			
Electric operating revenues	$938,739	$954,176	$967,046
Other non-utility revenues	11,588	2,070	859
Total Revenues	950,327	956,246	967,905
Operating Expenses			
Fuel used for company generation (Notes 1 and 9)	30,898	34,946	16,827
Purchased power			
Energy (Notes 1 and 9)	369,411	419,144	407,926
Other (capacity) (Note 9)	85,321	112,810	108,720
Other operation	213,489	210,513	183,688
Maintenance	41,051	33,973	37,537
Depreciation and amortization (Note 1)	56,493	54,132	53,694
Taxes other than income taxes	27,753	28,303	27,861
Total Operating Expenses	824,446	893,821	836,253
Operating Income	125,881	62,425	131,652
Other Income (Expense)			
Equity in earnings of associated companies (Note 9)	(60)	6,260	6,138
Allowance for equity funds used during construction (Note 1)	653	642	851
Other, net	1,383	3,639	4,709
Minority interest in consolidated net income	(205)	(233)	(48)
Gain on sale of investments and properties	22,912	418	601
Total Other Income (Expense)	24,683	10,726	12,251
Interest Charges			
Long-term debt (Note 10)	43,276	44,346	47,966
Other interest (Note 10)	8,366	7,660	4,341
Allowance for borrowed funds used during construction (Note 1)	(495)	(439)	(655)
Total Interest Charges	51,147	51,567	51,652
Income Before Income Taxes and Preferred Dividends	99,417	21,584	92,251
Income taxes (Notes 2 and 3)	41,698	8,162	32,022
Dividends on Preferred Stock of Subsidiary	4,809	8,209	9,452
Net Income	$52,910	$ 5,213	$ 50,777
Weighted Average Number Of Shares Of Common Stock Outstanding	32,442,685	32,442,752	32,442,752
Earnings Per Share Of Common Stock (Basic and Diluted)	$1.63	$0.16	$1.57
Dividends Declared Per Share Of Common Stock	$0.90	$0.90	$0.90

The accompanying notes are an integral part of these financial statements

CMP Group, Inc. and Subsidiaries
Consolidated Balance Sheet
December 31, 1998 and 1997
(Dollars in thousands)

ASSETS	1998	1997
Current Assets		
Cash and cash equivalents	$ 30,540	$ 20,841
Accounts receivable, less allowance for uncollectible accounts of $3,136 in 199.. and $2,400 in 1997		
Service - billed	81,169	84,323
- unbilled (Notes 1 and 3)	53,296	46,807
Other accounts receivable	13,753	15,247
Inventories, at average cost		
Fuel oil	5,879	5,390
Materials and supplies	13,126	11,779
Funds on deposit with trustee (Note 10)	1	61,694
Prepayments and other current assets	10,268	9,110
Total Current Assets	208,032	255,191
Electric Property, at original cost (Notes 9 and 10)	1,750,837	1,674,876
Less: Accumulated depreciation (Notes 1 and 9)	694,410	634,384
Net electric property in service	1,056,427	1,040,492
Construction work in progress (Note 4)	19,538	15,105
Nuclear fuel, less accumulated amortization of $9,316 in 1998 and $9,035 in 1997	1,147	1,157
Total net electric property	1,077,112	1,056,754
Investments In Associated Companies, at equity (Notes 1 and 9)	71,880	76,509
Total Net Electric Property and Investments in Associated Companies	1,148,992	1,133,263
Deferred Charges And Other Assets		
Recoverable costs of Seabrook 1 and abandoned projects, net (Note 1)	78,539	84,026
Yankee Atomic purchased-power contract (Note 9)	7,761	13,056
Connecticut Yankee purchased-power contract (Note 9)	29,913	36,877
Maine Yankee purchased-power contract (Note 9)	273,895	329,206
Regulatory assets - deferred taxes (Note 2)	235,451	236,632
Other deferred charges and other assets (Notes 1 and 3)	280,301	210,715
Deferred Charges and Other Assets, Net	905,860	910,512
Total Assets	$2,262,884	$2,298,966

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

CMP Group, Inc. and Subsidiaries
Consolidated Balance Sheet
December 31, 1998 and 1997
(Dollars in thousands)

STOCKHOLDERS' EQUITY AND LIABILITIES	1998	1997
Current Liabilities and Interim Financing		
Interim financing (see separate statement) (Note 10)	$ 298,356	$ 238,000
Sinking-fund requirements (Note 10)	11,455	9,411
Accounts payable	90,960	97,080
Dividends payable	7,304	9,202
Accrued interest	7,524	11,201
Accrued income taxes (Note 2)	19,911	3,001
Miscellaneous current liabilities	15,909	15,762
Total Current Liabilities and Interim Financing	451,419	383,657
Commitments and Contingencies (Notes 4 and 9)		
Reserves and Deferred Credits		
Accumulated deferred income taxes (Note 2)	376,043	350,912
Unamortized investment tax credits (Note 2)	29,064	30,533
Yankee Atomic purchased-power contract (Note 9)	7,761	13,056
Connecticut Yankee purchased-power contract (Note 9)	29,913	36,877
Maine Yankee purchased-power contract (Note 9)	273,895	329,206
Regulatory liabilities - deferred taxes (Note 2)	58,376	56,852
Other reserves and deferred credits (Note 5)	116,805	104,257
Total Reserves and Deferred Credits	891,857	921,693
Long-Term Debt (see separate statement) (Note 10)		
Mortgage debt	117,683	259,563
Other long-term obligations	228,598	141,360
Total Long-Term Obligations	346,281	400,923
Redeemable Preferred Stock	18,910	39,528
Stockholders' Equity (see separate statement) (Note 10)		
Common-stock	162,213	162,214
Other paid in capital	285,835	277,168
Reacquired common stock	(827)	-
Retained earnings	71,668	48,212
Preferred stock	35,528	65,571
Total Stockholders' Equity	554,417	553,165
Total Stockholders' Equity and Liabilities	$2,262,884	$2,298,966

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

CMP Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CAPITALIZATION AND INTERIM FINANCING

(Dollars in thousands)

	December 31			
	1998		1997	
	Amount	%	Amount	%
Capitalization (Note 10)				
Common-Stock Investment:				
Common stock, par value $5 per share:				
Authorized - 80,000,000 shares				
Outstanding - 32,442,552 shares in 1998 and 32,442,752 in 1997	$ 162,213		$ 162,214	
Other paid-in capital	285,835		277,168	
Reacquired common stock, at cost (55,510 shares)	(827)			
Retained earnings	71,668		48,212	
Total Common-Stock Investment	518,889	42.6%	487,594	39.6
Preferred Stock - not subject to mandatory redemption	35,528	2.9	65,571	5.3
Redeemable Preferred Stock - subject to mandatory redemption	27,910		46,528	
Less: current sinking fund requirements	9,000		7,000	
Redeemable Preferred Stock - subject to mandatory redemption	18,910	1.6	39,528	3.2
Long-Term Obligations:				
Mortgage bonds	118,717		421,000	
Less: unamortized debt discount	1,034		1,437	
Total Mortgage Bonds	117,683		419,563	
Total Medium-Term Notes	327,000		43,000	
Other Long-Term Obligations:				
Lease obligations	32,773		34,517	
Pollution-control facility and other notes	153,280		84,254	
Total Other Long-Term Obligations	186,053		118,771	
Less: Current Sinking Fund Requirements and Current Maturities	284,455		180,411	
Total Long-Term Obligations	346,281	28.4	400,923	32.6
Total Capitalization	919,608	75.5	993,616	80.7
Interim Financing (Note 10):				
Short-term obligations	15,000		60,000	
Current maturities of long-term obligations	283,356		178,000	
Total Interim Financing	298,356	24.5	238,000	19.3
Total Capitalization and Interim Financing	$1,217,964	100.0%	$1,231,616	100.0%

The accompanying notes are an integral part of these financial statements

CMP Group, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)

For the three years ended December 31, 1998

	Shares	Amount at par value	Other paid-in capital	Reacquired common stock	Retained earnings	Shares	Preferred Stock	Total
Balance - December 31, 1995	32,442,752	$162,214	$276,287		$51,504	655,713	$65,571	$555,57
Net Income					60,229			60,22
Dividends declared:								
Common stock					(29,199)			(29,19
Preferred stock					(9,452)			(9,45
Reacquired preferred stock			536		(536)			-
Capital stock expense			(5)					(
Balance - December 31, 1996	32,422,752	162,214	276,818	-	72,546	655,713	65,571	577,14
Net Income					13,422			13,42
Dividends declared:								
Common stock					(29,199)			(29,19
Preferred stock					(8,209)			(8,20
Reacquired preferred stock			348		(348)			-
Capital stock expense			2					
Balance - December 31, 1997	32,422,752	162,214	277,168	-	48,212	655,713	65,571	553,16
Net Income					57,718			57,71
Dividends declared:								
Common stock					(29,198)			(29,19
Preferred stock					(4,809)			(4,80
Common stock	(200)	(1)	(2)		(1)			(8
Reacquired common stock				(827)				9,4
Increase in equity of investee (Note 8)			9,413			(300,430)	(30,043)	(30,0
Preferred stock					(254)			(1,0
Reacquired preferred stock			(771)					
Capital stock expense			27					
Balance - December 31, 1998	32,442,552	$162,213	$285,835	$(827)	$71,668	355,283	$35,528	$554,4

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

CMP Group, Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in thousands)

	Year ended December 31		
	1998	1997	1996
CASH FROM OPERATION			
Net income	$ 52,910	$ 5,213	$ 50,777
Items not requiring (not providing) cash:			
Depreciation	47,130	44,170	44,104
Amortization	38,873	34,291	34,881
Deferred income taxes and investment tax credits, net	20,016	(2,204)	3,318
Allowance for equity funds used during construction	(653)	(642)	(851)
Preferred stock dividends of subsidiary	4,809	8,209	9,452
Gain on sale of investments and properties	(19,108)	-	-
Changes in certain assets and liabilities:			
Accounts receivable	(2,999)	1,257	(3,565)
Other current assets	(1,158)	390	(308)
Inventories	(1,836)	4,259	(4,884)
Accounts payable	(9,785)	4,617	(16,862)
Accrued taxes and interest	13,233	2,856	(4,970)
Miscellaneous current liabilities	147	(5,580)	7,472
Deferred ice storm cost	(52,433)	-	-
Deferred energy-management costs	(2,615)	(1,940)	(5,222)
Maine Yankee outage accrual	-	(10,350)	8,280
Purchased power contracts	(22,500)	-	(75)
Other, net	13,194	7,664	3,961
Net Cash Provided by Operating Activities	77,225	92,210	125,508
INVESTING ACTIVITIES			
Construction expenditures	(42,405)	(40,306)	(46,922)
Investments in and loans to affiliates	(17,800)	(4,769)	(12,059)
Repayment of loan by affiliates	17,800	-	-
Proceeds from sale of investments and properties	21,347	-	-
Changes in accounts payable - investing activities	3,665	(734)	1,889
Net Cash Used by Investing Activities	(17,393)	(45,809)	(57,092)
FINANCING ACTIVITIES			
Issuances:			
Revolving credit agreement	50,000	52,500	7,500
Medium-term notes	302,000	-	10,000
Other long-term obligations	-	-	870
Short-term obligations, net	10,000	-	-
Redemptions:			
Mortgage bonds	(302,283)	-	(11,500)
Preferred stock	(48,618)	(14,000)	(14,000)
Medium-term notes	(18,000)	(25,000)	(34,000)
Finance Authority of Maine	(7,400)	(6,800)	(6,300)
Other long-term obligations	(6,049)	(645)	(1,780)
Short-term obligations, net	(55,000)	-	-
Funds on deposit with trustee	61,693	(2,182)	(29,593)
Purchase of treasury stock	(827)	-	-
Dividends:			
Common stock	(28,943)	(29,220)	(29,220)
Preferred stock of subsidiary	(6,706)	(8,520)	(9,763)
Net Cash Used by Financing Activities	(50,133)	(33,867)	(117,786)
Net Increase (Decrease) in Cash	9,699	12,534	(49,370)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	20,841	8,307	57,677
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 30,540	$ 20,841	$ 8,307
Supplemental Cash-Flow Information:			
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 50,256	$ 47,551	$ 47,835
Income taxes	$ 6,581	$ 7,105	$ 32,632

For purposes of the statement of cash flows, the Company considers all highly liquid instruments purchased having a maturity of three months or less to be cash equivalents.

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

Central Maine Power Company and Subsidiaries
Consolidated Statement Of Earnings
For the years ended December 31, 1998, 1997 and 1996
(Dollars in thousands, except per-share amounts)

	1998	1997	1996
Revenues (Notes 1 and 3)	$938,561	$954,176	$967,046
Electric operating revenues	2,969	2,070	859
Other non-utility revenues	941,530	956,246	967,905
Total Revenues			
Operating Expenses			
Fuel used for company generation (Notes 1 and 9)	30,898	34,946	16,827
Purchased power	369,411	419,144	407,926
Energy (Notes 1 and 9)	85,321	112,810	108,720
Other (capacity) (Note 9)	204,286	210,513	183,688
Other operation	40,961	33,973	37,537
Maintenance	56,257	54,132	53,694
Depreciation and amortization (Note 1)	27,747	28,303	27,861
Taxes other than income taxes	814,881	893,821	836,253
Total Operating Expenses			
Operating Income	126,649	62,425	131,652
Other Income (Expense)			
Equity in earnings of associated companies (Note 9)	1,762	6,260	6,138
Allowance for equity funds used during construction (Note 1)	653	642	851
Other, net	2,097	3,639	4,709
Minority interest in consolidated net income	(205)	(233)	(48)
Gain on sale of investments and properties	13,314	418	601
Total Other Income (Expense)	17,621	10,726	12,251
Interest Charges			
Long-term debt (Note 10)	43,223	44,346	47,966
Other interest (Note 10)	8,286	7,660	4,341
Allowance for borrowed funds used during construction (Note 1)	(495)	(439)	(655)
Total Interest Charges	51,014	51,567	51,652
Income Before Income Taxes	93,256	21,584	92,251
Income taxes (Notes 2 and 3)	38,433	8,162	32,022
Net Income	54,823	13,422	60,229
Dividends on Preferred Stock	4,809	8,209	9,452
Earnings Applicable to Common Stock	$ 50,014	$ 5,213	$ 50,777
Weighted Average Number Of Shares Of Common Stock Outstanding	32,113,357	32,442,752	32,442,752
Earnings Per Share Of Common Stock (Basic and Diluted)	$1.56	$0.16	$1.57
Dividends Declared Per Share Of Common Stock	$0.675*	$0.90	$0.90

*1998 fourth quarter dividend of $0.225 per share was declared and paid in January 1999.

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

Central Maine Power Company and Subsidiaries
Consolidated Balance Sheet
December 31, 1998 and 1997
(Dollars in thousands)

ASSETS	1998	1997
Current Assets		
Cash and cash equivalents	$ 22,628	$ 20,841
Accounts receivable, less allowance for uncollectible accounts of $3,136 in 1998 and $2,400 in 1997		
Service - billed	81,082	84,323
- unbilled (Notes 1 and 3)	53,110	46,807
Other accounts receivable	12,698	15,247
Inventories, at average cost		
Fuel oil	5,879	5,390
Materials and supplies	12,755	11,779
Funds on deposit with trustee (Note 10)	1	61,694
Prepayments and other current assets	10,161	9,110
Total Current Assets	198,314	255,191
Electric Property, at original cost (Notes 9 and 10)	1,750,777	1,674,876
Less: Accumulated depreciation (Notes 1 and 9)	694,463	634,384
Net electric property in service	1,056,314	1,040,492
Construction work in progress (Note 4)	19,483	15,105
Nuclear fuel, less accumulated amortization of $9,316 in 1998 and $9,035 in 1997	1,147	1,157
Total net electric property	1,076,944	1,056,754
Investments In Associated Companies, at equity (Notes 1 and 9)	48,406	76,509
Total Net Electric Property and Investments in Associated Companies	1,125,350	1,133,263
Deferred Charges And Other Assets		
Recoverable costs of Seabrook 1 and abandoned projects, net (Note 1)	78,539	84,026
Yankee Atomic purchased-power contract (Note 9)	7,761	13,056
Connecticut Yankee purchased-power contract (Note 9)	29,913	36,877
Maine Yankee purchased-power contract (Note 9)	273,895	329,206
Regulatory assets - deferred taxes (Note 2)	235,451	236,632
Other deferred charges and other assets (Notes 1 and 3)	274,257	210,715
Deferred Charges and Other Assets, Net	899,816	910,512
Total Assets	$2,223,480	$2,298,966

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

Central Maine Power Company and Subsidiaries
Consolidated Balance Sheet
December 31, 1998 and 1997
(Dollars in thousands)

STOCKHOLDERS' EQUITY AND LIABILITIES	1998	1997
Current Liabilities and Interim Financing		
Interim financing (see separate statement) (Note 10)	$ 298,183	$ 238,000
Sinking-fund requirements (Note 10)	11,455	9,411
Accounts payable	93,012	97,080
Dividends payable	5	9,202
Accrued interest	7,491	11,201
Income taxes payable to parent company (Note 2)	20,822	3,001
Miscellaneous current liabilities	15,455	15,762
Total Current Liabilities and Interim Financing	446,423	383,657
Commitments and Contingencies (Notes 4 and 9)		
Reserves and Deferred Credits		
Accumulated deferred income taxes (Note 2)	372,243	350,912
Unamortized investment tax credits (Note 2)	29,064	30,533
Yankee Atomic purchased-power contract (Note 9)	7,761	13,056
Connecticut Yankee purchased-power contract (Note 9)	29,913	36,877
Maine Yankee purchased-power contract (Note 9)	273,895	329,206
Regulatory liabilities - deferred taxes (Note 2)	58,376	56,852
Other reserves and deferred credits (Note 5)	111,506	104,257
Total Reserves and Deferred Credits	882,758	921,693
Long-Term Debt (see separate statement) (Note 10)		
Mortgage debt	117,683	259,563
Other long-term obligations	226,151	141,360
Total Long-Term Obligations	343,834	400,923
Redeemable Preferred Stock	18,910	39,528
Stockholders' Equity (see separate statement) (Note 10)		
Common-stock	162,213	162,214
Other paid in capital	276,422	277,163
Reacquired common stock	(19,000)	-
Retained earnings	76,349	48,212
Preferred stock	35,571	65,571
Total Stockholders' Equity	531,555	553,165
Total Stockholders' Equity and Liabilities	$2,223,480	$2,298,966

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

Central Maine Power Company and Subsidiaries

CONSOLIDATED STATEMENT OF CAPITALIZATION AND INTERIM FINANCING

(Dollars in thousands)

	December 31			
	1998		1997	
	Amount	%	Amount	%
Capitalization (Note 10)				
Common-Stock Investment:				
Common stock, par value $5 per share:				
Authorized - 80,000,000 shares				
Outstanding - 31,211,471 shares in 1998 and 32,442,752 in 1997	$ 162,213		$ 162,214	
Other paid-in capital	276,422		277,168	
Reacquired common stock (1,231,081 shares)	(19,000)		-	
Retained earnings	76,349		48,212	
Total Common-Stock Investment	495,984	41.6%	487,594	39.6
Preferred Stock - not subject to mandatory redemption	35,571	3.0	65,571	5.3
Redeemable Preferred Stock - subject to mandatory redemption	27,910		46,528	
Less: current sinking fund requirements	9,000		7,000	
Redeemable Preferred Stock - subject to mandatory redemption	18,910	1.6	39,528	3.2
Long-Term Obligations:				
Mortgage bonds	118,717		421,000	
Less: unamortized debt discount	1,034		1,437	
Total Mortgage Bonds	117,683		419,563	
Total Medium-Term Notes	327,000		43,000	
Other Long-Term Obligations:				
Lease obligations	32,773		34,517	
Pollution-control facility and other notes	150,833		84,254	
Total Other Long-Term Obligations	183,606		118,771	
Less: Current Sinking Fund Requirements and Current Maturities	284,455		180,411	
Total Long-Term Obligations	343,834	28.8	400,923	32.6
Total Capitalization	894,299	75.0	993,616	80.7
Interim Financing (Note 10):				
Short-term obligations	15,000		60,000	
Current maturities of long-term obligations	283,183		178,000	
Total Interim Financing	298,183	25.0	238,000	19.3
Total Capitalization and Interim Financing	$1,192,482	100.0%	$1,231,616	100.0%

The accompanying notes are an integral part of these financial statements

Central Maine Power Company
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)

For the three years ended December 31, 1998

	Shares	Amount at par value	Other paid-in capital	Reacquired common stock	Retained earnings	Shares	Preferred Stock	Total
Balance - December 31, 1995	32,442,752	$162,214	$276,287	$	$ 51,504	655,713	$65,571	$555,576
Net income					60,229			60,229
Dividends declared:								
Common stock					(29,199)			(29,199)
Preferred stock					(9,452)			(9,452)
Reacquired preferred stock			536		(536)			-
Capital stock expense			(5)					(5)
Balance - December 31, 1996	32,442,752	162,214	276,818		72,546	655,713	65,571	577,149
Net income					13,422			13,422
Dividends declared:								
Common stock					(29,199)			(29,199)
Preferred stock					(8,209)			(8,209)
Reacquired preferred stock			348		(348)			-
Capital stock expense			2					2
Balance - December 31, 1997	32,442,752	162,214	277,168		48,212	655,713	65,571	553,165
Net income					54,823			54,823
Dividends declared:								
Common stock					(21,622)			(21,622)
Preferred stock					(4,809)			(4,809)
Common stock - Retired	(200)	(1)	(2)		(1)			(4)
Reacquired common stock	(1,231,081)			(19,000)				(19,000)
Preferred stock						(300,000)	(30,000)	(30,000)
Reacquired preferred stock			(771)		(254)			(1,025)
Capital stock expense			27					2
Balance - December 31, 1998	31,211,471	$162,213	$276,422	$(19,000)	$76,349	355,713	$35,571	$531,555

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

Central Maine Power Company

CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in thousands)

	Year ended December 31		
	1998	1997	1996
CASH FROM OPERATION			
Net income	$ 54,823	$ 13,422	$ 60,229
Items not requiring (not providing) cash:			
Depreciation	47,130	44,170	44,104
Amortization	38,868	34,291	34,881
Deferred income taxes and investment tax credits, net	19,653	(2,204)	3,318
Allowance for equity funds used during construction	(653)	(642)	(851)
Gain on sale of investments and properties	(9,545)	-	-
Changes in certain assets and liabilities:			
Accounts receivable	(513)	1,257	(3,565)
Other current assets	(1,051)	390	(308)
Inventories	(1,465)	4,259	(4,884)
Accounts payable	(7,764)	4,617	(16,862)
Accrued taxes and interest	14,111	2,856	(4,970)
Miscellaneous current liabilities	(307)	(5,580)	7,472
Deferred Ice storm costs	(52,433)	-	-
Deferred energy-management costs	(2,615)	(1,940)	(5,222)
Maine Yankee outage accrual	-	(10,350)	8,280
Purchased power contracts	(22,500)	-	(75)
Other, net	1,016	7,664	3,961
Net Cash Provided by Operating Activities	76,755	92,210	125,508
INVESTING ACTIVITIES			
Construction expenditures	(42,384)	(40,306)	(46,922)
Investments in loans to affiliates	(18,661)	(4,769)	(12,059)
Repayment of loan by affiliates	17,800	-	-
Sale of subsidiaries to CMP Group, Inc.	20,093	-	-
Proceeds from sale of investments and properties	10,347	-	-
Changes in accounts payable - investing activities	3,696	(734)	1,389
Net Cash Used by Investing Activities	(9,109)	(45,809)	(57,092)
FINANCING ACTIVITIES			
Issuances:			
Revolving credit agreement	50,000	52,500	7,500
Medium-term notes	302,000	-	10,000
Other long-term obligations		-	870
Short-term obligations, net	10,000	-	-
Redemptions:			
Mortgage bonds	(302,283)	-	(11,500)
Preferred stock	(48,618)	(14,000)	(14,000)
Medium-term notes	(18,000)	(25,000)	(34,000)
Finance Authority of Maine	(7,400)	(6,800)	(6,300)
Other long-term obligations	(3,602)	(645)	(1,780)
Short-term obligations, net	(55,000)	-	-
Funds on deposit with trustee	61,693	(2,182)	(29,593)
Treasury stock	(19,000)	-	-
Dividends:			
Common stock	(28,943)	(29,220)	(29,220)
Preferred stock	(6,706)	(8,520)	(9,763)
Net Cash Used by Financing Activities	(65,859)	(33,867)	(117,786)
Net Increase (Decrease) in Cash	1,787	12,534	(49,370)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20,841	8,307	57,677
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 22,628	$ 20,841	$ 8,307
Supplemental Cash-Flow Information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 50,251	$ 47,551	$ 47,835
Income taxes	$ 6,563	$ 7,105	$ 32,632

For purposes of the statement of cash flows, the Company considers all highly liquid instruments purchased having a maturity of three months or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

General Description

CMP Group was organized effective September 1, 1998, at which time all of the shares of Central Maine were converted into an equal number of shares of CMP Group. CMP Group owns all of the shares of Central Maine and the former non-utility subsidiaries of Central Maine (TeleSmart, MaineCom, CNEX and Union Water Power Company) in addition to New England Gas Development Corporation, a newly formed subsidiary.

Central Maine is a public utility primarily engaged in the sale of electric energy at the wholesale and retail levels to residential, commercial, industrial, and other classes of customers in the State of Maine.

Financial Statements

The consolidated financial statements include CMP Group and Central Maine, a regulated electric utility subsidiary of CMP Group. CMP Group's consolidated financial statements include the accounts of CMP Group and its wholly owned and controlled subsidiaries, including Central Maine. Central Maine's consolidated financial statements include its accounts as well as those of its wholly owned and controlled subsidiaries. Certain immaterial majority owned subsidiaries, which were previously accounted for on the equity method, have been consolidated for the year ended December 31, 1998. Central Maine's financial position and results of operations account for substantially all of CMP Group's consolidated financial position and results of operations. For all periods prior to September 1, 1998, the historical financial position and results of operations of CMP Group reflect the activity of Central Maine. All intercompany accounts and transactions have been eliminated in the consolidated financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-Based Compensation

CMP Group accounts for employee stock-based compensation in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation". This statement encourages companies to adopt a fair value approach to valuing stock options that would require compensation cost to be recognized based on the fair value of stock options granted. CMP Group has elected, as permitted by the standard, to continue to follow its intrinsic value based method of accounting for stock options consistent with APB Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic method, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the company's stock at the measurement date over the exercise price.

Earnings per Share

Stock options and performance shares granted to date under CMP Group's long-term incentive plan resulted in potential incremental shares of common stock outstanding for purposes of computing both basic and diluted earnings per share for the twelve months ending December 31, 1998. These incremental shares were not material in the periods presented and did not cause diluted earnings per share to differ from basic earnings per share.

Reclassification

Certain amounts from prior years financial statements have been reclassified to conform to the current year presentation.

Impact of New Accounting Standards

FAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" became effective for periods beginning after December 15, 1997. This pronouncement provides disclosure requirements as well as guidance for determining reportable segments. Based on the operating results regularly reviewed by the entities' chief operating decision-makers, CMP Group and Central Maine have determined that there are no material reportable segments.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivatives and Hedging Activities. The new standard applies to all entities and is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, with earlier adoption encouraged. It requires companies to record derivatives on the balance sheet at their fair value depending on the intended use of the derivative. Based on CMP Group and Central Maine's current business practices the adoption of this standard is not anticipated to have a significant impact on their financial statements.

Regulation

The rates, operations, accounting, and certain other practices of Central Maine and MEPCO are subject to the regulatory authority of the MPUC and the FERC.

Electric Operating Revenues

Electric operating revenues include amounts billed to customers and an estimate of unbilled sales, for services rendered but not yet billed.

Utility Plant

Utility plant is stated at original cost of construction. The costs of replacements of property units are capitalized. Maintenance and repairs and replacements of minor items are expensed as incurred. The original cost of property retired, net of salvage value, and the related costs of removal are charged to accumulated depreciation.

Central Maine and its subsidiaries utility plant in service as of December 31 was comprised as follows:

	1998	1997	Average Service Life*	Average Remaining Service Life 12/31/98
Generation	$ 535,550	$ 514,815	37.6 years	20.0 years
Transmission	282,677	250,109	41.6 years	24.2 years
Distribution	724,224	704,345	37.7 years	28.5 years
General	208,326	205,607	18.6 years	12.8 years
	$1,750,777	$1,674,876		

*Based on Central Maine's last depreciation represcription study as of December 31, 1992.

Depreciation

Depreciation of electric property is calculated using the straight-line method. The weighted average composite rate was 3.1 percent in 1998 and 3.0 percent in 1997 and 1996.

Allowance for Funds Used During Construction (AFC)

Central Maine and its subsidiaries capitalize AFC as part of construction costs. AFC represents the composite interest and equity costs of capital funds used to finance that portion of construction costs not yet eligible for inclusion in rate base. AFC is capitalized in "Utility plant" with offsetting noncash credits to "Other income" and "Interest." The composite AFC rates were 8.8 percent, 9.7 percent, and 8.7 percent in 1998, 1997, and 1996, respectively.

Deferred Charges and Other Assets

CMP Group defers and amortizes certain costs in a manner consistent with authorized or probable ratemaking treatment. CMP Group capitalizes carrying costs as a part of certain deferred charges, principally energy-management costs, and classifies such carrying costs as other income. The following table depicts the components of deferred charges and other assets at December 31, 1998, and 1997:

(Dollars in thousands)	1998	1997
NUG contract buy-outs and restructuring (Note 9)	$ 98,752	$ 92,946
1998 ice storm costs	52,433	-
Energy-management costs	28,418	31,995
Postretirement benefits (Note 5)	19,604	20,900
Financing costs	17,121	18,560
Environmental site clean-up costs (Note 4)	8,766	7,891
Non-operating property, net	7,427	7,624
Workers Compensation	4,650	5,350
Other	37,086	25,449

(Dollars in thousands)	1998	1997
Sub-Total Central Maine	274,257	210,715
CMP Group - Other	6,044	-
Total - CMP Group	$280,301	$210,715

Certain costs are being amortized and recovered in rates over periods ranging from three to 30 years. Amortization expense for the next five years is shown below:

(Dollars in thousands)	Amount
1999	$28,811
2000	27,664
2001	23,896
2002	22,749
2003	13,414

Recoverable Costs of Seabrook I and Abandoned Projects

The recoverable after-tax investments in Seabrook I and abandoned projects are reported as assets, pursuant to May 1985 and February 1991 MPUC rate orders. CMP Group is allowed a current return on these assets based on Central Maine's authorized rate of return. In accordance with these rate orders, the deferred taxes related to these recoverable costs are amortized over periods of four to 10 years. As of December 31, 1998, substantially all deferred taxes related to Seabrook I have been amortized. The recoverable investments as of December 31, 1998, and 1997 are as follows:

	December 31		Recovery
(Dollars in thousands)	1998	1997	periods ending
Recoverable costs of:			
Seabrook I	$141,084	$141,084	2015
Other Projects	57,491	57,491	2001
	198,575	198,575	
Less: accumulated amortization	119,861	114,035	
Less: related income taxes	175	514	
Total Net Recoverable Investment	$ 78,539	$ 84,026	

Note 2: Income Taxes

The components of federal and state income-tax provisions reflected in CMP Group's Consolidated Statement of Earnings are as follow:

	Year ended December 31		
(Dollars in thousands)	1998	1997	1996
Federal:			
Current	$17,640	$ 8,534	$21,682
Deferred	14,837	(5,922)	5,751
Investment tax credits, net	(1,469)	(1,455)	(464)

(Dollars in thousands)	Year ended December 31 1998	1997	1996
Regulatory deferred	2,054	5,3[illegible]	(623)
Total Federal Taxes	33,062	6,547	26,346
State:			
Current	$ 4,052	$ 1,831	$ 7,022
Deferred	3,933	(1,720)	(10)
Regulatory deferred	651	1,504	(1,336)
Total State Taxes	8,636	1,615	5,676
Total Federal and State Income Taxes	$41,698	$8,162	$32,022

Federal income tax, excluding federal regulatory deferred taxes, differs from the amount of tax computed by multiplying income before federal tax by the statutory federal rate. The following table reconciles the statutory federal rate to a rate determined by dividing the total federal income-tax expense by income before that expense:

	Year ended December 31 1998		1997		1996	
(Dollars in thousands)	Amount	%	Amount	%	Amount	%
Income tax expense at statutory federal rate	$30,090	35.0%	$ 6,990	35.0%	$30,301	35.0%
Permanent differences:						
Investment tax-credit amortization	(1,469)	(1.7)	(1,469)	(7.3)	(1,482)	(1.7)
Dividend-received deduction and equity in earnings (losses) of associated companies	2,077	2.5	(1,911)	(9.6)	(1,895)	(2.2)
Other, net	168	0.2	(80)	(.4)	(293)	(0.3)
	30,866	36.0	3,530	17.7	26,631	30.8
Effect of timing differences for items which receive flow through treatment:						
Tax-basis repairs	(559)	(0.7)	(1,020)	(5.1)	(1,229)	(1.4)
Depreciation differences flowed through in prior years	3,127	3.6	2,923	14.6	2,327	2.7
Accelerated flowback of deferred taxes on loss on abandoned generating projects	1,700	2.0	1,700	8.5	1,708	1.9
Benefits related to Section 1245 Losses	(1,210)	(1.4)	(1,818)	(9.1)	-	-
IRS audit resolution regarding depreciation methods	-	-	852	4.3	(3,230)	(3.7)
Loss on Reacquired Debt	436	0.5	540	2.7	537	0.6
Flowback of Excess Federal						

	Year ended December 31					
	1998		1997		1996	
	Amount	%	Amount	%	Amount	%
Deferred Taxes due to TRA86	(1,129)	(1.3)	(1,005)	(5.0)	(520)	(0.6)
Other, net	(169)	(0.2)	845	4.2	122	0.1
Federal Income Tax Expense and Effective Rate	$33,062	38.5	$6,547	32.8%	$26,346	30.4%

CMP Group and Central Maine record deferred income-tax expense in accordance with regulatory authority; it also defers investment and energy tax credits and amortizes them over the estimated lives of the assets that generated the credits.

A valuation allowance has not been recorded at December 31, 1998, and 1997, as CMP Group expects that all deferred income tax assets will be realized in the future.

Accumulated deferred income taxes consisted of the following in 1998 and 1997:

(Dollars in thousands)	1998	1997
Deferred tax assets resulting from:		
Investment tax credits, net	$ 20,034	$ 21,047
Regulatory liabilities	29,081	25,188
Alternative minimum tax	6,135	6,053
All other	35,073	27,072
	90,323	79,360
Deferred tax liabilities resulting from:		
Property	300,996	295,293
Abandoned plant	54,138	57,921
Regulatory assets	111,407	77,572
	466,541	430,786
Accumulated deferred income taxes, end of year, net	$376,218	$351,426
Accumulated deferred income taxes, recorded as:		
Accumulated deferred income taxes	$376,043	$350,912
Recoverable costs of Seabrook 1 and abandoned projects, net	175	514
	$376,218	$351,426

Note 3: Regulatory Matters

Alternative Rate Plan

On January 1, 1995, Central Maine's ARP was put into effect. Instead of rate changes based on the level of costs incurred and capital investments, the ARP provides for one annual adjustment of an inflation-based cap on each of Central Maine's rates, with no separate reconciliation and recovery of fuel and purchased-power costs. Under the ARP, the MPUC is continuing to regulate Central Maine's operations and prices, provide for continued recovery of deferred costs, and specify a range for its rate of return. The MPUC confirmed in its order approving the ARP that the ARP is intended to comply with the provisions of Statement of Financial

Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." As a result, Central Maine will continue to apply the provisions of SFAS No. 71 to its accounting transactions and its future financial statements. See "Meeting the Requirements of SFAS No. 71," below.

The ARP contains a mechanism that provides price-caps on Central Maine's retail rates to be adjusted annually on each July 1, commencing in 1995, by a percentage combining (1) a price index, (2) a productivity offset, (3) a sharing mechanism, and (4) flow-through items and mandated costs. The price cap applies to all of Central Maine's retail rates, and includes fuel and purchased power costs that previously had been treated separately. Under the ARP, fuel expense is no longer subject to reconciliation or specific rate recovery, but is subject to the annual indexed price-cap changes.

A specified standard inflation index is the basis for each annual price-cap change. The inflation index is reduced by the sum of two productivity factors, a general productivity offset of 1.0%, and a second formula-based offset that started in 1996 and was intended to reflect the limited effect of inflation on Central Maine's purchased-power costs during the proposed five-year initial term of the ARP.

The sharing mechanism may adjust the subsequent year's July price-cap change in the event Central Maine's earnings are outside a range of 350 basis points above or below Central Maine's allowed return on equity (starting at the 10.55% allowed return in 1995) and indexed annually for changes in capital costs. Outside that range, profits and losses could be shared equally by Central Maine and its customers in computing the price-cap adjustment. The ROE used for earnings sharing is scheduled to be increased to 11.5% effective with the July 1999 price change.

The ARP also provides for partial flow-through to ratepayers of cost savings from non-utility generator contract buy-outs and restructuring, recovery of energy-management costs, and penalties for failure to attain customer-service and energy-efficiency targets. The ARP also generally defines mandated costs that would be recoverable by Central Maine notwithstanding the index-based price cap. To receive such treatment, the annual revenue requirement related to a mandated cost must exceed $3 million and have a disproportionate effect on Central Maine or the electric-power industry.

On May 13, 1998, Central Maine submitted its 1998 ARP compliance filing to the MPUC. In keeping with its pledge of limiting increases to the inflation index, Central Maine voluntarily limited its request to 1.78%, which was the inflation rate for 1997 under the ARP. Central Maine also proposed a rate reduction of approximately ten percent contingent on the consummation of, and ratemaking associated with, Central Maine's planned sale of generating assets. The filing also reported information on the costs of restoring service to Central Maine's customers after the January 1998 ice storm, as required by the earlier MPUC order allowing Central Maine to defer those costs. Effective July 11, 1998, the MPUC approved a stipulated 1.33% increase. The amount of the increase remains subject to change, based on the outcome of the pending FERC proceeding related to the permanent shutdown of the Maine Yankee plant. Depending on FERC's decision, the price increase could increase or decrease, ranging from a ceiling of 1.78% to a floor of 0.22%. However, the Offer of Settlement pending before the FERC in Maine Yankee's rate case, which has been approved by the MPUC, provides that the 1998 ARP increase will not be adjusted.

The components of the last three ARP price increases approved by the MPUC are as follows:

	1998	1997	1996
Inflation Index	1.78%	2.12%	2.55%
Productivity Offset	(1.00)	(1.00)	(1.00)
Qualifying Facility Offset	(.29)	(.42)	-
Earnings Sharing	1.12	-	.32
Flowthrough and Mandated Items	(.28)	.40	(.61)
	1.33%	1.10%	1.26%

Electric-Utility Industry Restructuring

Stranded Costs - The enactment by Congress of the Energy Policy Act of 1992 accelerated planning by electric utilities, including Central Maine, for a transition to a more competitive industry. In Maine, legislation that will restructure the electric-utility industry on March 1, 2000, was enacted by the Maine Legislature in May 1997, and is discussed in detail under this heading below. Such departure from traditional regulation, however, could have a substantial impact on the value of utility assets and on the ability of electric utilities to recover their costs through rates. In the absence of full recovery, utilities would find their above-market costs to be "stranded", or unrecoverable, in the new competitive setting.

Central Maine has substantial exposure to cost stranding relative to its size. In general, its stranded costs reflect the excess costs of Central Maine's purchased-power obligations over the market value of the power, and the costs of deferred charges and other regulatory assets. The major portion of Central Maine's stranded costs is related to above-market costs of purchased-power obligations arising from Central Maine's long-term, noncancelable contracts for the purchase of capacity and energy from NUGs, with lesser estimated amounts related to Central Maine's deferred regulatory assets.

There is a high degree of uncertainty that surrounds stranded-cost estimates, resulting from having to rely on projections and assumptions about future conditions, including, among others, estimates of the future market for power. Higher market rates lower stranded-cost exposure, while lower market rates increase it. In addition to market-related impacts, any estimate of the ultimate level of stranded costs depends on such factors as state and federal regulations, the extent, timing and form that competition for electric service will take, the ongoing level of Central Maine's costs of operations; regional and national economic conditions, growth of Central Maine's sales, the timing of any changes that may occur from state and federal initiatives on restructuring; and the extent to which regulatory policies and decisions ultimately address recovery of strandable costs including the application of value from the sale of Central Maine's generating assets.

The estimated market rate for power is based on anticipated regional market conditions and future costs of producing power. The present value of future purchased-power obligations and Central Maine's generating costs reflects the underlying costs of those sources of generation in place today, with reductions for contract expirations and continuing depreciation. Deferred regulatory-asset totals include the current uncollected balances and existing amortization schedules for purchased-power contract

restructuring and buyouts negotiated by Central Maine to lessen the impact of these obligations, along with energy management costs, financing costs, and other regulatory commitments.

Maine Restructuring Legislation - The 1997 Maine restructuring legislation requires the MPUC, when retail access to generation begins on March 1, 2000, to provide a "reasonable opportunity" to recover stranded costs through the rates of the transmission-and-distribution company, comparable to the utility's opportunity to recover stranded costs before the implementation of retail access under the legislation. Stranded costs are defined as the legitimate, verifiable and unmitigable costs made unrecoverable as a result of the restructuring required by the legislation and will be determined by the MPUC as provided in the legislation. The MPUC has been conducting separate adjudicatory proceedings to determine the stranded costs for each Maine utility, along with the corresponding revenue requirements and stranded-cost charges to be charged by each transmission-and-distribution utility. The first phase of the Central Maine proceeding was completed in early 1999 and is discussed in this note under the heading "MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design," below.

In addition, the legislation requires utilities to use all reasonable means to reduce their potential stranded costs and to maximize the value from generation assets and contracts. The MPUC must consider a utility's efforts to mitigate its stranded costs in determining the amount of the utility's stranded costs. Stranded costs and the related rates charged to customers will be prospectively adjusted as necessary to correct substantial inaccuracies in the year 2003 and at least every three years thereafter.

The principal restructuring provisions of the legislation provide for customers to have direct retail access to generation services and for deregulation of competitive electric providers, commencing March 1, 2000, with transmission-and-distribution companies continuing to be regulated by the MPUC. By that date, subject to possible extensions of time granted by the MPUC to improve the sale value of generation assets, investor-owned utilities are required to divest all generation assets and generation-related business activities, with two major exceptions: (1) non-utility generator contracts with qualifying facilities and contracts with demand-side management or conservation providers, brokers or hosts, and (2) ownership interests in nuclear power plants. However, the MPUC can require the Company to divest its interest in Maine Yankee Atomic Power Company on or after January 1, 2009. As discussed below under "Agreement for Sale of Generating Assets," Central Maine has contracted to sell its non-nuclear generating assets and, after a favorable court decision, is proceeding toward a completion of the sale by April 7, 1999. The legislation also requires investor-owned utilities, after February 29, 2000, to sell their rights to the capacity and energy from all generation assets, including the purchased-power contracts that had not previously been divested pursuant to the legislation, with certain immaterial exceptions.

Upon the commencement of retail access on March 1, 2000, Central Maine, as a transmission-and-distribution utility, will be prohibited from selling electric energy to retail customers. Any competitive electricity provider that is affiliated with Central Maine would be allowed to sell electricity outside Central Maine's service territory without limitation as to amount, but within Central Maine's service territory the affiliate would be limited to providing not more than 33 percent of the total kilowatt-hours sold within Central Maine's service territory, as determined by the MPUC. CMP Group does not now intend to engage in the sale of electric energy after March 1, 2000.

Other features of the legislation include the following:

(a) After the effective date of the legislation, if an entity purchases 10 percent or more of the stock of a distribution utility, including Central Maine, the purchasing entity and any related entity would be prohibited from selling generation service to any retail customer in Maine.

(b) The legislation encourages the generation of electricity from renewable resources by requiring competitive providers, as a condition of licensing, to demonstrate to the MPUC that no less than 30 percent of their portfolios of supply sources for retail sales in Maine are accounted for by renewable resources.

(c) The legislation requires the MPUC to ensure that standard-offer service is available to all consumers, but any competitive provider affiliated with Central Maine would be limited to providing such service for only up to 20 percent of the electric load in Central Maine's service territory.

(d) Beginning March 1, 2002, or, by MPUC rule, as early as March 1, 2000, the providing of billing and metering services will be subject to competition.

(e) A customer who significantly reduces or eliminates consumption of electricity due to self-generation, conversion to an alternative fuel, or demand-side management may not be assessed an exit fee or re-entry fee in any form for such reduction or elimination of consumption or for the re-establishment of service with a transmission-and-distribution utility.

(f) Finally, the legislation provides for programs for low-income assistance, energy conservation research and development on renewable resources, assistance for utility employees laid off as a result of the legislation, and recovery of nuclear-plant decommissioning costs "[a]s required by federal law, rule or order", all funded through transmission-and-distribution utility rates and charges.

Legislative bills that would amend certain provisions of the 1997 legislation have been submitted to the 1999 legislative session of the Maine Legislature. CMP Group and Central Maine cannot predict whether any changes to the 1997 legislation will be enacted.

MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design. - As noted above, the MPUC has completed the first phase of the proceeding contemplated by Maine's restructuring legislation that will ultimately determine the recovery of Central Maine's stranded costs, its revenue requirements, and the design of its rates to be effective when Central Maine becomes a transmission-and-distribution utility at the time retail access to generation begins in Maine on March 1, 2000. On December 23, 1998, the MPUC Hearing Examiners in the proceeding issued their report, in the form of a recommended decision. Central Maine disagreed with a number of the individual recommendations in the stranded-costs and revenue-requirements areas and filed exceptions to those recommendations. The MPUC deliberated the recommendations on February 10 and 11, 1999, indicated disagreement with some of the recommendations, and issued its written order on March 19, 1999.

The MPUC stressed in its order that it was deciding the "principles" by which it would set Central Maine's transmission-and-distribution rates, effective March 1, 2000, but was not calculating the rates themselves because such calculations at that time would rely excessively on estimates. The MPUC pointed out that it would hold a "Phase II" hearing to set the actual rates and determine the recoverable stranded costs after processing information expected to become available during 1999.

With respect to stranded costs, the MPUC indicated that it would set the amount of recoverable stranded costs for Central Maine later in the proceeding pursuant to its mandate under the restructuring statute to provide

transmission-and-distribution utilities a reasonable opportunity to recover such costs that is equivalent to the utility's opportunity to recover these costs prior to the commencement of retail access. The MPUC also reviewed the prescribed methodology for determining the amount of a utility's stranded costs, including among other factors the application of excess value from divested generation assets to offset stranded costs. At the beginning of the proceeding Central Maine had estimated its total stranded costs to be approximately $1.3 billion.

In the area of revenue requirements, the Phase I order did not include definitive amounts, but did contain the MPUC's conclusions as to the appropriate cost of common equity for Central Maine as a transmission-and-distribution company beginning March 1, 2000. Central Maine had recommended a 12-percent cost of common equity with a 55-percent common equity component in the capital structure. The MPUC, after weighing conflicting recommendations, decided on a common-equity cost of 10.50 percent with a common-equity component of 47 percent, and an overall weighted-average cost of capital of 8.68 percent.

In dealing with rate design, the MPUC limited itself in the first phase of the proceeding primarily to establishing principles that would guide it in designing Central Maine's rates to be effective March 1, 2000. The MPUC indicated that it would focus on (1) facilitating the transition to a competitive market for generation, and (2) implementing a "no-losers" policy, i.e., that the new rate design would cause no Central Maine customer's bill to increase on March 1, 2000. Applying the latter principle, the MPUC rejected a newly designed standby rate for self-generators proposed by Central Maine in favor of a design generally similar to Central Maine's current rate for the class. The MPUC stated that it planned to undertake a comprehensive rate design and alternative rate plan proceeding for Central Maine prior to March 1, 2002, when it could consider experience gained with the cost structures of other transmission-and-distribution utilities after the commencement of retail access to generation.

The Phase I order resulted from an extended proceeding with many points of view represented and covers a wide variety of rate-related subjects. Definitive findings by the MPUC in a number of the subject areas await the second phase of the proceeding, which must be completed before March 1, 2000. CMP Group and Central Maine cannot predict the definitive amount of stranded costs the MPUC will determine that Central Maine will be entitled to recover pursuant to the mandate of the restructuring statute, or the revenue requirements and rate design that will result from Phase II of the MPUC proceeding.

Agreement for Sale of Generation Assets

On January 6, 1998, Central Maine announced that it had reached agreement to sell all of its hydro, fossil and biomass power plants with a combined generating capacity of 1,185 megawatts for $846 million in cash, including approximately $18 million for assets of Union Water, to Florida-based FPL Group. The related book value for these assets was approximately $ 218.9 million at December 31, 1998. In addition, as part of its agreement with FPL Group, Central Maine entered into energy buy-back agreements to assist in fulfilling its obligation to supply its customers with power until March 1, 2000. Subsequently, an agreement was reached to sell related storage facilities to FPL Group for an additional $3.6 million ($1.5 million for the assets and $2.1 million for lease revenue associated with the properties that CMP will retain), including $1.15 million for Union Water assets. The related book value of these assets was approximately $11.9 million at December 31, 1998.

Central Maine's interests in the power entitlements from approximately 50 power-purchase agreements with non-utility generators representing approximately 488 megawatts, its 2.5-percent interest in the Millstone Unit No. 3 nuclear generating unit in Waterford, Connecticut, its 3.59-percent interest in the output of the Vermont Yankee nuclear generating plant in Vernon, Vermont, and its entitlement in the NEPOOL Phase II interconnection with Hydro-Quebec all attracted insufficient interest to be included in the pending sale. Central Maine will continue to seek buyers for those assets. Central Maine did not offer for sale its interests in the Maine Yankee (Wiscasset, Maine), Connecticut Yankee (Haddam, Connecticut) and Yankee Atomic (Rowe, Massachusetts) nuclear generating plants, all of which are in the process of being decommissioned.

Substantially all of the generating assets included in the sale are subject to the lien of Central Maine's General and Refunding Mortgage Indenture dated as of April 15, 1976 (the "Indenture"). Therefore, substantially all of the proceeds from sale must be deposited initially with the trustee under the Indenture at the closing of the sale to free the generating assets from the lien of the Indenture. Central Maine plans to use some of the proceeds on deposit with the trustee to redeem or repurchase bonds under the terms of the Indenture, and may discharge the Indenture. In addition, the proceeds could provide the flexibility to redeem or repurchase outstanding equity securities. Central Maine must also provide for payment of applicable taxes resulting from the sale. The manner and timing of the ultimate application of the sale proceeds after closing are in any event subject to various factors, including Indenture provisions, regulatory requirements, market conditions and terms of outstanding securities.

On November 17, 1998, FPL Group announced that its subsidiary, FPL Energy Maine, Inc. ("FPL Energy") had filed a civil action in the United States District Court for the Southern District of New York requesting a declaratory judgment that Central Maine could not meet essential terms of the January agreement. FPL Group asserted that based on October 1998 FERC rulings on transmission access, as well as other issues, it believed that Central Maine could not comply with the conditions in the purchase contract and that FPL Energy should not be bound to complete the transaction.

FPL Energy contended in its complaint that the FERC rulings (1) constituted a material adverse effect under the purchase agreement and substantially lessened the value of Central Maine's generating assets, and (2) precluded Central Maine from obtaining all federal, state and local consents and approvals required for the ownership, operation and maintenance of the generating assets in a manner substantially consistent with Central Maine's historical ownership, operation, and maintenance thereof, as required by the purchase agreement. In addition, FPL Energy asserted that the FERC rulings limited the ability of the prospective buyer to get power from the Central Maine generating assets to market unconstrained by transmission limitations resulting from new generators being added to the NEPOOL system, and therefore, based on the doctrine of frustration of purpose, FPL Energy should be "excused without further obligation or liability from effecting the purchase of [Central Maine's] generating assets." Central Maine, FPL Energy, NEPOOL, and other parties interested in New England transmission-access issues requested rehearing of the FERC rulings.

On November 23, 1998, the MPUC granted its approval of the sale to FPL Energy of the generating assets contemplated by the purchase agreement, finding the sale to be in the public interest. The MPUC also made the findings required as a prerequisite to a FERC designation of the generating facilities as "exempt wholesale generators," which had been requested by FPL Energy.

On November 24, 1998, the FERC approved the sale of the Central Maine generating assets to FPL Energy, after making the required finding that the sale was consistent with the public interest, and accepted certain implementing agreements for filing. In discussing an issue raised by an intervenor the FERC stated that by purchasing the generating assets FPL Energy would be "stepping into the shoes of Central Maine" with respect to access to the Central Maine and NEPOOL transmission system, but did not disturb the earlier transmission-access rulings. The FERC granted its approval of the transfer of hydroelectric and water storage licenses on December 28, 1998, the approval by FERC of exempt-wholesale-generator status for the generating facilities, was granted on February 24, 1999.

On March 11, 1999, the hearing on FPL Energy's request for a declaratory judgment was held in the United States District Court for the Southern District of New York. On the same day the presiding judge ruled that FPL Energy was not entitled to the declaratory judgment and entered judgment for Central Maine and its affiliated defendants on all counts of the complaint. Thereafter on that day FPL Energy announced that it would not appeal the decision, but would proceed to a closing of the sale on or before April 7, 1999, as required by the sale agreement, and the parties are preparing for the closing.

Storm Damage to Central Maine's System

On January 7 through 9, 1998, an ice storm of unprecedented breadth and severity struck Central Maine's service territory, causing power outages for approximately 280,000 of Central Maine's 528,000 customers, and substantial widespread damage to Central Maine's transmission and distribution system. To restore its electrical system, Central Maine supplemented its own crews with utility and tree-service crews from throughout the northeastern United States and the Canadian maritime provinces, with assistance from the Maine national guard. Central Maine's incremental non-capital costs of the repair effort were $50.7 million, most of which is labor-related. In addition, approximately $1.7 million of carrying costs have been deferred as of December 31, 1998.

On January 15, 1998, the MPUC issued an order allowing Central Maine to defer on its books the incremental non-capital costs associated with Central Maine's efforts to restore service in response to the damage resulting from the storm. The order required Central Maine, as part of its annual filing under the ARP, to file information on the amounts deferred under the order and to submit a proposal as to how the costs associated with the order should be recovered under the ARP. In the 1998 ARP filing Central Maine stated that once the final cost of the storm was determined and the status of federal assistance was finalized Central Maine would propose a plan for recovery of its costs. Based on the MPUC order, Central Maine has deferred $52.4 million in storm related costs as of December 31, 1998. In October 1998, the MPUC staff issued its draft report of its summary investigation of the Maine utilities' response to the January ice storm. This report found no basis for formal adjudicatory investigation into the response and supports the utilities' actions. On May 1, 1998, President Clinton signed a Congressional appropriation bill that included $130 million for Presidentially declared disasters in 1998, including storm-damage cost reimbursement for electric utilities. On November 5, 1998 the United States Department of Housing and Urban Development ("HUD") announced that of those funds, $2.2 million had been awarded to Maine, with none designated for utility infrastructure, which Central Maine and the Maine Congressional delegation protested as inadequate and inconsistent with Congressional intent. On March 10, 1999, HUD published a notice in the Federal Register inviting parties to re-apply for storm-damage cost reimbursement. Central Maine cannot predict what portion of its ice storm-related costs it will ultimately recover through federal assistance, if any, or from its customers, or when any such recovery will take place.

Meeting the Requirements of SFAS No. 71

Central Maine continues to meet the requirements of SFAS No. 71. The standard provides specialized accounting for regulated enterprises, which requires recognition of "regulatory" assets and liabilities that enterprises in general could not record. Examples of regulatory assets include deferred income taxes associated with previously flowed through items, NUG buyout costs, losses on abandoned plants, deferral of postemployment benefit costs, and losses on debt refinancing. If an entity no longer meets the requirements of SFAS No. 71, then regulatory assets and liabilities must be written off.

The ARP provides incentive-based rates intended to recover the cost of service plus a rate of return on Central Maine's investment together with a sharing of the costs or earnings between ratepayers and the shareholders should the earnings be less than or exceed a target rate of return. Central Maine has received recognition from the MPUC that the rates implemented as a result of the ARP continue to provide specific recovery of costs deferred in prior periods.

The 1997 legislation enacted in Maine providing for industry restructuring specifically addressed the issue of cost recovery of regulatory assets stranded as a result of industry restructuring. Specifically, the legislation requires the MPUC, when retail access begins, to provide a "reasonable opportunity" for the recovery of stranded costs through the rates of the transmission-and-distribution company, comparable to the utility's opportunity to recover stranded costs before the implementation of retail access under the legislation. As provided for in EITF 97-4, "Deregulation of the Pricing of Electricity," Central Maine will continue to record regulatory assets in a manner consistent with SFAS No. 71 as long as future recovery is probable, since the Maine legislation provides the opportunity to recover regulatory assets including stranded costs through the rates of the transmission-and-distribution company. Central Maine anticipates that once a detailed plan for deregulation of generation is known, the application of SFAS No. 71 to the unregulated generation segment will no longer apply and Central Maine will be required to discontinue SFAS No. 71 for any remaining generation segment of its business. Central Maine further anticipates, based on current generally accepted accounting principles, that SFAS No. 71 will continue to apply to the regulated distribution and transmission segments of its business. Future regulatory rules or other circumstances could cause the application of SFAS No. 71 to be discontinued, which could result in a non-cash write-off of previously established regulatory assets.

Note 4: Commitments and Contingencies

Construction Program

Central Maine's plans for improving and expanding generating, transmission, distribution facilities, and power-supply sources are under continuing review. Actual construction expenditures will depend upon the availability of capital and other resources, load forecasts, customer growth, and general business

conditions. Central Maine's current forecast of capital expenditures, assuming completion of the generation asset sale in the spring of 1999, for the five-year period 1999 through 2003, is as follows:

(Dollars in millions)	1999	2000-2003	Total
Type of Facilities:			
Generating projects	$ 3	$ -	$ 3
Transmission	3	22	25
Distribution	32	132	164
General facilities and other	18	74	92
Total Estimated Capital Expenditures	$56	$228	$284

Customer Retention

Central Maine entered into five-year definitive agreements with 18 customers that lock-in non-cumulative rate reductions of 15% for the three years 1995 through 1997, 16% for 1998, and 18% for 1999, below the December 1, 1994, levels. These contracts also protect these customers from price increases that might otherwise be allowed under the ARP. The participating customers agreed to take electrical service from Central Maine for five years and not to switch fuels, install new self-generation equipment, or seek another supplier of electricity for existing electrical load during that period. New electrical load in excess of a stated minimum level could be served by other sources, but Central Maine could compete for that load.

Central Maine believes that without offering the competitive pricing provided in the agreements, a number of these customers would be likely to install additional self-generation or take other steps to decrease their electricity purchases from Central Maine. The revenue loss from such a usage shift could have been substantial.

Central Maine estimates that based on the rate reductions provided in these agreements, its gross revenues were approximately $45 million lower in 1996, approximately $65 million lower in 1997 and approximately $62 million lower in 1998, than would have been the case if these customers continued to pay full retail rates without reducing their purchases from the Company.

However, these rate reductions were negotiated giving consideration to important related cost savings. Electricity price changes affect the cost of some NUG power contracts. The reduction in rates to large customers reduced purchased-power costs by approximately $22 million as a result of linkage between retail tariffs and some contract prices.

Operating Lease Obligations

Central Maine has a number of operating-lease agreements primarily involving computer and other office equipment, land, and telecommunications equipment. These leases are noncancelable and expire on various dates through 2007.

Following is a schedule by year of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1998:

(Dollars in thousands)	Amount
1999	$ 5,605
2000	5,033
2001	4,330
2002	4,257
2003	4,238
Thereafter	1,070
	$24,533

Rent expense under all operating leases was approximately $6.3 million, $6.1 million, and $5 million for the years ended December 31, 1998, 1997 and 1996, respectively.

Legal and Environmental Matters

Central Maine and certain of its affiliates are subject to regulation by federal and state authorities with respect to air and water quality, the handling and disposal of toxic substances and hazardous and solid wastes, and the handling and use of chemical products. Electric utility companies generally use or generate in their operations a range of potentially hazardous products and by-products that are the focus of such regulation. Central Maine believes that its current practices and operations are in compliance with all existing environmental laws except for such non-compliance as would not have a material adverse effect on Central Maine's financial position. Central Maine reviews its overall compliance and measures the liability quarterly by assessing a range of reasonably likely costs for each identified site using currently available information, including existing technology, presently enacted laws and regulations, experience gained at similar sites, and the probable level of involvement and financial condition of other potentially responsible parties. These estimates include costs for site investigations, remediation, operation and maintenance, monitoring and site closure.

New and changing environmental requirements could hinder the construction and/or modification of generating units, transmission and distribution lines, substations and other facilities, and could raise operating costs significantly. As a result, Central Maine may incur significant additional environmental costs, greater than amounts reserved, in connection with the generation and transmission of electricity and the storage, transportation and disposal of by-products and wastes. Central Maine may also encounter significantly increased costs to remedy the environmental effects of prior waste handling activities. The cumulative long-term cost impact of increasingly stringent environmental requirements cannot accurately be estimated.

Central Maine has recorded a liability, based upon currently available information, for what it believes are the estimated environmental remediation costs that it expects to incur for identified waste disposal sites. In most cases, additional future environmental cleanup costs are not reasonably estimable due to a number of factors, including the unknown magnitude of possible contamination, the appropriate remediation methods, the possible effects of future legislation or regulation and the possible effects of technological changes. Central Maine cannot predict the schedule or scope of remediation due to the regulatory process

and involvement of non-governmental parties. At December 31, 1998, the liability recorded by Central Maine for its estimated environmental remediation costs amounted to $1.9 million, which management has determined to be the most probable amount within the range of $1.9 million to $8.6 million. Such costs may be higher if Central Maine is found to be responsible for cleanup costs at additional sites or identifiable possible outcomes change.

Proposed Federal Income Tax Adjustments - On September 3, 1997, Central Maine received from the Internal Revenue Service ("IRS") a Revenue Agent's Report summarizing all adjustments proposed by the IRS as a result of its audit of Central Maine's federal income tax returns for the years 1992 through 1994, and on September 12, 1997, Central Maine received a notice of deficiency relating to the proposed disallowances. There are two significant disallowances among those proposed by the IRS. The first is a disallowance of Central Maine's write-off of the under-collected balance of fuel and purchased-power costs and the unrecovered balance of its unbilled Electric Revenue Adjustment Mechanism ("ERAM") revenues, both as of December 31, 1994, which were charged to income in 1994 in connection with the adoption of the Alternative Rate Plan ("ARP") effective January 1, 1995. The second major adjustment would disallow Central Maine's 1994 deduction of the cost of the buyout of the Fairfield Energy Venture purchased-power contract by Central Maine in 1994. The aggregate tax impact, including both federal and state taxes, of the unresolved issues amounts to approximately $39.0 million, over 90 percent of which is associated with the two major disallowances. The two major disallowances relate largely to the timing of the deductions and would not affect income except for the cumulative interest impact which, through December 31, 1998, amounted to $18.8 million, or a decrease in net income of $11.1 million, and which could increase interest expense by approximately $500,000 per month until either the tax deficiency is paid or the issues are resolved in favor of Central Maine, in which case no interest would be due. If the IRS were to prevail, Central Maine believes the deductions would be amortized over periods of up to twenty, post-1994, tax years. Central Maine believes its tax treatment of the unresolved issues was proper and as a result the potential interest has not been accrued. On December 10, 1997, Central Maine filed a petition in the United States Tax Court contesting the entire amount of the deficiencies and sought review of the asserted deficiencies by an IRS Appeals Officer to determine whether all or part of the dispute could be resolved in advance of a court determination. As of March 17, 1999, four of the seven issues in dispute had been resolved, but not the two major disallowances. Central Maine will continue to work toward resolving the remaining issues, but a trial may be necessary for one or more of those issues. Absent such a resolution, Central Maine plans to pursue vigorously the Tax Court litigation, but cannot predict the result.

Nuclear Insurance

The Price-Anderson Act is a federal statute providing, among other things, a limit on the maximum liability for damages resulting from a nuclear incident. Coverage for the liability is provided for by existing private insurance and retrospective assessments for costs in excess of those covered by insurance, up to $88.095 million for each reactor owned, with a maximum assessment of $10 million per reactor in any year. However, after appropriate exemptive action by the NRC Maine Yankee, and therefore its sponsors, are not responsible for retrospective assessments resulting from any event or incident occurring after January 7, 1999. Based on Central Maine's stock ownership in four nuclear generating facilities and its 2.5 percent direct ownership interest in the Millstone 3 nuclear unit, Central Maine's retrospective premium for post-January 7, 1999, events or incidents could be as high as $6 million in any year, for a cumulative total of $52.9 million.

In addition to the insurance required by the Price-Anderson Act, the nuclear generating facilities mentioned above carry additional nuclear property-damage insurance. This additional insurance is provided from commercial sources and from the nuclear electric utility industry's insurance company through a combination of current premiums and retrospective premium adjustments. In recognition of the reduced risk posed by the shutdown of the Maine Yankee Plant and its defueled reactor, Maine Yankee substantially reduced its property-damage coverage effective January 19, 1999.

Joint Venture

CMP Group and Energy East, through subsidiaries, have entered into a joint-venture agreement to distribute natural gas to many Maine communities that are not now served with that fuel. On July 24, 1998, the MPUC authorized the provision of such service by the joint venture. CMP Group's level of investment is dependent on the overall economic feasibility of natural gas as a competitive energy option in Maine, a sufficient expression of customer interest in gas service from CMP Natural Gas, and the prospects for achieving an acceptable return on investment. CMP Natural Gas, L.L.C., which is owned equally by subsidiaries of CMP Group and Energy East, is positioning itself to offer gas in the Augusta and Bangor areas, and in other communities including Bath, Bethel, Brunswick, Windham, Rumford, and Waterville.

Note 5: Pension and Other Benefits

Pension Benefits

CMP Group has two separate non-contributory, defined-benefit plans that cover substantially all of its union and non-union employees. CMP Group funding policy is to contribute amounts to the separate plans that are sufficient to meet the funding requirements set forth in the Employee Retirement Income Security Act (ERISA), plus such additional amounts as CMP Group may determine to be appropriate. Plan benefits under the non-union retirement plan are based on average final earnings, as defined within the plan, and length of employee service; benefits under the union plan are based on average career earnings and length of employee service.

A summary of the components of net periodic pension cost for the non-union and union defined-benefit plans in 1998, 1997 and 1996 follows:

	1998		1997		1996	
(Dollars in thousands)	Non-union	Union	Non-union	Union	Non-union	Union
Service cost	$2,791	$1,969	$2,375	$1,694	$2,334	$1,780
Interest cost	6,170	4,170	5,727	3,973	5,225	3,852
Expected return on plan assets	(6,364)	(3,987)	(5,734)	(3,519)	(5,441)	(3,359)

(Dollars in thousands)	1998 Non-union	1998 Union	1997 Non-union	1997 Union	1996 Non-union	1996 Union
Amortization on unrecognized transition (asset)/obligation	29	(270)	29	(270)	29	(270)
Amortization of unrecognized prior service cost	155	129	155	129	155	129
Amortization of unrecognized (gain)/ loss	-	-	(14)	-	-	-
Net periodic pension cost	$2,781	$2,011	$2,538	$2,007	$2,302	$2,132

Assumptions used in accounting for the non-union and union defined-benefit plans in 1998, 1997 and 1996 are as follows:

	1998	1997	1996
Weighted average discount rate	6.50%	7.00%	7.50%
Rate of increase in future compensation levels	4.50%	4.50%	4.50%
Expected long-term return on assets	8.75%	8.75%	8.50%

The following table sets forth the change in benefit obligations, the change in plan assets, and the funded status on CMP Group balance sheet at December 31, 1998, and 1997:

	Non-Union 1998	Non-Union 1997	Union 1998	Union 1997
Change in Benefit Obligation				
Projected Benefit Obligation at Beginning of Year	$ 87,606,945	$ 75,569,512	$60,806,647	$ 55,687,980
Service Cost	2,790,886	2,375,101	1,969,293	1,693,530
Interest Cost	6,170,100	5,727,139	4,170,129	3,973,237
Actuarial (Gain)/Loss	9,812,272	8,737,997	4,839,188	2,627,316
Benefits Paid	(4,760,258)	(4,802,804)	(3,099,550)	(3,175,416)
Projected Benefit Obligation at End of Year	$101,619,945	$ 87,606,945	$68,685,707	$ 60,806,647
Change in Plan Assets				
Fair Value of Assets at Beginning of Year	$ 85,706,828	$ 77,996,183	$54,803,329	$ 48,090,441
Actual Return on Plan Assets	15,698,483	10,682,687	10,249,172	7,285,549
Employer Contributions	2,967,216	1,830,762	4,006,793	2,602,755
Benefits Paid	(4,760,258)	(4,802,804)	(3,099,550)	(3,175,416)
Fair Value of Assets at End of Year	$ 99,612,269	$ 85,706,828	$65,959,744	$ 54,803,329

	Non-Union		Union	
	1998	1997	1998	1997
Funded Status at December 31	$ (2,007,676)	$ (1,900,117)	$(2,725,963)	$ (6,003,318)
Unrecognized Transition (Asset)/Obligation	104,583	133,634	(1,134,557)	(1,404,689)
Unrecognized Prior Service Cost	1,473,873	1,629,207	1,223,028	1,352,027
Unrecognized (Gain)/Loss	(15,536,708)	(16,014,958)	(6,306,647)	(4,883,992)
Net Amount Recognized - Accrued Benefit Cost	$(15,965,928)	$(16,152,234)	$(8,944,139)	$(10,939,972)

Savings Plan

CMP Group offers an employee savings plan to all eligible employees. The non-union plan allows participants to invest from 2% to 15% of their salaries among several alternatives. The employer contribution equals 60% of the first 5% (total of 3%) of the employees' contribution.

As part of the collective bargaining agreement, effective in May 1997, the union plan allows maximum deferrals of up to 16% of their salaries among several alternatives. The employer contribution equals 60% of the first 5% and 50% of the next 2% invested, bringing the maximum employer contribution to 4% if an employee defers 7% of compensation.

CMP Group's contributions to the savings plan trust were $1.9 million in 1998, $1.8 million in 1997 and $1.7 million in 1996.

Post-Retirement Benefits

In addition to pension and savings-plan benefits, CMP Group provides certain health-care and life-insurance benefits for substantially all of its retired employees.

The MPUC approved a rulemaking on SFAS No. 106, effective July 20, 1993, that adopted the accrual method of accounting for the expected cost of such benefits during the employees' years of service, and authorized the establishment of a regulatory asset for the deferral of such costs until they are "phased-in" for ratemaking purposes. The effect of the change can be reflected in annual expenses over the active service life of employees or a period of 20 years, rather than in the year of adoption.

The MPUC prescribes the maximum amortization period of the average remaining service life of active employees or 20 years, whichever is longer, for the transition obligation. CMP Group is utilizing a 20 year amortization period. Segregation in an external fund is required for amounts collected in rates. Central Maine (CMP Group was not formed until September 1998) funded $3 million in November 1997 and July 1998 and plans to monitor and fund the same amount annually in order to meet its obligation.

As a result of the MPUC order, CMP Group records the cost of these benefits by charging expense in the period recovered through rates. The annual post-retirement benefit expense is currently included in rates as well as an amount designed to recover the deferred balance over a period of 20 years. The amounts included in rates in 1998, 1997 and 1996 were $10.8, $9.7 and $9.8 million, respectively. With the reduction in the deferred account of $1.5 million in 1998 and, $1.8 million in 1997. The total amount

deferred as a regulatory asset as of December 31, 1998 and 1997 was $19.6 million and $21 million, respectively. A summary of the components of net periodic postretirement benefit cost for the plan in 1998, 1997 and 1996 follows:

(Dollars in thousands)	1998	1997	1996
Service cost	$ 1,867	$ 1,201	$ 1,347
Interest cost	5,438	4,702	5,720
Expected return on plan assets	(360)	-	-
Amortization of unrecognized transition obligation	3,704	3,704	4,080
Amortization of prior service cost	-	-	35
Amortization of unrecognized (gain)/loss	(80)	(1,029)	(329)
Postretirement benefits expense	10,569	8,578	10,853
Deferred postretirement benefits expense	-	-	(1,056)
Postretirement Benefit Expense Recognized in the Statement of Earnings	$ 10,569	$ 8,578	$ 9,797

The following table sets forth the change in benefit obligation, change in plan assets and the funded status of the plan, and the liability recognized on CMP Group's balance sheet at December 31, 1998 and 1997:

(Dollars in thousands)	1998	1997
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 69,749	$ 73,903
Service cost	1,867	1,201
Interest cost	5,438	4,702
Estimated benefits paid	(6,334)	(5,401)
Actuarial (gain)/loss	16,232	(4,656)
Benefit obligation at end of year	86,952	69,749
Change in Plan Assets		
Fair value of plan assets at beginning of year	3,025	849
Actual return on plan assets	711	66
Employer contribution	9,100	7,511
Estimated benefits paid	(6,334)	(5,401)
Fair value of plan assets at end of year	6,502	3,025
Funded Status	(80,450)	(66,724)
Unrecognized transition (asset)/obligation	51,859	55,565
Unrecognized prior service cost	4	5
Unrecognized actuarial (gain)/loss	(3,718)	(19,680)
Accrued benefit cost	$(32,305)	$(30,836)

The assumed health-care cost-trend rate was an average gross medical trend of approximately 6% for 1998 reducing to 5% overall in the year 2020. Rates range from 5.6% to 6.5% for 1997 reducing to 5.0% overall over a period of 25 years. Rates range from 5.7% to 6.8% for 1996, reducing to 5.0% overall, over

a period of 10 years. The effect of a one-percentage-point increase in the assumed health-care cost-trend rate for each future year would increase the aggregate of the service and interest-cost components of the net periodic postretirement benefit cost by $1.1 million and the accumulated postretirement benefit obligation ("APBO") by $11.0 million. The effect of a one-percentage-point decrease in the assumed healthcare cost-trend rate for each future year would decrease the aggregate of the service and interest-cost components of the net periodic postretirement benefit cost by $947 thousand and the APBO by $9.3 million. Additional assumptions used in accounting for the postretirement benefit plan in 1998, 1997 and 1996 are as follows.

	1998	1997	1996
Weighted-average discount rate	6.50%	7.00%	7.50%
Rate of increase in future compensation levels	4.50%	4.50%	4.50%

CMP Group is exploring alternatives for mitigating the cost of postretirement benefits and for funding its obligations. These alternatives include mechanisms to fund the obligation prior to actual payment of benefits, plan-design changes to limit future expense increases, and additional cost-control and cost-sharing programs.

Note 6: Incentive Compensation

Stock options granted are exerciseable at the market price of the common stock on the date of the grant. They expire seven years from their grant date. One third options vest annually, commencing on the first anniversary of the option grant date. Upon vesting stock options are exerciseable during periods of active employment or within thirty (30) days after termination of employment, provided termination did not occur due to cause.

Stock options granted for the year 1998 are summarized as follows:

	Shares	Weighted Average Exercise Price
Outstanding at the beginning of 1997	-	
Granted during the year	253,925	$17.375
Expired/canceled during the year	11,929	$17.375
Outstanding as of December 31, 1998	241,996	$17.375

The stock options were granted with a grant date fair value of $2.28. The fair value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected option life	7 Years
Risk free interest rate	6.00%
Expected volatility	0.154%
Dividend yield	5.10%

CMP Group uses the intrinsic value based method to recognize compensation expense related to stock options. No compensation expense was recognized in 1998 related to stock options granted, since they contained an exercise price equal to the fair market value on the date of the grant. Had compensation costs for stock options been determined based on the fair value at the grant dates for awards under this plan consistent with the method of SFAS No. 123, the CMP Group's net income and earnings per share would have been reduced to the pro forma amounts indicated as follows:

	1998
Net Income:	
As Reported	$52,910
Pro Forma	$52,583
Earnings Per Share:	
As Reported	$1.63
Pro Forma	$1.62

Performance Shares - Performance shares are shares of CMP Group stock granted at the end of a 3-year performance cycle, based on achievement of performance goals that are directly linked to increasing shareholder value. If the goals are not achieved at the end of the 3-year cycle, the performance shares are forfeited. Contingently issuable performance shares for the three year period beginning in 1997 and 1998 totaled 61,437 and 66,906, respectively.

CMP Group is accruing the compensation expense associated with these shares over the applicable three year period. The total expense recognized in 1998 was approximately $743 thousand.

Note 7: Transactions with Affiliated Companies

Central Maine provides certain services to CMP Group and its subsidiaries, including administrative support services and pension and employee benefit arrangements. Charges related to those services have been determined based on a combination of direct charges and allocations designed to recover Central Maine's cost. These assessments are reflected as an offset to Central Maine's expenses and totaled approximately $3 million for the year ended December 31, 1998.

CMP Group provides certain managerial services to its subsidiaries. Charges related to those services have been determined based on a combination of direct charges and allocation in order to recover the majority of their expenses. These assessments are reflected as an offset to CMP Group's expenses and totaled approximately $1.2 million for the year ended December 31, 1998.

In addition, a subsidiary of CMP Group provides certain real estate and river management services charged to Central Maine at cost and environmental, engineering, utility locator and construction services based on a contracted rate. These expenses amounted to $2.7 million for the year ended December 31, 1998.

As of December 31, 1998, Central Maine's accounts receivable and accounts payable balances include the following balances with affiliated companies:

	(dollars in thousands) Accounts Receivable	Accounts Payable
CMP Group	$ 180	$1,590
MainePower	43	604
CNEX	190	138
MaineCom	138	-
TeleSmart	78	36
Union Water	950	1,386
	$1,579	$3,754

Note 8: Fiber Optic Network

In July 1998, MaineCom's equity investments, FiveCom, Inc., and FiveCom of Maine, LLC reorganized along with other related companies to form a new company, Northeast Optic Network, Inc. ("NEON"). MaineCom's ownership interest of 53.5-percent in the new company was equal to its combined ownership interest in FiveCom and FiveCom of Maine.

In August 1998 NEON issued 4 million new shares of common stock at $12.00 per share on the open market in an initial public offering ("IPO"). NEON's IPO had the effect of decreasing MaineCom's ownership interest from 53.5-percent to approximately 40-percent. The shares were issued at an amount greater than MaineCom's per share investment, resulting in an increase in MaineCom's investment in NEON of $15.9 million. In accordance with the SEC's Staff Accounting Bulletins ("SAB") 51 and 84 MaineCom increased additional paid in capital by $9.4 million and deferred tax reserve liability by $6.5 million. CMP Group's accounting policy for such transactions is to recognize a gain in income. However, the above transaction was reflected in additional paid in capital as required by the SEC SAB's.

In conjunction with the IPO, Central Maine sold 282,023 NEON shares, resulting in a net after tax gain of approximately $1.9 million and further reducing its (now MaineCom's) ownership percentage to 38.5-percent of the outstanding common shares.

NEON is a facilities-based provider of technologically advanced, high-bandwidth, fiber optic transmission capacity for communications carriers on local loop, inter-city and interstate facilities. NEON is currently expanding its fiber optic network to encompass over 1,000 fiber optic cable route miles, or more than 65,000 fiber strand miles, in New England and New York, utilizing primarily electric-utility rights-of-way, including some of Central Maine's in Maine and some owned by other electric utilities including Northeast Utilities, another substantial minority stockholder, in Connecticut, Massachusetts and New Hampshire. As of December 31, 1998, NEON had completed construction of approximately 600 route miles, or 49,000 fiber miles, of its planned system and is currently engineering, constructing, or acquiring additional routes with a goal of creating a continuous fiber optic link between New York City and Portland, Maine, with access into and around Boston and numerous other major service areas in the Northeast.

CMP Group believes there is a growing need for such a fiber optic network in the Northeast and that NEON's outside financing will provide substantial assistance in completing construction of the network, but cannot predict the results of this venture.

Note 9: Capacity Arrangements

Power Agreements

Central Maine, through certain equity interests, is entitled to a portion of the generating capacity and energy production of four nuclear generating facilities (the Yankee companies), three of which have been permanently shut down, and is obligated to pay its proportionate share of costs, which include fuel, depreciation, operation-and-maintenance expenses, a return on invested capital, and the estimated cost of decommissioning the nuclear plants.

Pertinent data related to these power agreements as of December 31, 1998, are as follows:

(Dollars in thousands)	Maine Yankee	Vermont Yankee	Connecticut Yankee	Yankee Atomic
Ownership share	38%	4%	6%	9.5%
Operating Status	Permanently shutdown August 6, 1997	Operating	Permanently shutdown December 4, 1996	Permanently shutdown February 26, 1992
Contract expiration date	2008	2012	1998	2000
Capacity (MW)	-	531	-	-
Company's share of: Capacity (MW)	-	19	-	-
1998 energy and capacity costs	$ 41,631	$ 7,012	$ 4,737	$ 4,513
Long-term obligations and redeemable preferred stock	$ 75,461	$ 7,884	$ 8,894	-
Estimated decommissioning obligation	$273,895	$16,272	$29,913	$ 7,761
Accumulated decommissioning fund	$ 80,812	$ 7,620	$14,992	$14,313

Under the terms of its agreements, Central Maine pays its ownership share (or entitlement share) of estimated decommissioning expense to each of the Yankee companies and records such payments as a cost of purchased power.

Permanent Shutdown of Maine Yankee Plant

On August 6, 1997, the Board of Directors of Maine Yankee voted to permanently cease power operations at its nuclear generating plant at Wiscasset, Maine (the "Plant") and to begin decommissioning the Plant. The Plant experienced a number of operational and regulatory problems and did not operate after

December 6, 1996. The decision to close the Plant permanently was based on an economic analysis of the costs, risks and uncertainties associated with operating the Plant compared to those associated with closing and decommissioning it. The Plant's operating license from the NRC was scheduled to expire on October 21, 2008.

Central Maine continues to incur costs, which are substantially less than in 1997, in connection with its 38% share of Maine Yankee as well as additional costs for replacement power since the Plant has been shut down. For the twelve months ended December 31, 1998, such costs amounted to approximately $41.6 million for Central Maine, $3.1 million related to energy costs and $38.5 million for capacity charges. The power formerly received from Maine Yankee has been primarily replaced with two long-term purchased power arrangements that Central Maine has made with Canadian sources through February 2000.

Central Maine's 38% ownership interest in Maine Yankee's common equity amounted to $30 million as of December 31, 1998, and under Maine Yankee's Power Contracts and Additional Power Contracts, Central Maine is responsible for 38% of the costs of decommissioning the Plant. Maine Yankee's most recent estimate of the cost of decommissioning is $380.6 million, based on a 1997 study by an independent engineering consultant, plus estimated costs of interim spent-fuel storage of $127.6 million, for an estimated total cost of $508.2 million (in 1997 dollars). This would result in approximately $36.4 million being collected annually from Maine Yankee's sponsors. The previous estimate for decommissioning, by the same consultant, was $316.6 million (in 1993 dollars), which resulted in approximately $14.9 million being collected annually from Maine Yankee's sponsors pursuant to a 1994 Federal Energy Regulatory Commission ("FERC") rate order. Through December 31, 1998, Maine Yankee had collected approximately $212.7 million for its decommissioning obligations.

FERC Rate Case. On November 6, 1997, Maine Yankee submitted to FERC for filing certain amendments to the Power Contracts (the "Amendatory Agreements") and revised rates to reflect the decision to shut down the Plant and to request approval of an increase in the decommissioning component of its formula rates. Maine Yankee's submittal also requested certain other rate changes, including recovery of unamortized investment (including fuel) and certain changes to its billing formula, consistent with the non-operating status of the Plant. By Order dated January 14, 1998, the FERC accepted Maine Yankee's new rates for filing, subject to refund after a minimum suspension period, and set Maine Yankee's Amendatory Agreements, rates and issues concerning the prudence of the Plant-shutdown decision for hearing.

By Complaint dated December 9, 1997, the Maine Office of the Public Advocate ("OPA") sought a FERC investigation of Maine Yankee's actions leading to the decision to shut down the Plant, including actions associated with the management and operation of Maine Yankee since 1993. The MPUC had initiated an investigation in Maine earlier, raising generally similar issues. By decision dated May 4, 1998, the FERC consolidated the OPA Complaint with the comprehensive rate proceeding. In addition, 28 municipal and cooperative utilities that had purchased in the aggregate approximately 6.2 percent of the output of the Plant from Maine Yankee's sponsors (the "Secondary Purchasers") intervened in the FERC proceeding, raising similar prudence issues and other issues specific to their status as indirect purchasers from Maine Yankee.

In support of its request for an increase in decommissioning collections, Maine Yankee submitted with its initial FERC filing a 1997 decommissioning cost study performed by TLG Services, Inc. ("TLG"). During

1998, Maine Yankee engaged in an extensive competitive bid process to engage a Decommissioning Operations Contractor ("DOC") to perform certain major decontamination and dismantlement activities at the Plant on a fixed-price, turnkey basis. As a result of that process, a consortium headed by Stone & Webster Engineering Corporation ("Stone & Webster") was selected to perform such activities under a fixed-price contract. The contract provides for, among other undertakings, construction of an independent spent fuel storage installation ("ISFSI") and completion of major decommissioning activities and site restoration by the end of 2004. The DOC process resulted in fixing certain costs that had been estimated in the earlier decommissioning cost estimate performed by TLG.

Since the filing of the rate request, Maine Yankee and the active intervenors, including among others the MPUC Staff, the OPA, Central Maine and other owners, the Secondary Purchasers, and a Maine environmental group (the "Settling Parties"), engaged in extensive discovery and negotiations. Those parties participated in settlement discussions that resulted in an Offer of Settlement filed by those parties with the FERC on January 19, 1999. On February 8, 1999, the FERC Trial Staff recommended that the presiding judge certify the settlement to the FERC and that the FERC approve it. Upon approval by the FERC, the settlement would constitute a full settlement of all issues raised in the consolidated FERC proceeding, including decommissioning-cost issues and issues pertaining to the prudence of the management, operation, and decision to permanently cease operation of the Plant. A separately negotiated settlement filed with the FERC on February 5, 1999, would resolve the issues raised by the Secondary Purchasers by limiting the amounts they will pay for decommissioning the Plant and by settling other points of contention affecting individual Secondary Purchasers. On February 24, 1999, the FERC Trial Staff recommended certification and approval of the settlement with the Secondary Purchasers.

The Offer of Settlement provides for Maine Yankee to collect $33.6 million in the aggregate annually, effective January 15, 1998, consisting of (1) $26.8 million for estimated decommissioning costs, and (2) $6.8 million for ISFSI-related costs. The original filing with FERC on November 6, 1997, called for an aggregate annual collection rate of $36.4 million for decommissioning and the ISFSI, based on the TLG estimate. Under the settlement the amount collected annually could be reduced to approximately $26 million if Maine Yankee is able to (1) use for construction of the ISFSI funds held in trust under Maine law for spent-fuel disposal, and (2) access approximately $6.8 million being held by the State of Maine for eventual payment to the State of Texas pursuant to a compact for low-level nuclear waste disposal, the future of which is now in question after rejection of the selected disposal site in west Texas by a Texas regulatory agency. Both would require authorizing legislation in Maine, which Maine Yankee is committed to use its best efforts to obtain.

The Offer of Settlement also provides for recovery of all unamortized investment (including fuel) in the Plant, together with a return on equity of 6.50 percent, effective January 15, 1998, on equity balances up to maximum allowed equity amounts. The Settling Parties also agreed in the proposed settlement not to contest the effectiveness of the Amendatory Agreements submitted to FERC as part of the original filing, subject to certain limitations including the right to challenge any accelerated recovery of unamortized investment under the terms of the Amendatory Agreements after a required informational filing with the FERC by Maine Yankee. In addition, the settlement contains incentives for Maine Yankee to achieve further savings in its decommissioning and ISFSI-related costs and resolves issues concerning restoration and future use of the Plant site and environmental matters of concern to certain of the intervenors in the proceeding.

As a separate part of the Offer of Settlement, Central Maine, the other two Maine utilities which own interests in Maine Yankee, the MPUC Staff, and the OPA entered into a further agreement resolving retail rate issues

and other issues specific to the Maine parties, including those that had been raised concerning the prudence of the operation and shutdown of the Plant (the "Maine Agreement"). Under the Maine Agreement Central Maine would continue to recover its Maine Yankee costs in accordance with its most recent ARP order from the MPUC without any adjustment reflecting the outcome of the FERC proceeding. To the extent that Central Maine has collected from its retail customers a return on equity in excess of the 6.50 percent contemplated by the Offer of Settlement, no refunds would be required, but such excess amounts would be credited to the customers to the extent required by the ARP.

The final major provision of the Maine Agreement requires the Maine owners, for the period from March 1, 2000, through December 1,2004, to hold their Maine retail ratepayers harmless from the amounts by which the replacement power costs for Maine Yankee exceed the replacement power costs assumed in the report to the Maine Yankee Board of Directors that served as a basis for the Plant shutdown decision, up to a maximum cumulative amount of $41 million. Central Maine's share of that amount would be $31.16 million for the period. The Maine Agreement, which was approved by the MPUC on December 22, 1998, also sets forth the methodology for calculating such replacement power costs.

CMP Group and Central Maine believe that the Offer of Settlement, including the Maine Agreement, constitutes a reasonable resolution of the issues raised in the Maine Yankee FERC proceeding, and that approval of the Offer of Settlement by the FERC would eliminate significant uncertainties concerning CMP Group's and Central Maine's future financial performance. Although all of the active parties to the proceeding, including the FERC Trial Staff, support or, with respect to certain individual provisions, do not oppose, the Offer of Settlement, CMP Group and Central Maine cannot predict with certainty whether or in what form it will be approved by the FERC.

Condensed financial information on Maine Yankee Atomic Power Company is as follows:

(Dollars in thousands)	1998	1997	1996
Earnings:			
Operating revenues	$ 110,608	$238,586	$185,661
Operating income	13,430	18,170	17,150
Net income	6,295	9,037	8,106
Earnings applicable to common stock	4,916	7,613	6,637
Central Maine's Equity Share of Net Earnings	$ 1,868	$ 2,893	$ 2,522
Investment:			
Net electric property and nuclear fuel	$ 687	$ 17,938	$222,360
Current assets	20,896	71,098	44,979
Deferred charges and other assets	1,161,715	1,279,107	334,722
Total Assets	1,183,298	1,368,143	602,061
Less:			
Redeemable preferred stock	16,800	17,400	18,000
Long-term obligations	201,614	270,299	223,572
Current liabilities	15,122	35,518	34,265
Reserves and deferred credits	870,856	966,561	255,472
Net Assets	$ 78,906	$ 78,365	$ 70,752
Company's Equity in Net Assets	$ 29,984	$ 29,779	$ 26,886

Other Nuclear Investments

In December 1996, the Board of Directors of Connecticut Yankee Atomic Power Company announced a permanent shutdown of the Connecticut Yankee plant in Haddam, Connecticut, and decided to decommission the plant for economic reasons. The Company has a 6% equity interest in Connecticut Yankee, totaling approximately $6.3 million at December 31, 1998. Central Maine estimates its share of the cost of Connecticut Yankee's continued compliance with regulatory requirements, recovery of its plant investments, decommissioning and closing the plant to be approximately $29.9 million and has recorded a regulatory asset and a liability on the consolidated balance sheet. Central Maine is currently recovering through rates an amount adequate to recover these expenses.

On February 26, 1992, the Board of Directors of Yankee Atomic Electric Company (Yankee Atomic) decided to permanently discontinue power operation at the Yankee Atomic Plant in Rowe, Massachusetts, and to decommission that facility. Central Maine relied on Yankee Atomic for less than 1% of the Company's system capacity. Its 9.5% equity investment in Yankee Atomic is approximately $1.9 million. Central Maine has estimated its remaining share of the cost of Yankee Atomic's continued compliance with regulatory requirements, recovery of its plant investments, decommissioning and closing the plant, to be approximately $7.8 million.

Central Maine has approximately a 60% ownership interest in the jointly owned, Company-operated, 620-megawatt oil-fired W. F. Wyman Unit No. 4. See Note 3, "Regulatory Matters" - "Agreement for Sale of Generation Assets." Central Maine also has a 2.5% ownership interest in the Millstone Unit No. 3 nuclear plant operated by Northeast Utilities, and is entitled to approximately a 29-megawatt share of that unit's capacity. Central Maine's plant in service, nuclear fuel, decommissioning fund, and related accumulated depreciation and amortization attributable to these units as of December 31, 1998, and 1997 were as follows:

	Wyman 4		Millstone 3	
(Dollars in thousands)	1998	1997	1998	1997
Plant in service, nuclear fuel and decommissioning fund	$116,075	$116,367	$112,907	$112,227
Accumulated depreciation and amortization	69,028	66,239	45,433	42,412

Power-Pool Agreements

The New England Power Pool, of which Central Maine is a member, has contracted in its Hydro-Quebec Projects to purchase power from Hydro-Quebec. The contracts entitle Central Maine to 44.5 megawatts of capacity credit in the winter and 127.25 megawatts of capacity credit during the summer. Central Maine has entered into facilities-support agreements for its share of the related transmission facilities. Central Maine's share of the support responsibility and of associated benefits is approximately 7%.

Central Maine is making facilities-support payments on approximately $25.4 million, its remaining share of the construction cost for these transmission facilities incurred through December 31, 1998. These

obligations are reflected on the Company's consolidated balance sheet as lease obligations with a corresponding charge to electric property.

Non-Utility Generators

Central Maine has entered into a number of long-term, non-cancelable contracts for the purchase of capacity and energy from non-utility generators (NUG). The agreements generally have terms of five to 30 years, with expiration dates ranging from 1999 to 2023. They require Central Maine to purchase the energy at specified prices per kilowatt-hour, which are often above market prices. As of December 31, 1998, facilities having 508 megawatts of capacity covered by these contracts were in-service. The costs of purchases under all of these contracts amounted to $265 million in 1998, $306.4 million in 1997, and $313.4 million in 1996.

Central Maine's estimated contractual obligations with NUGs as of December 31, 1998, are as follows:

(Dollars in millions)	Amount
1999	$ 280
2000	281
2001	260
2002	267
2003	271
2004 - 2023	1,857
	$3,216

Note 10: Capitalization and Interim Financing

Retained Earnings

Under terms of the most restrictive test in Central Maine's General and Refunding Mortgage Indenture and Central Maine's Articles of Incorporation, no dividend may be paid on the common stock of Central Maine if such dividend would reduce retained earnings below $29.6 million. At December 31, 1998, Central Maine's retained earnings were $76.3 million, of which $46.7 million were not so restricted. There are no such restrictions on CMP Group. Future dividend decisions will be subject to future earnings levels and the financial condition of CMP Group and Central Maine and will reflect the evaluation by their Board of Directors of then existing circumstances.

Mortgage Bonds

Substantially all of Central Maine's electric-utility property and franchises are subject to the lien of the General and Refunding Mortgage.

Central Maine's outstanding mortgage bonds may be redeemed at established prices plus accrued interest to the date of redemption, subject to certain refunding limitations. Bonds may also be redeemed under certain conditions at their principal amount plus accrued interest by means of cash deposited with the

trustee under certain provisions of the mortgage indenture. Under the Indenture such cash may be applied at any time, at the direction of Central Maine, to the redemption of bonds outstanding under the Indenture at a price equal to the principal amount of the bonds being redeemed, without premium, plus accrued interest to the date fixed for redemption. Such cash may also be withdrawn by Central Maine by substitution of allocated property additions or available bonds. At December 31, 1998, there was approximately $1,000 of such cash on deposit with the trustee.

Mortgage Bonds outstanding as of December 31, 1998, and 1997 were as follows:

Central Maine Power Company
General and Refunding Mortgage Bonds:

Series	Maturity	Interest rate	1998	1997
			(Dollars in thousands)	
U	1998-April 15	7.54%	$ -	$ 25,000
S	1998-August 15	6.03	-	60,000
T	1998-November 1	6.25	-	75,000
O	1999-January 1	7 3/8	-	50,000
P	2000-January 15	7.66	43,717	75,000
N	2001-September 15	8.50	-	11,000
Q	2008-March 1	7.05	75,000	75,000
R	2023-June 1	7 7/8	-	50,000
Total Mortgage Bonds			$118,717	$421,000

During 1998, Central Maine paid at maturity or redeemed the following principal amounts of its General and Refunding Mortgage Bonds: on March 30, $50 million of Series R 7-7/8%, Due 2023; on the same day $11 million of Series N 8.50%, Due 2001; on April 15, $25 million of Series U 7.54%, Due 1998; on June 15, $31.3 million of Series P 7.66%, Due 2000; on August 15, $60 million principal amount of Series S 6.03%, Due 1998; on November 1, $75 million principal amount of Series T 6.25%, Due 1998; and on December 31, $50 million principal amount of Series O 7.375%, Due 1999. No premiums were paid by Central Maine for the bonds.

Limitations on Unsecured Indebtedness

Central Maine's Articles of Incorporation limit certain unsecured indebtedness that may be outstanding to 20 percent of capitalization, as defined without the consent of the holders of Central Maine's preferred stock; 20 percent of defined capitalization amounted to $143 million as of December 31, 1998. Unsecured indebtedness, as defined, amounted to $131 million as of December 31, 1998. Central Maine's $500 million medium-term note program, having received the consent of Central Maine's preferred stockholders in May 1997, is not included in "unsecured indebtedness" for purposes of the 20-percent limitation.

Medium-Term Notes

At the annual meeting of the stockholders of Central Maine on May 15, 1997, the holders of Central Maine's outstanding preferred stock consented to the issuance of $350 million in principal amount of Central Maine's medium-term notes in addition to the $150 million in principal amount to which they had previously consented in 1989. As of December 31, 1998, $337 million of medium-term notes were outstanding of which $10 million are classified as short-term. Interest on fixed-rate notes is payable on March 1 and September 1, while interest on floating-rate notes is payable on the dates indicated thereupon.

Medium-Term Notes outstanding as of December 31, 1998, and 1997 were as follows:

(Dollars in thousands) Maturity	Interest rate	1998	1997
Series A:			
2000	9.65%	$ 5,000	$ 5,000
Series B:			
1998	5.32	-	8,000
Series C:			
1999-2001	5.67-7.81	127,000	30,000
Series D:			
1999-2000	5.52-7.04	205,000	-
Medium-Term Notes		337,000	43,000
Less: Amount Due Within One Year		10,000	-
Total Medium-Term Notes		$327,000	$43,000

Pollution-Control Facility and Other Notes

Pollution-control facility and other notes outstanding as of December 31, 1998, and 1997 were as follows:

(Dollars in thousands) Series	Interest rate	Maturity	1998	1997
Central Maine Power Company:				
Yarmouth Installment Notes	6 3/4%	June 1, 2002	$ 9,320	$ 9,805
Yarmouth Installment Notes	6 3/4	December 1, 2003	1,000	1,000
Industrial Development				
Authority of the State of				
New Hampshire Notes	7 3/8	May 1, 2014	19,500	19,500
Finance Authority of Maine	8.16	January 1, 2005	45,929	53,329
Revolving Credit Agreement	6.1125	October 22, 1999	50,000	-
Maine Electric Power Company, Inc.:				
Promissory Notes	Variable*	November 1, 2000	420	620
NORVARCO: Promissory Note	10.48	November 1, 2020	24,090	-
NORVARCO: Senior Note	7.05	November 1, 2020	1,747	-
Union Water Power Company-Bank				

Series	Interest rate	Maturity	1998	1997
Notes	7.99	December 2011	1,163	-
Union Water Power Company-Bank Notes	Variable**	October 2018	1,284	-
Pollution-Control Facility and Other Notes			154,463	84,254
Less: Amount Due Within One Year			1,183	-
			$153,280	$84,254

*The average rate was 6.48% in 1998 and 6.5% in 1997.
**The average rate was 8.25% in 1998.

The bonds issued by the Industrial Development Authority of the State of New Hampshire are supported by loan agreements between Central Maine and the Authority. The bonds are subject to redemption at the option of Central Maine at their principal amount plus accrued interest and premium, beginning in 2001.

On October 26, 1994, FAME issued $79.3 million of Taxable Electric Rate Stabilization Revenue Notes Series 1994A (FAME notes). FAME and Central Maine entered into a loan agreement under which Central Maine issued FAME a note for approximately $66.4 million, evidencing a loan in that amount. The remaining $12.9 million of FAME-notes proceeds over the $66.4 million was placed in a capital-reserve account. The amount in the capital-reserve account is equal to the highest amount of principal and interest on the FAME notes to accrue and come due in any year the FAME notes are outstanding. The amounts invested in the capital reserve account are initially invested in government securities designed to generate interest income at a rate equal to the interest on the FAME notes. Under the terms of the loan agreement, Central Maine is also responsible for or receives the benefit from the interest rate differential and investment gains and losses on the capital reserve account.

Capital Lease Obligations

CMP Group leases some of its buildings and equipment under lease arrangements, and accounts for certain transmission agreements as capital leases using periods expiring between 2006 and 2021. The net book value of property under capital leases was $29.4 million and $31.2 million at December 31, 1998, and 1997, respectively. Assets acquired under capital leases are recorded as electric property at the lower of fair-market value or the present value of future lease payments, in accordance with practices allowed by the MPUC, and are amortized over their contract terms. The related obligation is classified as other long-term debt. Under the terms of the lease agreements, executory costs are excluded from the minimum lease payments.

Estimated future minimum lease payments for the five years ending December 31, 2003, together with the present value of the minimum lease payments, are as follows:

(Dollars in thousands)	Amount
1999	$ 5,257
2000	5,088
2001	4,919
2002	4,749

(Dollars in thousands)	Amount
2003	4,580
Thereafter	47,024
Total minimum lease payments	71,617
Less: amounts representing interest	38,844
Present Value of Net Minimum Lease Payments	$32,773

Sinking-Fund Requirements

Consolidated sinking-fund requirements for long-term obligations, including capital lease payments and maturing debt issues, for the five years ending December 31, 2003, are as follows:

(Dollars in thousands)

	Sinking fund	Maturing debt	Total
1999	2,455	282,000	284,455
2000	10,519	128,717	139,236
2001	10,949	10,000	20,949
2002	18,766	-	18,766
2003	11,889	-	11,889

Disclosure of Fair Value of Financial Instruments

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable are discussed below. The carrying amounts of cash and temporary investments approximate fair value because of the short maturity of these investments. The fair value of redeemable preferred stock and pollution-control facility and other notes is based on quoted market prices as of December 31, 1998 and 1997. The fair value of long-term obligations is based on quoted market prices for the same or similar issues, or on the current rates offered to the particular company based on the weighted average life of each class of instruments.

The estimated fair values of the CMP Group's financial instruments as of December 31, 1998, and 1997 are as follows:

	1998		1997	
(Dollars in thousands)	Carrying amount	Fair value	Carrying amount	Fair value
Redeemable preferred stock	$ 27,910	$ 28,747	$ 46,528	$ 48,247
Mortgage bonds	118,717	120,782	421,000	421,151
Medium-term notes	327,000	326,226	43,000	43,378
Pollution-control facility and other notes	153,280	157,771	84,254	83,163

Cumulative Preferred Stock

Preferred-stock balances outstanding as of December 31, 1998 and 1997 were as follows:

	(Dollars in thousands, except per-share amounts) Current shares outstanding	1998	1997
Preferred Stock - Not Subject to Mandatory Redemption:			
$25 par value - authorized 2,000,000 shares; outstanding:	None	$ -	$ -
$100 par value noncallable -authorized 5,713 shares; outstanding 6% voting	5,713	571	571
$100 par value callable - authorized 2,300,000* shares; outstanding:			
3.50% series (redeemable at $101)	220,000	22,000	22,000
4.60% series (redeemable at $101)	30,000	3,000	3,000
4.75% series (redeemable at $101)	50,000	5,000	5,000
5.25% series (redeemable at $102)	50,000	5,000	5,000
7 7/8% series (optional redemption after 9/1/97, at $100)		-	30,000
6% stock owned by CMP Group, Inc.	533	(43)	-
Total		$35,528	$65,571
Redeemable Preferred Stock - Subject to Mandatory Redemption:			
Flexible Money Market Preferred Stock, Series A - 7.999% (279,100 shares in 1998, 395,275 shares in 1997 and 1996)	189,100	27,910	39,528
8 7/8% series (redeemable at $101.97)		-	7,000
Total		$27,910	$46,528

*Total authorized $100 par value callable is 2,300,000 shares. Shares outstanding are classified as Not Subject to Mandatory Redemption and Subject to Mandatory Redemption.

Sinking-fund provisions for the 8 7/8% Series Preferred Stock require the Company to redeem all shares at par plus an amount equal to dividends accrued to the redemption date on the basis of 70,000 shares annually commencing on July, 1996. The Company also has the non-cumulative right to redeem up to an equal amount of the respective number of shares annually, beginning in 1996, at par plus an amount equal to dividends accrued to the redemption date. The sinking-fund requirement for the five-year period ending December 31, 2000 is $7.0 million annually beginning in 1996. The Company redeemed $14 million of these shares at par in 1996 and 1997 pursuant to the mandatory and optional sinking-fund provisions. On July 1, 1998 Central Maine redeemed the final $7 million of its Preferred Stock 8 7/8% Series through its mandatory sinking fund provisions. In connection with the Central Maine common stock conversion, a number of holders of the 6% preferred stock requested payment at fair value for their shares pursuant to section 910 of the Maine Business Corporation Act. CMP Group purchased 533 shares from various shareholders of Central Maine 6% preferred stock.

Sinking-fund provisions for the Flexible Money Market Preferred Stock, Series A, 7.999%, require Central Maine to redeem all shares at par plus an amount equal to dividends accrued to the redemption date on the basis of 90,000 shares annually beginning in October 1999. Central Maine also has the non-cumulative right to redeem up to an equal number of shares annually beginning in 1999, at par plus an amount equal to dividends accrued to the redemption date. The sinking-fund requirement for the period 1998 through 2001 is $9 million annually with a final sinking fund requirement of $910 thousand in 2002.

On April 1, 1998, Central Maine redeemed all of the outstanding 300,000 shares of its Preferred Stock 7-7/8% Series at a redemption price of $100 per share. No accrued dividends were paid on the preferred stock since the redemption date was a regular dividend payment date.

Interim Financing and Credit Agreements

Central Maine uses funds obtained from short-term borrowing to provide initial financing for construction and other corporate purposes.

To support its short-term capital requirements, in October 1996, Central Maine entered into a $125 million Credit Agreement with several banks, with BankBoston, N.A., and The Bank of New York acting as agents for the lenders. The arrangement originally had two credit facilities: a $75 million, 364-day revolving credit facility and a $50-million, 3-year revolving credit facility that matures on October 22, 1999. Effective December 15, 1998, the banks' commitments under the 364-day facility were reduced from $75 million to $25 million, and other provisions were amended to reflect the reorganization of Central Maine into a holding-company structure and recognize other changed circumstances. Both credit facilities require annual fees on the total credit lines. The fees are based on Central Maine's credit ratings and allow for various borrowing options including LIBOR-priced, base-rate-priced and competitive-bid-priced loans. Access to commercial paper markets has been substantially precluded based upon Central Maine's past credit ratings. The amount of outstanding short-term borrowing will fluctuate with day-to-day operational needs, the timing of long-term financing, and market conditions. The amount of outstanding short-term borrowing will fluctuate with day-to-day operational needs, the timing of long-term financing, and market conditions. Central Maine had $5.0 million outstanding under the 364-day revolving credit facility at 6.63% and $50 million outstanding under the 3-year revolving credit facility at 6.11%.

CMP Group and its subsidiaries had a total of $16.4 million outstanding, made up of revolving credit facility and other short-term financings as of December 31, 1998.

Note 11: Quarterly Financial Data (Unaudited)

CMP Group's unaudited, consolidated quarterly financial data pertaining to the results of operations are shown below.

(Dollars in thousands, except per-share amounts)	Quarter ended			
	March 31*	June 30*	September 30	December 31
1998				
Electric operating revenues	$248,745	$208,216	$234,056	$247,722
Operating income	39,934	14,326	26,370	45,251
Net income (loss)	16,398	572	17,440	18,500
Earnings (loss) per common share*	.51	.02	.54	.57

For the years prior to 1998, CMP Group, Inc. was not in existence; the figures for the years 1996 and 1997 are the same as Central Maine's.

*Same results as Central Maine. CMP Group was formed September 1, 1998.

Central Maine's unaudited, consolidated quarterly financial data pertaining to the results of operations are shown below.

(Dollars in thousands, except per-share amounts)	Quarter ended			
	March 31	June 30	September 30	December 31
1998				
Electric operating revenues	$248,745	$208,216	$234,027	$247,573
Operating income	39,934	14,326	25,753	46,636
Net income (loss)	18,295	1,646	13,135	21,747
Earnings (loss) per common share*	.51	.02	.38	.67
1997				
Electric operating revenues	$268,367	$210,074	$226,134	$249,601
Operating income	27,513	8,881	7,394	19,491
Net income (loss)	16,027	(2,539)	(5,845)	5,779
Earnings (loss) per common share*	.43	(.15)	(.24)	.12
1996				
Electric operating revenues	$274,139	$216,358	$228,987	$247,562
Operating income	39,601	20,495	14,667	32,909
Net income	27,857	9,096	3,392	19,884
Earnings per common share*	.78	.20	.04	.54

*Earnings per share are computed using the weighted-average number of common shares outstanding during the applicable quarter.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

See the information under the heading "Election of Directors" in the registrants' definitive proxy material for its annual meeting of shareholders to be held on May 20, 1999, and Item 4.1, Executive Officers of the Registrant, above, both of which are hereby incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION.

See the information under the heading "Board Committees, Meetings and Compensation" and the heading "Executive Compensation" in the registrants' definitive proxy material for its annual meeting of shareholders to be held on May 20, 1999, which is hereby incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

See the information under the heading "Security Ownership" in the registrants' definitive proxy material for its annual meeting of shareholders to be held on May 20, 1999, which is hereby incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

See the information under the heading, "Board Committees, Meetings and Compensation" in the registrants' definitive proxy material for its annual meeting of shareholders to be held on May 20, 1999, which is hereby incorporated herein by reference.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) List of documents filed as part of this report:

(1) Financial Statements and Supplementary Data
See the Index to Financial Statements and Schedules under Item 8 in Part II hereof, where these documents are listed, on page 56.

(2) Exhibits - see (c) below.

(b) Reports on Form 8-K. The Company filed the following reports on Form 8-K during the last quarter of 1998 and thereafter to date:

Date of Report	Items Reported
November 17, 1998	Item 5

CMP Group and Central Maine reported that FPL Group was seeking a declaratory judgment in the United States District Court for the Southern District of New York that Central Maine could not meet essential terms of its January 6, 1998, agreement to sell its non-nuclear generating assets to FPL Group and that therefore FPL Group should be excused from completing its purchase of the assets.

Date of Report	Items Reported
January 19, 1999	Item 5

a) The registrants reported on the status of the FPL Group declaratory judgment action discussed above.

b) The registrants reported on an Offer of Settlement filed with the FERC in Maine Yankee's decommissioning rate case.

c) The registrants reported on the status of the MPUC proceeding on Central Maine's stranded costs, revenue requirements, and rate design.

d) CMP Group reported on a bylaw provision dealing with shareholder proposals and nominations of directors by shareholders.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

CMP GROUP, INC.

Date: March 31, 1999

By _____
David E. Marsh
Chief Financial Officer
(Duly Authorized Officer)

CENTRAL MAINE POWER COMPANY

Date: March 31, 1999

By _____
Curtis I. Call
Treasurer
(Duly Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrants and in the capacities and on the dates indicated.

Signature	Title	Date
CMP Group, Inc.:		
David T. Flanagan (Principal Executive Officer)	President and Chief Executive Officer; Director	March 31, 1999
David E. Marsh (Principal Financial Officer)	Chief Financial Officer	March 31, 1999
Michael W. Caron (Principal Accounting Officer)		March 31, 1999
Central Maine Power Company:		
Sara J. Burns (Principal Executive Officer)	President; Director	March 31, 1999
Curtis I. Call (Principal Financial Officer)	Treasurer	March 31, 1999
Michael W. Caron (Principal Accounting Officer)	Comptroller	March 31, 1999
CMP Group, Inc. and Central Maine Power Company:		
David M. Jagger	Chairman of the Board of Directors	March 31, 1999
Charles H. Abbott	Vice Chairman of the Board of Directors	March 31, 1999
Charleen M. Chase	Director	March 31, 1999
Duane D. Fitzgerald	Director	March 31, 1999
David T. Flanagan	Director	March 31, 1999
Robert H. Gardiner	Director	March 31, 1999
Peter J. Moynihan	Director	March 31, 1999

Signature	Title	Date
William J. Ryan	Director	March 31, 1999
Kathryn M. Weare	Director	March 31, 1999
Eyndel J. Wishcamper	Director	March 31, 1999

EXHIBIT INDEX

The following designated exhibits, as indicated below, are either filed herewith or have heretofore been filed with the Securities and Exchange Commission under the Securities Act of 1933, the Securities Exchange Act of 1934 or the Public Utility Holding Company Act of 1935 and are incorporated herein by reference to such filings. Reference is made to Item 8 of this Form 10-K for a listing of certain financial information and statements incorporated by reference herein.

NOTE: In this exhibit index the "Company" or "Central Maine" refers to Central Maine Power Company. "CMP Group" refers to CMP Group, Inc. All exhibits are Central Maine exhibits unless otherwise designated.

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
EXHIBIT 2:	PLAN OF ACQUISITION, REORGANIZATION, ARRANGEMENT, LIQUIDATION OR SUCCESSION		
	Not Applicable.		
2-1	Form Of Agreement And Plan Of Merger	333-49677	2
EXHIBIT 3:	ARTICLES OF INCORPORATION AND BY-LAWS		
	Incorporated herein by reference:		
3-1	Articles of Incorporation, as amended.	Annual Report on Form 10-K for year ended December 31, 1992	3.1
3-1.1	Form of Articles of Amendment of CMP Group	333-49677	3.1
3-2	Bylaws, as amended.	Annual Report on Form 10-K for year ended December 31, 1996	3.2
3-2.1	Form of By laws of CMP Group	333-49677	3.2
EXHIBIT 4:	INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS		
	Incorporated herein by reference:		

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
4-1	General and Refunding Mortgage between the Company and The First National Bank of Boston, as Trustee, dated as of April 15, 1976, relating to the Series A Bonds.	2-58251	2.18
4-2	First Supplemental Indenture dated as of March 15, 1977 to the General and Refunding Mortgage.	2-60786	2.19
4-3	Supplemental Indenture to the General and Refunding Mortgage Indenture dated as of October 1, 1978 relating to the Series B Bonds.	Annual Report on Form 10-K for the year ended December 31, 1978	A
4-4	Supplemental Indenture to the General and Refunding Mortgage Indenture dated as of October 1, 1979, relating to the Series C Bonds.	Quarterly Report on Form 10-Q for the quarter ended September 30, 1979	A
4.10	Supplemental Indenture to the General and Refunding Mortgage Indenture dated as of December 1, 1986, relating to the Series I Bonds.	33-9232	4.16
4.14	Indenture, dated as of August 1, 1989, between the Company and The Bank of New York, Trustee, relating to the Medium-Term Notes.	33-29626	4.1
4.15	First Supplemental Indenture, dated as of August 7, 1989, relating to the Medium-Term Notes, Series A, and supplementing the Indenture relating to the Medium-Term Notes.	Current Report on Form 8-K dated August 16, 1989	4.15
4.15.1	Second Supplemental Indenture, dated as of January 10, 1992, relating to the Medium-Term Notes, Series B, and supplementing the Indenture relating to the Medium-Term Notes.	Current Report on Form 8-K dated January 28, 1992	4.1

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
4.15.2	Third Supplemental Indenture, dated as of December 15, 1994, relating to the Medium-Term Notes, Series C, and supplementing the Indenture relating to the Medium-Term Notes.	Annual Report on Form 10-K for year ended December 31, 1994	4.15.2
4.15.3	Fourth Supplemental Indenture, dated as of February 26, 1998, relating to the Medium-Term Notes, Series D, and supplementing the Indenture relating to the Medium-Term Notes.	333-35235	4.4
4.17	Supplemental Indenture to the General and Refunding Mortgage Indenture, dated as of September 15, 1991, relating to the Series N Bonds.	Current Report on Form 8-K dated September 17, 1991	4.1
4.18	Supplemental Indenture to the General and Refunding Mortgage Indenture, dated as of December 1, 1991, relating to the Series O Bonds.	Current Report on Form 8-K dated December 10, 1991	1.2
4.19	Supplemental Indenture to the General and Refunding Mortgage Indenture, dated as of December 15, 1992, relating to the Series P Bonds.	Annual Report on Form 10-K for year ended December 31, 1992	4.19
4.20	Supplemental Indenture to the General and Refunding Mortgage Indenture, dated as of February 15, 1993, relating to the Series Q Bonds.	Current Report on Form 8-K dated March 1, 1993	4.1
4.21	Supplemental Indenture to the General and Refunding Mortgage Indenture, dated as of May 20, 1993, relating to the Series R Bonds.	Current Report on Form 8-K dated May 20, 1993	4.1
4.22	Supplemental Indenture to the General and Refunding Mortgage Indenture, dated as of August 15, 1993, relating to the Series S Bonds.	Current Report on Form 8-K dated November 30, 1993	4.1

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
4.23	Supplemental Indenture to the General and Refunding Mortgage Indenture, dated as of November 1, 1993, relating to the Series T Bonds.	Current Report on Form 8-K dated November 30, 1993	4.2
4.24	Supplemental Indenture to the General and Refunding Mortgage Indenture, dated as of April 12, 1994, relating to the Series U Bonds.	Annual Report on Form 10-K for year ended December 31, 1994	4.24
4.26	Supplemental Indenture to the General and Refunding Mortgage Indenture, dated as of February 15, 1996, evidencing the succession of State Street Bank and Trust Company as Trustee	Annual Report on Form 10-K for year ended December 31, 1995	4.26
EXHIBIT 9:	VOTING TRUST AGREEMENT Not applicable.		
EXHIBIT 10:	MATERIAL CONTRACTS		
	Incorporated herein by reference:		
10-1	Agreement dated April 1, 1968 between the Company and Northeast Utilities Service Company relating to services in connection with the New England Power Pool and NEPEX.	2-30554	4.27
10-2	Form of New England Power Pool Agreement dated as of September 1, 1971 as amended to November 1, 1975.	2-55385	4.8
10-3	Agreement setting forth Supplemental NEPOOL Understandings dated as of April 2, 1973.	2-50198	5.10
10-4	Sponsor Agreement dated as of August 1, 1968 among the Company and the other sponsors of Vermont Yankee Nuclear Power Corporation.	2-32333	4.27

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
10-5	Power Contract dated as of February 1, 1968 between the Company and Vermont Yankee Nuclear Power Corporation.	2-32333	4.28
10-6	Amendment to Exhibit 10.5 dated as of June 1, 1972.	2-46612	13-21
10-7	Capital Funds Agreement dated as of February 1, 1968 between the Company and Vermont Yankee Nuclear Power Corporation.	2-32333	4.29
10-8	Amendment to Exhibit 10.7 dated as of March 12, 1968.	70-4611	B-3
10-9	Stockholder Agreement dated as of May 20, 1968 among the Company and the other stockholders of Maine Yankee Atomic Power Company.	2-32333	4.30
10-10	Power Contract dated as of May 20, 1968 between the Company and Maine Yankee Atomic Power Company.	2-32333	4.31
10-10.1	Amendment No. 1 to Exhibit 10-10 dated as of March 1, 1984.	Annual Report on Form 10-K for the year ended December 31, 1985 of Maine Yankee Atomic Power company (File No. 1-6554)	10-1.1
10-10.2	Amendment No. 2 to Exhibit 10-10 dated as of January 1, 1984.	Annual Report on Form 10-K for the year ended December 31, 1985 of Maine Yankee Atomic Power Company (File No. 1-6554)	10-1.2

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
10-10.3	Amendment No. 3 to Exhibit 10-10 dated as of October 1, 1984.	Annual Report on Form 10-K for the year ended December 31, 1985 of Maine Yankee Atomic Power Company (File No. 1-6554)	10-1.3
10-10.4	Additional Power Contract between the Company and Maine Yankee Atomic Power Company dated February 1, 1984.	Annual Report on Form 10-K for the year ended December 31, 1985 of Maine Yankee Atomic Power Company (File No. 1-6554)	10-1.4
10-11	Capital Funds Agreement dated as of May 20, 1968 between the Company and Maine Yankee Atomic Power Company.	2-32333	4.32
10-11.1	Amendment No. 1 to Exhibit 10-11 dated as of August 1, 1985.	Annual Report on Form 10-K for the year ended December 31, 1985 of Maine Yankee Atomic Power Company (File No. 1-6554)	10-2.1
10-25	Agreement dated as of May 1, 1973 for Joint Ownership, Construction and Operation of New Hampshire Nuclear Units among Public Service Company of New Hampshire and certain other utilities, including the Company.	2-48966	13-57
10-42	Twentieth Amendment to Exhibit 10-25 dated as of September 19, 1986.	Annual Report on Form 10-K for the year ended December 31, 1986	10-42
10-46	Participation Agreement, dated June 20, 1969 among Maine Electric Power Company, Inc., the Company and certain other utilities.	2-35073	4.23.1

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
10-47	Power Purchase and Transmission Agreement dated August 1, 1969, among Maine Electric Power Company, Inc., the Company and certain other utilities, relating to purchase and transmission of power from The New Brunswick Electric Power Commission.	2-35073	4.23.2
10-48	Agreement amending Exhibit 10-47 dated June 24, 1970.	2-37987	4.41
10-49	Agreement supplementing Exhibit 10-47 dated December 1, 1971.	2-51545	5.7.4
10-50	Assignment Agreement dated March 20, 1972, between Maine Electric Power Company, Inc., and the New Brunswick Electric Power Commission.	2-51545	5.7.5
10-51	Capital Funds Agreement dated as of September 1, 1964 among Connecticut Yankee Atomic Power Company, the Company and certain other utilities.	2-24123	4.19.1
10-52	Power Contract dated as of July 1, 1964 among Connecticut Yankee Atomic Power Company, the Company and certain other utilities.	2-24123	4.19.2
10-53	Stockholder Agreement dated as of July 1, 1964 among the stockholders of Connecticut Yankee Atomic Power Company, including the Company.	2-24123	4.19.3
10-54	Connecticut Yankee Transmission Agreement dated as of October 1, 1964 among the stockholders of Connecticut Yankee Atomic Power Company, including the Company.	2-24123	4.19.4
10-55	Agreements with Yankee Atomic Electric Company each dated June 30, 1959, as follows:		

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
10-55.1	Stock Agreement.	2-15553	4.17.1
10-55.2	Power Contract.	2-15553	4.17.2
10.55.3	Research Agreement.	2-15553	4.17.3
10-56	Transmission Agreement with Cambridge Electric Light Company and other sponsoring stockholders of Yankee Atomic Electric Company.	2-15553	4.18
10-57	Agreement for Joint Ownership, Construction and Operation of Wyman Unit No. 4 dated November 1, 1974 among the Company and certain utilities.	2-52900	5.16
10-58	Amendment to Exhibit 10-57 dated as of June 30, 1975.	2-55458	5.48
10-59	Amendment to Exhibit 10-57 dated as of August 16, 1976.	2-58251	5.19
10-60	Amendment to Exhibit 10-57 dated as of December 31, 1978.	2-68184	5.31
10-61	Transmission Agreement dated November 1, 1974 among the Company and certain other utilities, relating to Wyman Unit No. 4.	2-54449	13-57
10-62	Sharing Agreement--1979 Connecticut Nuclear Unit dated September 1, 1973 among the Company and certain other utilities, relating to Millstone Unit No. 3.	2-50142	2.43
10-63	Amendment to Exhibit 10-62 dated as of August 1, 1974, relating to Millstone Unit No. 3.	2-51999	5.16

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
10-64	Agreement dated as of February 25, 1977 among the Company, the Connecticut Light and Power Company, the Hartford Electric Light Company and Western Massachusetts Electric Company, relating to Millstone Unit No. 3.	2-58251	5.24
10-70	Project Agreement dated December 5, 1984 among the Company, the Cities of Lewiston and Auburn, Maine and certain other parties, relating to development of hydro-electric plant.	Annual Report on Form 10-K for the year ended December 31, 1984	10-69
10-73	Trust Indenture dated as of June 1, 1977 between the Town of Yarmouth and Casco Bank & Trust Company, as trustee, relating to the Town of Yarmouth's 6 3/4% Pollution Control Revenue Bonds (Central Maine Power Company, 1977 Series A).	2-60786	5.27
10-74	Installment Sale Agreement dated as of June 1, 1977 between the Town of Yarmouth and the Company.	2-60786	5.28
10-75	Agreements Relating to $11,000,000 Floating/Fixed Rate Pollution Control Revenue Refunding Bonds:		
10-75.1	Bond Purchase Agreement dated as of May 1, 1984.	Quarterly Report on Form 10-Q for the quarter ended June 30, 1984	28.3
10-75.2	Loan Agreement dated as of May 1, 1984.	Quarterly Report on Form 10-Q for the quarter ended June 30, 1984	28.4
10-76	Agreements Relating to $8,500,000 Floating/Fixed Rate Pollution Control Revenue Bonds:		

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
10-76.1	Bond Purchase Agreement dated December 28, 1984.	Annual Report on Form 10-K for year ended December 31, 1984	10-77.1
10-76.2	Loan Agreement dated as of December 1, 1984.	Annual Report on Form 10-K for year ended December 31, 1984	10-77.2
10-77.1	Indenture of Trust dated as of March 14, 1988 between Maine Yankee Atomic Power Company and Maine National Bank relating to decommissioning trust funds.	Annual Report on Form 10-K for year ended December 31, 1987, of Maine Yankee Atomic Power Company (1-6554)	10-1.4
10-77.1(a)	Amended and Restated Indenture of Trust dated as of January 1, 1993 between Maine Yankee Atomic Power Company and The Bank of New York relating to decommissioning trust funds.	Annual Report on Form 10-K for year ended December 31, 1992, of Maine Yankee Atomic Power Company (1-6554)	10-6.1
10-77.2	Indenture of Trust dated as of October 16, 1985 between the Company and Norstar Bank of Maine relating to the spent fuel disposal funds.	Annual Report on Form 10-K for year ended December 31, 1985, of Maine Yankee Atomic Power Company (1-6554)	10-7
10-78	Form of Agreement of Purchase and Sale dated February 19, 1986 between the Company and Eastern Utilities Associates, relating to the sale of the Company's Seabrook Project interest.	Annual Report on Form 10-K for the year ended December 31, 1985	10.79
10-79	Addendum to Agreement of Purchase and Sale dated June 23, 1986, among the Company, Eastern Utilities Associates and EUA Power Corporation, amending Exhibit 10-78.	Quarterly Report on Form 10-Q for the quarter ending June 30, 1986	2.1

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
10-80	Agreement, dated as of October 29, 1986, between the Company and EUA Power Corporation, relating to the sale of the Company's interest in the Seabrook Project.	Quarterly Report on Form 10-Q for the quarter ended September 30, 1986	2.1
10-81	Credit Agreement, dated as of October 15, 1986, among the Company, various banks and Continental Illinois National Bank and Trust Company of Chicago, as agent, establishing the terms of a $40 million unsecured credit facility.	Quarterly Report on Form 10-Q for the quarter ended September 30, 1986	2.2
10-86	Labor Agreement dated as of May 1, 1989 between the Company (Northern, Western and Southern Division) and Local 1837 of the International Brotherhood of Electrical Workers.	Annual Report on Form 10-K for the year ended December 31, 1989	10.86
10-86.1	Agreement dated as of November 25, 1991 extending Labor Contract.	Annual Report on Form 10-K for year ended December 31, 1991	10.86.1
10-89	1987 Executive Incentive Plan, as amended January 20, 1993.*	Annual Report on Form 10-K for year ended December 31, 1992	10.89
10-90	Deferred Compensation Plan for Non-Employee Directors, as amended and restated effective February 1, 1992.*	Annual Report on Form 10-K for year ended December 31, 1992	10.90
10-91	Retirement Plan for Outside Directors, as amended and restated effective April 24, 1991.*	Annual Report on Form 10-K for year ended December 31, 1992	10.91
10-93	Central Maine Power Company Long-Term Incentive Plan.*	Annual Report on Form 10-K for year ended December 31, 1993.	10.93
10-93.1	Transfer of 10-93 to CMP Group	333-49643	-

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
10-94.1	Central Maine Power Company Supplemental Executive Retirement Plan, as Amended and Restated Effective January 1, 1993, and as further Amended Effective January 1, 1996.*	Annual Report on Form 10-K for year ended December 31, 1995	10-94.1
10-95	Competitive Advance and Revolving Credit Facility between the Company and Chemical Bank dated as of November 7, 1994.	Annual Report on Form 10-K for year ended December 31, 1994	10.95
10-98	Credit Agreement dated as of October 23, 1996, between the Company and certain banks.	Annual Report on Form 10-K for year ended December 31, 1996	10-98
10-98.1	Amendment of 10-98 dated as of December 15, 1998	Filed herewith	
10-98.2	Credit Agreement dated as of December 15, 1998, between Central Maine and certain banks	Filed herewith	
10-99	Asset Purchase Agreement, dated as of January 6, 1998, by and between the Company, other sellers, and National Energy Holdings, Inc.	333-35235	99.2
10.100	Employment Agreement between CMP Group and David T. Flanagan dated December 31, 1997	Annual Report on Form 10-K for year ended December 31, 1997	10.100
10.101	Employment Agreement between CMP Group and Arthur W. Adelberg dated January 1, 1998	Annual Report on Form 10-K for year ended December 31, 1997	10.101
10.102	Employment Agreement between CMP Group and David E. Marsh dated January 1, 1998	Annual Report on Form 10-K for year ended December 31, 1997	10.102
10.103	Employment Agreement between CMP Group and Gerald C. Poulin dated January 1, 1998	Annual Report on Form 10-K for year ended December 31, 1997	10.103

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
10.104	Employment Agreement between the Company and Sara J. Burns dated June 30, 1997	Annual Report on Form 10-K for year ended December 31, 1997	10.104
10-105	Employment Agreement between CMP Group and F. Michael McClain dated August 26, 1998	Filed herewith	-
10-106	Employment Agreement between Central Maine and Michael R. Cutter dated June 30, 1997	Filed herewith	-
10-107	Employment Agreement between Central Maine and Curtis I. Call dated June 30, 1997	Filed herewith	-
10-108	Employment Agreement between CMP Group and Anne M. Pare dated June 30, 1997	Filed herewith	-

*Management contract or compensatory plan or arrangement required to be filed in response to Item 14(c) of Form 10-K.

EXHIBIT 11: STATEMENT RE COMPUTATION OF PER SHARE EARNINGS

Not Applicable.

EXHIBIT 12: STATEMENTS RE COMPUTATION OF RATIOS

Not Applicable.

EXHIBIT 13: ANNUAL REPORT TO SECURITY HOLDERS, FORM 10-Q OR QUARTERLY REPORT TO SECURITY HOLDERS

Not Applicable.

EXHIBIT 16: LETTER RE CHANGE IN CERTIFYING ACCOUNTANT

Not Applicable.

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
EXHIBIT 18:	LETTER RE CHANGE IN ACCOUNTING PRINCIPLES Not Applicable.		
EXHIBIT 21:	SUBSIDIARIES OF THE REGISTRANTS	Filed herewith	
EXHIBIT 22:	PUBLISHED REPORT CONCERNING MATTERS SUBMITTED TO VOTE OF SECURITY HOLDERS Not Applicable.		
EXHIBIT 23:	CONSENTS OF EXPERTS AND COUNSEL		
23-1	Consent of PricewaterhouseCoopers LLP to the incorporation by reference of their reports included or incorporated by reference herein in the Company's Registration Statements (File Number 33-36679, 33-39826, 33-44754, 33-51611, 33-56939 and 333-35235) and CMP Group's Registration Statements (File Number 333-49677, 333-49643, and 33-39826).	Filed herewith	
EXHIBIT 24:	POWER OF ATTORNEY Not Applicable.		
EXHIBIT 27:	FINANCIAL DATA SCHEDULE	Filed herewith	
EXHIBIT 28:	INFORMATION FROM REPORTS FURNISHED TO STATE INSURANCE REGULATORY AUTHORITIES Not Applicable.		
EXHIBIT 99:	ADDITIONAL EXHIBITS		

Exhibit No.	Description of Document	SEC Docket	Prior Exhibit No.
	To be filed under cover of a Form 10-K/A amendment of this Form 10-K within 180 days after December 21, 1998, pursuant to Rule 15d-21 under the Securities Exchange Act of 1934:		
99-1 and -2	Information, financial statements and exhibits required by Form 11-K with respect to certain employee savings plans maintained by the Company.		

Central Maine Power Company

VALUATION AND QUALIFYING ACCOUNTS
For the Year Ended December 31, 1998
(Dollars in Thousands)

Description	Balance at Beginning of Period	Additions: Charged to costs and Expenses	Additions: Charged to other accounts-describe	Deductions -describe	Balance at end of period
Reserves deducted from assets to which they apply:					
Uncollectible accounts	$ 2,400	$5,644	$ -	$4,908 (A)	$ 3,136
Reserves not applied against assets:					
Casualty and insurance	$ 1,500	$ 1,379	$	$ 516(C)	$ 2,363
Workers' compensation	8,494	1,485	294(B)	1,779(C)	8,494
Hazardous material clean-up	2,108	(368)		(188)(D)	1,928
Total	$12,102	$2,496	$294	$2,107	$12,785

Notes:
(A) Amounts charged off as uncollectible after deducting customers' deposits and recoveries of accounts previously charged off.
(B) Amounts transferred to capital and billable accounts.
(C) Principally payments for various injuries and damages and expenses in connection therewith.
(D) Amounts charged to regulatory asset account.

Central Maine Power Company

VALUATION AND QUALIFYING ACCOUNTS
For the Year Ended December 31, 1997
(Dollars in Thousands)

Description	Balance at Beginning of Period	Additions: Charged to costs and Expenses	Additions: Charged to other accounts-describe	Deductions -describe	Balance at end of period
Reserves deducted from assets to which they apply:					
Uncollectible accounts	$ 4,177	$5,514	$ -	$7,291(A)	$ 2,400
Reserves not applied against assets:					
Casualty and insurance	$ 1,275	$ 1,862	$	$ 1,637(C)	$ 1,500
Workers' compensation	7,994	1,692	423(B)	1,615(C)	8,494
Hazardous material clean-up	3,639	1,069		2,600(D)	2,108
Total	$12,908	$4,623	$423	$5,852	$12,102

Notes:
(A) Amounts charged off as uncollectible after deducting customers' deposits and recoveries of accounts previously charged off.
(B) Amounts transferred to capital and billable accounts.
(C) Principally payments for various injuries and damages and expenses in connection therewith.
(D) Amounts charged to regulatory asset account.

Central Maine Power Company

VALUATION AND QUALIFYING ACCOUNTS
For the Year Ended December 31, 1996
(Dollars in Thousands)

Description	Balance at Beginning of Period	Additions: Charged to costs and Expenses	Additions: Charged to other accounts-describe	Deductions -describe	Balance at end of period
Reserves deducted from assets to which they apply:					
Uncollectible accounts	$ 3,313	$7,396	$ -	$6,532(A)	$ 4,177
Reserves not applied against assets:					
Casualty and insurance	$ 1,275	$ 798	$	$ 798(C)	$ 1,275
Workers' compensation	6,400	2,820	270(B)	1,496(C)	7,994
Hazardous material clean-up	3,540	895	—	796(D)	3,639
Total	$11,215	$4,513	$270	$3,090	$12,908

Notes:
(A) Amounts charged off as uncollectible after deducting customers' deposits and recoveries of accounts previously charged off.
(B) Amounts charged to capital accounts.
(C) Principally payments for various injuries and damages and expenses in connection therewith.
(D) Amounts charged to regulatory asset account.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1999

OR

_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number	Registrant, State of Incorporation, Address, and Telephone Number	I.R.S. Employer Identification No.
001-14786	CMP GROUP, INC. 83 Edison Drive, Augusta, Maine 04336 (207) 623-3521	01-0519429
1-5139	CENTRAL MAINE POWER COMPANY 83 Edison Drive, Augusta, Maine 04336 (207) 623-3521	01-0042740

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to the filing requirements for at least the past 90 days.

CMP Group, Inc.: Yes X No _
Central Maine Power Company: Yes X No _

This combined Form 10-Q is separately filed by CMP Group, Inc., and Central Maine Power Company. Information contained herein relating to either individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrant.

As of August 6, 1999, the number of shares of Common Stock outstanding for each registrant was as follows:

Registrant	Shares
CMP Group, Inc., Common Stock, $5 Par Value	32,442,552
Central Maine Power Company, Common Stock, $5 Par Value (All held by CMP Group, Inc.)	31,211,471

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GLOSSARY

The following abbreviations or acronyms are used in the text of this Form 10-Q as defined below:

Term	Definition
Form 10-K	Annual Report on Form 10-K
ARP	Alternative Rate Plan
APB	Accounting Principles Board
Assigned Agreements	Maine Yankee's Power Contracts, Additional Power Contracts and Capital Funds Agreements, as amended, with its Sponsors.
Central Maine	Central Maine Power Company, a regulated electric utility and subsidiary of CMP Group.
Central Securities	Central Securities Corporation, a wholly owned subsidiary of Central Maine which owns and manages real estate.
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act.
CMP Group	CMP Group, Inc., is the holding company organized effective September 1, 1998, which owns all of the common stock of Central Maine Power Company, Union Water Power Company, MaineCom Services, CNEX, MainePower, TeleSmart and New England Gas Development.
CMP Group System	CMP Group and its wholly-owned and directly and indirectly controlled subsidiaries.
CMP Natural Gas	CMP Natural Gas, L.L.C., a limited-liability company owned by subsidiaries of CMP Group and Energy East to distribute natural gas in Maine.
CNEX	A wholly owned subsidiary of CMP Group, (previously called CMP International Consultants), which provides utility consulting (domestic and international) and research.
Connecticut DPUC	Connecticut Department of Public Utility Control
Cumberland Securities	Cumberland Securities Corporation, a wholly owned subsidiary of Central Maine which owns and manages real estate.
Connecticut Yankee	Connecticut Yankee Atomic Power Company

GLOSSARY

Term	Definition
D&P	Duff & Phelps Credit Rating Co.
DOE	United States Department of Energy
DOJ	United States Department of Justice
EE Merger Corp.	A Maine corporation that is a wholly-owned subsidiary of Energy East
EITF	Emerging Issues Task Force of FASB
Energy East	Energy East Corporation, a New York holding company which is an energy delivery, products and services company doing business in New York, Massachusetts, Maine and New Hampshire, in addition to being the parent company of NYSEG effective May 1, 1998, and which entered into an Agreement and Plan of Merger dated as of June 14, 1999, with CMP Group and EE Merger Corp.
EPA	United States Environmental Protection Agency.
EPS	Earnings per share
ERAM	Electric Revenue Adjustment Mechanism
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
FERC	Federal Energy Regulatory Commission
FEV	Fairfield Energy Venture
FPL	FPL Group, Inc.
Indenture	General and Refunding Mortgage Indenture between Central Maine and State Street Bank and Trust Company, Trustee, dated as of April 15, 1976, as amended and supplemented.
IPO	Initial Public Offering
IRC	Internal Revenue Code
IRS	United States Internal Revenue Service
ISO	Independent System Operator
Kwh	Kilowatt-hour

GLOSSARY

Term	Definition
MaineCom	MaineCom Services, a CMP Group subsidiary which arranges fiber-optic data service for bulk carriers.
Maine Yankee	Maine Yankee Atomic Power Company, a 38-percent owned subsidiary of Central Maine.
MEPCO	Maine Electric Power Company, Inc., a 78-percent owned subsidiary of Central Maine which owns a 345-KV transmission line from Wiscasset, Maine, to New Brunswick, Canada.
Merger Agreement	The Agreement and Plan of Merger dated as of June 14, 1999, by and among CMP Group, Energy East and EE Merger Corp.
MRS	Monitored Retrievable Storage
Moody's	Moody's Investors Service
MPUC	Maine Public Utilities Commission
NB Power	New Brunswick Power Corporation.
NEON	NorthEast Optic Network, Inc., a corporation of which MaineCom owns 38.5-percent of the common stock, which is building a fiber optic network in New England and New York.
NEPOOL	New England Power Pool
NERC	North American Electric Reliability Council
NORVARCO	A wholly-owned subsidiary of Central Maine. NORVARCO is one of two general partners with 50% interests in Chester SVC Partnership, which owns a static var compensator facility located in Chester, Maine.
NPCC	Northeast Power Coordinating Council
NRC	United States Nuclear Regulatory Commission
NYSEG	New York State Electric & Gas Corporation, a utility subsidiary of Energy East.
NUG	Non-utility generator
New England Gas Development	New England Gas Development Corporation, a wholly-owned subsidiary of CMP Group created in September 1998 to hold up to a 50-percent ownership interest in CMP Natural Gas.
OASIS	Open Access Same-time Information System.

GLOSSARY

Term	Definition
OPA	Maine Office of the Public Advocate
Plant	Maine Yankee nuclear generating plant at Wiscasset, Maine
PURPA	Public Utility Regulatory Policies Act of 1978.
RCRA	Resource Conservation and Recovery Act.
SAB	Securities and Exchange Commission's Staff Accounting Bulletins.
S&P	Standard & Poor's Corp.
SEC	Securities and Exchange Commission
Secondary Purchasers	28 municipal and cooperative utilities that had purchased Maine Yankee power under identical contracts with Maine Yankee sponsors.
SFAS	Statement of Financial Accounting Standards
TeleSmart	A wholly owned subsidiary of CMP Group which provides accounts receivable management.
Union Water	The Union Water Power Company, a wholly owned subsidiary of CMP Group.
Vermont Yankee	Vermont Yankee Nuclear Power Corporation.
Waste Act	Federal Low-level Radioactive Waste Policy Amendments Act.
Yankee Atomic	Yankee Atomic Electric Company

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

In the opinion of CMP Group, the unaudited financial statements included herein reflect all adjustments necessary to present fairly the Consolidated Balance Sheet as of June 30, 1999, and the Consolidated Statement of Income and Consolidated Cash Flows for the periods ended June 30, 1999 and 1998. CMP Group is the parent holding company of Central Maine, Union Water, MaineCom, CNEX and New England Gas Development. Central Maine constitutes substantially all of CMP Group's assets, revenues and expenses. All nonutility operating transactions are included in other non-utility revenues and operating expenses in CMP Group's Consolidated Statement of Income.

CMP Group, Inc. and Subsidiaries
Consolidated Statement Of Earnings
(Unaudited)
(Dollars in thousands, except per-share amounts)

	For the Three Months Ended June 30,	
	1999	1998
Revenues		
Electric operating revenues	$ 214,686	$208,216
Other non-utility revenues	10,482	1,113
Total Revenues	225,168	209,329
Operating Expenses		
Fuel used for company generation	1,260	7,909
Purchased power		
Energy	88,842	85,469
Other (capacity)	31,214	21,086
Other operation	64,747	52,180
Maintenance	8,025	8,564
Depreciation and amortization	12,005	13,808
Taxes other than income taxes	4,748	5,987
Total Operating Expenses	210,841	195,003
Operating Income	14,327	14,326
Other Income (Expense)		
Equity in earnings of associated companies	320	157
Allowance for equity funds used during construction	115	115
Other, net	6,961	975
Minority interest in consolidated net income	(69)	(66)
Gain on sale of investments and properties	6,022	12
Total Other Income (Expense)	13,349	1,193
Interest Charges		
Long-term debt	7,579	10,649
Other interest	11,950	2,351
Allowance for borrowed funds used during construction	(77)	(72)
Total Interest Charges	19,452	12,928
Income Before Income Taxes and Preferred Dividends	8,224	2,591
Income taxes	3,264	945
Dividends on Preferred Stock of Subsidiary	919	1,074
Net Income	$ 4,041	$ 572
Weighted Average Number Of Shares Of Common Stock Outstanding	32,442,552	32,442,752
Earnings Per Share Of Common Stock - Basic	$0.12	$0.02
Earnings Per Share Of Common Stock - Diluted	$0.12	$0.02
Dividends Declared Per Share Of Common Stock	$0.225	$0.225

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

CMP Group, Inc. and Subsidiaries
Consolidated Statement Of Earnings
(Unaudited)
(Dollars in thousands, except per-share amounts)

	For the Six Months Ended June 30,	
	1999	1998
Revenue		
Electric operating revenues	$485,380	$456,961
Other non-utility revenues	16,421	1,810
Total Revenues	501,801	458,771
Operating Expenses		
Fuel used for company generation	10,207	11,981
Purchased power		
Energy	183,317	189,764
Other (capacity)	53,988	45,462
Other operation	117,951	97,954
Maintenance	16,299	18,679
Depreciation and amortization	26,677	27,630
Taxes other than income taxes	12,153	13,041
Total Operating Expenses	420,592	404,511
Operating Income	81,209	54,260
Other Income (Expense)		
Equity in earnings of associated companies	(2,659)	1,748
Allowance for equity funds used during construction	307	289
Other, net	8,196	1,611
Minority interest in consolidated net income	(694)	(114)
Gain on sale of investments and properties	13,033	11
Total Other Income (Expense)	18,183	3,545
Interest Charges		
Long-term debt	18,132	21,499
Other interest	13,330	4,027
Allowance for borrowed funds used during construction	(214)	(199)
Total Interest Charges	31,248	25,327
Income Before Income Taxes	68,144	32,478
Income taxes	29,008	12,537
Dividends on Preferred Stock of Subsidiary	1,838	2,971
Net Income	$ 37,298	$ 16,970
Weighted Average Number Of Shares Of Common Stock Outstanding	32,442,552	32,442,752
Earnings Per Share Of Common Stock – Basic	$1.15	$0.52
Earnings Per Share Of Common Stock – Diluted	$1.14	$0.52
Dividends Declared Per Share Of Common Stock	$0.45	$0.45

The accompanying notes are an integral part of these financial statements

CMP Group, Inc. and Subsidiaries
Consolidated Balance Sheet
(Dollars in thousands)

ASSETS	June 30, 1999 (Unaudited)	December 31, 1998
Current Assets		
Cash and cash equivalents	$ 335,094	$ 30,540
Accounts receivable, less allowance for uncollectible accounts of $2,953 in 1999 and $3,136 in 1998		
Service - billed	69,277	81,169
- unbilled	44,918	53,296
Other accounts receivable	11,559	13,753
Inventories, at average cost		
Fuel oil	100	5,879
Materials and supplies	8,899	13,126
Funds on deposit with trustee	1	1
Prepayments and other current assets	4,230	10,268
Total Current Assets	474,078	208,032
Electric Property, at original cost	1,321,053	1,750,837
Less: Accumulated depreciation	540,591	694,410
Net electric property in service	780,462	1,056,427
Property, non utility	19,464	23,244
Less: Accumulated Depreciation	5,592	6,802
Net Non-Utility property	13,872	16,442
Construction work in progress	14,823	19,538
Nuclear fuel	1,830	1,147
Total net property	810,987	1,093,554
Investments In Associated Companies, at equity	58,209	71,880
Total Net Property and Investments in Associated Companies	869,196	1,165,434
Deferred Charges And Other Assets		
Recoverable costs of Seabrook 1 and abandoned projects, net	75,795	78,539
Yankee Atomic purchased-power contract	5,466	7,761
Connecticut Yankee purchased-power contract	27,927	29,913
Maine Yankee purchased-power contract	256,410	273,895
Regulatory assets-nuclear impairment	82,982	-
Regulatory assets - deferred taxes	212,045	235,451
Other deferred charges and other assets	253,691	263,859
Deferred Charges and Other Assets, Net	914,316	889,418
Total Assets	$2,257,590	$2,262,884

The accompanying notes are an integral part of these financial statements

CMP Group, Inc. and Subsidiaries
Consolidated Balance Sheet
(Dollars in thousands)

STOCKHOLDERS' EQUITY AND LIABILITIES	June 30, 1999 (Unaudited)	December 31, 1998
Current Liabilities and Interim Financing		
Interim financing	$ 101,628	$ 298,356
Sinking-fund requirements	18,716	11,455
Accounts payable	63,931	90,960
Dividends payable	8,243	7,304
Accrued interest	3,604	7,524
Accrued income taxes	154,386	19,911
Miscellaneous current liabilities	18,402	15,909
Total Current Liabilities and Interim Financing	368,910	451,419
Commitments and Contingencies (Note 4)		
Other Liabilities and Deferred Credits		
Accumulated deferred income taxes	68,744	376,043
Unamortized investment tax credits	14,347	29,064
Yankee Atomic purchased-power contract	5,466	7,761
Connecticut Yankee purchased-power contract	27,927	29,913
Maine Yankee purchased-power contract	256,410	273,895
Regulatory liabilities-nuclear impairment	16,642	-
Regulatory liabilities - deferred taxes	60,504	58,376
Deferred gain on generation asset sale	520,861	-
Other reserves and deferred credits	197,658	116,805
Total Other Liabilities and Deferred Credits	1,168,559	891,857
Long-Term Debt		
Mortgage debt	-	117,683
Other long-term obligations	124,205	228,598
Total Long-Term Obligations	124,205	346,281
Redeemable Preferred Stock	18,910	18,910
Stockholders' Equity		
Common-stock	162,213	162,213
Other paid in capital	286,035	285,835
Reacquired common stock	(987)	(827)
Retained earnings	94,217	71,668
Preferred stock	35,528	35,528
Total Stockholders' Equity	577,006	554,417
Total Stockholders' Equity and Liabilities	$2,257,590	$2,262,884

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

CMP Group, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	For the Six Months ended June 30, 1999	1998
CASH FROM OPERATIONS		
Net income	$ 37,298	$ 16,970
Items not requiring (not providing) cash:		
Depreciation	21,627	22,566
Amortization	19,2[illegible]9	19,062
Deferred income taxes and investment tax credits, net	(14,739)	24,676
Allowance for equity funds used during construction	(307)	(289)
Preferred stock dividends of subsidiary	1,838	2,971
Gain on sale of investments and properties	(13,033)	-
Incremental power supply	(13,903)	-
Changes in certain assets and liabilities:		
Accounts receivable	22,464	27,262
Other current assets	4,302	2,827
Inventories	1,455	(2,523)
Accounts payable	(22,246)	(25,424)
Accrued taxes and interest	4,103	(12,528)
Miscellaneous current liabilities	2,220	7,767
Deferred ice storm cost	-	(51,323)
Deferred energy-management costs	(631)	(1,428)
Restructuring of purchased power contract	-	(22,500)
Carrying cost	4,631	-
Other, net	1,323	5,954
Net Cash Provided by Operating Activities	55,671	14,040
INVESTING ACTIVITIES		
Construction expenditures	(21,470)	(21,059)
Investments in and loans to affiliates	-	(18,120)
Central Maine sale of assets	850,629	-
Tax payments related to sale of assets	(153,650)	-
Selling expense for sale of generation assets	(11,697)	-
Proceeds from sale of investments and properties	18,119	-
Changes in accounts payable - investing activities	(4,783)	(2,090)
Net Cash Provided (Used) by Investing Activities	677,148	(41,269)
FINANCING ACTIVITIES		
Issuances:		
Revolving credit agreement	-	18,500
Medium-term notes	-	117,000
Redemptions:	-	
Mortgage bonds	(118,717)	(117,283)
Preferred stock	-	(41,618)
Medium-term note	(217,000)	(10,000)
Revolving credit agreement	(50,000)	-
Other long-term obligations	(11,860)	(575)
Short-term obligations, net	(15,000)	-
Funds on deposit with trustee	-	61,694
Purchase of treasury stock	(160)	-
Dividends:		
Common stock	(14,609)	(14,609)
Preferred stock of subsidiary	(919)	(3,794)
Net Cash Provided (Used) by Financing Activities	(428,265)	9,315
Net Increase (Decrease) in Cash	304,554	(17,914)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	30,540	20,841
CASH AND CASH EQUIVALENTS, END OF YEAR	$335,094	$ 2,927

For purposes of the statement of cash flows, the Company considers all highly liquid instruments purchased having a maturity of three months or less to be cash equivalents.

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

In the opinion of Central Maine, the unaudited financial statements included herein reflect all adjustments necessary to present fairly the Consolidated Balance Sheet as of June 30, 1999, and the Consolidated Statement of Income and Consolidated Cash Flows for the periods ended June 30, 1999 and 1998. Central Maine's consolidated financial statements include the accounts of Central Maine and its wholly owned and controlled subsidiaries. All nonutility operating transactions are included in other non-utility revenues and operating expenses in Central Maine's Consolidated Statement of Income.

Central Maine Power Company and Subsidiaries
Consolidated Statement Of Earnings
(Unaudited)
(Dollars in thousands, except per-share amounts)

	For the Three Months Ended June 30,	
	1999	1998
Revenues		
Electric operating revenues	$214,737	$208,216
Other non-utility revenues	631	1,113
Total Revenues	215,368	209,329
Operating Expenses		
Fuel used for company generation	1,260	7,909
Purchased power		
Energy	88,842	85,469
Other (capacity)	31,214	21,086
Other operation	55,518	52,180
Maintenance	7,978	8,564
Depreciation and amortization	11,757	13,808
Taxes other than income taxes	4,735	5,987
Total Operating Expenses	201,304	195,003
Operating Income	14,064	14,326
Other Income (Expense)		
Equity in earnings of associated companies	2,712	157
Allowance for equity funds used during construction	115	115
Other, net	6,225	975
Minority interest in consolidated net income	(69)	(66)
Gain on sale of investments and properties	24	12
Total Other Income (Expense)	9,007	1,193
Interest Charges		
Long-term debt	7,534	10,649
Other interest	11,793	2,351
Allowance for borrowed funds used during construction	(77)	(72)
Total Interest Charges	19,250	12,928
Income Before Income Taxes	3,821	2,591
Income taxes	567	945
Net Income	3,254	1,646
Dividends on Preferred Stock	919	1,074
Earnings Applicable to Common Stock	$ 2,335	$ 572
Weighted Average Number Of Shares Of Common Stock Outstanding	31,211,471	32,442,752
Earnings Per Share Of Common Stock - Basic and Diluted	$0.07	$0.02
Dividends Declared Per Share Of Common Stock	$0.36	$0.225

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

Central Maine Power Com[illegible] and Subsidiaries
Consolidated Statement Of Earnings
(Unaudited)
(Dollars in thousands, except per-share amounts)

	For the Six Months Ended June 30,	
	1999	1998
Revenues		
Electric operating revenues	$485,307	$456,961
Other non-utility revenues	1,110	1,810
Total Revenues	486,417	458,771
Operating Expenses		
Fuel used for company generation	10,207	11,981
Purchased power		
Energy	183,317	189,764
Other (capacity)	53,988	45,462
Other operation	103,367	97,954
Maintenance	16,039	18,679
Depreciation and amortization	26,206	27,630
Taxes other than income taxes	12,096	13,041
Total Operating Expenses	405,220	404,511
Operating Income	81,197	54,260
Other Income (Expense)		
Equity in earnings of associated companies	3,683	1,748
Allowance for equity funds used during construction	307	289
Other, net	6,799	1,611
Minority interest in consolidated net income	(694)	(114)
Gain on sale of investments and properties	7,034	11
Total Other Income (Expense)	17,129	3,545
Interest Charges		
Long-term debt	18,038	21,499
Other interest	13,166	4,027
Allowance for borrowed funds used during construction	(214)	(199)
Total Interest Charges	30,990	25,327
Income Before Income Taxes	67,336	32,478
Income taxes	26,435	12,537
Net Income	40,901	19,941
Dividends on Preferred Stock	1,838	2,971
Earnings Applicable to Common Stock	$ 39,063	$ 16,970
Weighted Average Number Of Shares Of Common Stock Outstanding	31,211,471	32,442,752
Earnings Per Share Of Common Stock (Basic and Diluted)	$1.25	$0.52
Dividends Declared Per Share Of Common Stock	$0.585	$0.450

The accompanying notes are an integral part of these financial statements

Central Maine Power Company and Subsidiaries
Consolidated Balance Sheet
(Dollars in thousands)

ASSETS	June 30, 1999 (Unaudited)	December 31, 1998
Current Assets		
Cash and cash equivalents	$ 314,097	$ 22,628
Accounts receivable, less allowance for uncollectible accounts of $2,953 in 1999 and $3,136 in 1998		
Service - billed	68,676	81,082
- unbilled	44,918	53,110
Other accounts receivable	19,504	12,698
Inventories, at average cost		
Fuel oil	100	5,879
Materials and supplies	8,431	12,755
Funds on deposit with trustee	1	1
Prepayments and other current assets	4,136	10,161
Total Current Assets	459,863	198,314
Electric Property, at original cost	1,321,024	1,750,777
Less: Accumulated depreciation	540,565	694,463
Net electric property in service	780,459	1,056,314
Property, Non-Utility	12,838	15,895
Less: Accumulated Depreciation	3,603	4,150
Non-Utility Property	9,235	11,745
Construction work in progress	14,092	19,483
Nuclear fuel	1,830	1,147
Total net property	805,616	1,088,689
Investments In Associated Companies, at equity	40,472	48,406
Total Net Property and Investments in Associated Companies	846,088	1,137,095
Deferred Charges And Other Assets		
Recoverable costs of Seabrook 1 and abandoned projects, net	75,795	78,539
Yankee Atomic purchased-power contract	5,466	7,761
Connecticut Yankee purchased-power contract	27,927	37,913
Maine Yankee purchased-power contract	256,410	273,895
Regulatory assets-nuclear impairment	82,982	-
Regulatory assets - deferred taxes	212,045	225,451
Other deferred charges and other assets	249,081	262,512
Deferred Charges and Other Assets, Net	909,706	888,071
Total Assets	$2,215,657	$2,223,480

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

Central Maine Power Company and Subsidiaries
Consolidated Balance Sheet
(Dollars in thousands)

STOCKHOLDERS' EQUITY AND LIABILITIES	June 30, 1999 (Unaudited)	December 31, 1998
Current Liabilities and Interim Financing		
Interim financing	$ 101,383	$ 298,183
Sinking-fund requirements	18,716	11,455
Accounts payable	230	93,012
Dividends payable	43	5
Accrued interest	379	7,491
Income taxes payable to parent company	154,502	20,822
Miscellaneous current liabilities	17,423	15,455
Total Current Liabilities and Interim Financing	365,776	446,423
Commitments and Contingencies (Note 4)		
Other Liabilities and Deferred Credits		
Accumulated deferred income taxes	65,281	372,243
Unamortized investment tax credits	14,347	29,064
Yankee Atomic purchased-power contract	5,466	7,761
Connecticut Yankee purchased-power contract	27,927	29,913
Maine Yankee purchased-power contract	256,410	273,895
Regulatory liabilities-nuclear impairment	16,642	-
Regulatory liabilities - deferred taxes	60,504	58,376
Deferred gain on generation asset sale	520,861	-
Other reserves and deferred credits	189,370	111,506
Total Other Liabilities and Deferred Credits	1,156,808	882,758
Long-Term Debt		
Mortgage debt	-	117,683
Other long-term obligations	121,803	226,151
Total Long-Term Obligations	121,803	343,834
Redeemable Preferred Stock	18,910	18,910
Stockholders' Equity		
Common-stock	162,213	162,213
Other paid in capital	276,572	276,422
Reacquired common stock	(19,000)	(19,000)
Retained earnings	97,004	76,349
Preferred stock	35,571	35,571
Total Stockholders' Equity	552,360	531,555
Total Stockholders' Equity and Liabilities	$2,215,657	$2,223,480

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

Central Maine Power Company and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	For the Six Months Ended June 30,	
	1999	1998
CASH FROM OPERATIONS		
Net income	$ 40,901	$ 19,941
Items not requiring (not providing) cash:		
Depreciation	21,161	22,566
Amortization	19,262	19,062
Deferred income taxes and investment tax credits, net	(14,407)	24,676
Allowance for equity funds used during construction	(307)	(289)
Gain on Sale of Investments and Properties	(7,034)	-
Incremental power supply	(13,903)	-
Changes in certain assets and liabilities:		
Accounts receivable	13,792	27,262
Other current assets	4,669	2,827
Inventories	1,552	(2,523)
Accounts payable	(18,989)	(25,424)
Accrued taxes and interest	3,316	(12,528)
Miscellaneous current liabilities	1,695	7,767
Deferred Ice storm costs	-	(51,323)
Deferred energy-management costs	(631)	(1,428)
Restructuring of purchased power contract	-	(22,500)
Carrying cost	4,631	-
Other, net	36	5,954
Net Cash Provided by Operating Activities	55,744	14,040
INVESTING ACTIVITIES		
Construction expenditures	(20,786)	(21,059)
Investments in and loans to affiliates	-	(18,120)
Central Maine sale of assets	850,629	-
Tax payments related to sale of assets	(153,650)	-
Selling expense for sale of generation assets	(11,697)	-
Proceeds from sale of investments and properties	7,813	-
Changes in accounts payable - investing activities	(4,793)	(2,090)
Net Cash Provided (Used) by Investing Activities	667,516	(41,269)
FINANCING ACTIVITIES		
Issuances:		
Revolving credit agreement	-	18,500
Medium-term notes	-	117,000
Redemptions:		
Mortgage bonds	(118,717)	(117,283)
Preferred stock	-	(41,618)
Medium term notes	(217,000)	(10,000)
Revolving Credit Agreement	(50,000)	-
Other long-term obligations	(11,887)	(5[illegible])
Short-term obligations	(15,000)	-
Funds on deposit with trustee	-	61,694
Dividends:		
Common stock	(18,268)	(14,609)
Preferred stock	(919)	(3,794)
Net Cash Provided (Used) by Financing Activities	(431,791)	9,315
Net Increase (Decrease) in Cash	291,469	(17,914)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	22,628	20,841
CASH AND CASH EQUIVALENTS, END OF PERIOD	$314,097	$ 2,927

For purposes of the statement of cash flows, the Company considers all highly liquid instruments purchased having a maturity of three months or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

General Description - CMP Group was organized effective September 1, 1998, at which time all of the shares of common stock of Central Maine were converted into an equal number of shares of common stock of CMP Group. CMP Group owns all of the shares of common stock of Central Maine and the former non-utility subsidiaries of Central Maine (TeleSmart, MaineCom, CNEX and Union Water Power Company) in addition to New England Gas Development Corporation, a subsidiary organized in 1998.

Central Maine is a public utility primarily engaged in the sale, transmission, and distribution of electric energy at the wholesale and retail levels to residential, commercial, industrial, and other classes of customers in the State of Maine.

Basis of Presentation - This Quarterly Report on Form 10-Q is a combined report of CMP Group and Central Maine, a regulated electric-utility subsidiary of CMP Group. The Notes to Consolidated Financial Statements apply to both CMP Group and Central Maine. CMP Group's consolidated financial statements include the accounts of CMP Group and its wholly owned and controlled subsidiaries, including Central Maine. Central Maine's consolidated financial statements include its accounts as well as those of its wholly owned and controlled subsidiaries. Certain immaterial majority owned subsidiaries, which were previously accounted for on the equity method, were consolidated in September 1998. For all periods prior to September 1, 1998, the historic financial position and results of operations of CMP Group reflect the activity of Central Maine.

Central Maine's financial position and results of operations account for substantially all of CMP Group's consolidated financial position and results of operations. This quarterly report should be read in conjunction with CMP Group's and Central Maine's Annual Report on Form 10-K for the year ended December 31, 1998.

CMP Group and Central Maine believe that the accompanying statements reflect all adjustments necessary to present a fair statement of the consolidated financial position and results of operations for the interim periods. All material adjustments are of a normal recurring nature unless otherwise disclosed in this Form 10-Q. All significant intercompany transactions have been eliminated from the consolidated financial statements.

Results shown for the respective interim periods being reported herein are not necessarily indicative of results to be expected for the fiscal years due to seasonal factors which are inherent in electric utilities in New England. A greater proportionate amount of revenues is earned in the first and fourth quarters (winter season) of most years because more electricity is sold due to weather conditions, fewer day-light hours, and related factors.

For purposes of the statement of cash flows, CMP Group and Central Maine consider all highly liquid instruments purchased having maturities of three months or less to be cash equivalents.

Supplemental Cash Flow Disclosure - Cash paid for the six months ended June 30, 1999 and 1998:

	(In Millions) 1999	1998
CMP Group		
Interest, net of amounts capitalized	$ 26.9	$24.0
Income taxes	195.6	2.6
Central Maine		
Interest, net of amounts capitalized	26.8	24.0
Income Taxes	193.4	2.6

Stock-Based Compensation - Under CMP Group's Long-Term Incentive Plan, options on CMP Group common stock were granted in 1998 and 1999 with an exercise price equal to the fair market value on the date of the grants. The term of all options granted is seven (7) years. One third of the options vest annually, commencing on the first anniversary of the option grant date, except for 1998 options which were entirely vested in 1999. Upon vesting, the stock options are exercisable during periods of active employment or within thirty (30) days after termination of employment, provided termination did not occur due to cause. Upon the effectiveness of the proposed merger of CMP Group with Energy East all such stock options will be cancelled and the holders of the options will be entitled to payment by CMP Group of the excess of $29.50 per share over the exercise price per share of the options.

Performance shares are granted at the beginning of a 3-year performance cycle. Performance shares were granted in 1997, 1998 and 1999. All three grants have a three-year cycle and are being accrued accordingly; in the event performance goals for a performance cycle are achieved, common stock is awarded at the end of that performance cycle. If performance goals are not achieved, the performance shares are forfeited. As of the effective date of the proposed merger, it is intended that performance shares for cycles that are not completed will vest and grantees will be entitled to payment of $29.50 for each performance share that vests.

	1997	1998	1999
Options granted	-	233,359	254,304
Performance Shares*	59,125	64,518	67,150

*Accrue over a 3-year cycle.

Earnings per Share - Stock options and performance shares granted to date under CMP Group's Long-Term Incentive Plan resulted in incremental shares of common stock outstanding for purposes of computing both basic and diluted earnings per share for the three and six month periods ended June 30, 1999. The incremental number of shares for the three

months ending June 30, 1999 is 216,524 and 173,487 for the six months ending June 30, 1999.

Reclassification - Certain amounts from prior years financial statements have been reclassified to conform to the current year presentation.

Impact of New Accounting Standards - In June 1998, the FASB issued SFAS No. 133, Accounting for Derivatives and Hedging Activities. It requires companies to record derivatives on the balance sheet at their fair value depending on the intended use of the derivative. The new standard applies to all entities and the original effective date was June 15, 1999. On May 19, 1999 the FASB determined that the statement should be delayed for one year. Based on CMP Group and Central Maine's current business practices the adoption of this standard is not anticipated to have a significant impact on their financial statements.

2. Merger Agreement With Energy East

On June 14, 1999, CMP Group, Energy East and EE Merger Corp., a wholly-owned subsidiary of Energy East, entered into an Agreement and Plan of Merger ("Merger Agreement"). Pursuant to the Merger Agreement, EE Merger Corp. will merge into CMP Group, with CMP Group becoming the surviving company and becoming a wholly-owned subsidiary of Energy East. CMP Group shareholders will receive $29.50 per share in cash if the merger is consummated.

The merger is subject to certain customary closing conditions, including without limitation the receipt of the required approvals of CMP Group's shareholders and a number of governmental agencies, including the MPUC, Connecticut DPUC, SEC, FERC, NRC and the FCC, and the making of all other necessary governmental filings. It is anticipated that the shareholder vote will take place in the fall of 1999 and that all regulatory approvals can be obtained by June of 2000.

3. Accounting for the Effects of Certain Types of Regulation

Central Maine prepares its financial statements in accordance with SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation," which requires rate regulated companies to reflect the effects of regulatory decisions in their financial statements. Central Maine has deferred certain costs pursuant to rate actions of the MPUC and FERC and is recovering, or expects to recover, such costs in electric, transmission and distribution rates charged to customers.

The FASB's EITF has addressed the appropriateness of continued application of SFAS No. 71 by entities in states that have enacted restructuring legislation similar to Maine's. The EITF issued its statement No. 97-4 "Deregulation of Pricing Electricity – Issues Related to the Application of FASB Statements 71 and 101", which concluded that an entity should cease to apply SFAS 71 when a deregulation plan is in place and its terms are known. With respect to the generation portion of Central Maine's business, this occurred during the second quarter of 1999 with the completion of the sale of most of its generation assets to FPL and the subsequent development of a compliance filing with the MPUC in Phase II of the

ongoing MPUC proceeding on stranded costs, revenue requirements and rate design. Effective June 30,1999, Central Maine adopted SFAS 101 for the generation segment of its business. SFAS No. 101 "Regulated Enterprises - Accounting for the Discontinuation of Application of FASB Statement No. 71," requires a determination of impairment of plant assets under SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the elimination of all effects of rate regulation that have been recognized as assets and liabilities under SFAS 71.

Central Maine performed impairment tests on its two operating nuclear generation facilities, Millstone 3 and Vermont Yankee, on a plant specific basis and determined that $82.9 million was impaired as of June 30,1999. Impaired plant is the excess of net plant investment at June 30, 1999 over the value of net cash flows during the remaining lives of the investments. Annual net cash flows were determined by subtracting estimated generation sustenance costs from the estimated market value of power from the plants. The MPUC in its Phase I order dated March 19,1999 in the ongoing proceeding provided for future recovery of nuclear generation and other generation related stranded costs. Central Maine has established a regulatory asset as of June 30, 1999 for $82.9 million consistent with that order associated with the two operating nuclear investments. As a result there is no income impact from these impairment tests but rather recognition of the impairment and a corresponding regulatory asset.

Central Maine has long term power purchase contracts with NUGs which require payments above anticipated market rates. The estimate of above-market payment is approximately $800 million. The costs associated with these NUG contracts remain a regulated obligation of the transmission and distribution company as a statutory requirement and have been provided for by the MPUC in its revenue requirement determination in Phase I of the above mentioned proceeding.

Central Maine believes that its electric transmission and distribution operations continue to meet the requirements of SFAS 71 and that regulatory assets associated with those operations as well as any generation-related costs that the MPUC has determined to be recoverable from ratepayers also meet the criteria. At June 30,1999, $958.7 million of regulatory assets remain on Central Maine's books. Approximately $214.4 million will be charged against the estimated deferred gain and associated carrying costs through March 1, 2000 of $548.6 million resulting from the generation asset sale while the remainder will be amortized over periods to be determined by the MPUC in Phase II of the above mentioned proceeding.

4. Commitments and Contingencies

Permanent Shutdown of Maine Yankee Plant - In August 1997 the board of directors of Maine Yankee voted to permanently cease power operations at the Maine Yankee plant at Wiscasset, Maine (the "Plant") and to decommission the Plant. In November 1997 Maine Yankee submitted to FERC revised rates reflecting the decision to shut down the Plant, including amendments to its Power Contracts. On January 14, 1998, FERC accepted the new rates for filing, subject to refund, and set the new rates, the Power Contract amendments, and issues concerning the prudence of the Plant-shutdown decision for hearing.

Since the filing of the rate request, Maine Yankee and the active intervenors, including among others the MPUC Staff, the Maine Office of the Public Advocate ("OPA"), Central Maine and other owners, municipal and cooperative purchasers of Maine Yankee Power (the "Secondary Purchasers"), and a Maine environmental group (the "Settling Parties"), engaged in extensive discovery and negotiations which resulted in a settlement agreement filed by those parties with the FERC on January 19, 1999. A separately negotiated settlement filed with the FERC on February 5, 1999, resolved the issues raised by the Secondary Purchasers by limiting the amounts they will pay for decommissioning the Plant and by settling other points of contention affecting individual Secondary Purchasers. Both settlements were found to be in the public interest and approved by the FERC on June 1, 1999. The settlement constitutes a full settlement of all issues raised in the consolidated FERC proceeding, including decommissioning-cost issues and issues pertaining to the prudence of the management, operation, and decision to permanently cease operation of the Plant.

The primary settlement provides for Maine Yankee to collect $33.1 million in the aggregate annually, effective August 1, 1999, including both decommissioning costs and ISFSI-related costs. The original filing with FERC on November 6, 1997, called for an aggregate annual collection rate of $36.4 million for decommissioning and the ISFSI, based on a 1997 estimate. Under the approved settlement the amount collected annually is to be reduced to approximately $24.4 million as a result of legislation allowing Maine Yankee to (1) use for construction of the ISFSI funds held in trust under Maine law for spent-fuel disposal, and (2) access approximately $6.8 million held by the State of Maine for eventual payment to the State of Texas pursuant to a compact for low-level nuclear waste disposal, the future of which is in question after rejection of the selected disposal site in west Texas by a Texas regulatory agency. Both required authorizing legislation in Maine, which was adopted on May 13, 1999.

The settlement also provides for recovery of the unamortized investment (including fuel) in the Plant, together with a return on equity of 6.50 percent, effective January 15, 1998, on equity balances up to maximum allowed equity amounts, which resulted in a pro-rata refund of $9.3 million (including tax impacts) to the sponsors on July 15, 1999. The Settling Parties also agreed in the settlement not to contest the effectiveness of the Amendatory Agreements submitted to FERC as part of the original filing, subject to certain limitations including the right to challenge any accelerated recovery of unamortized investment under the terms of the Amendatory Agreements after a required informational filing with the FERC by Maine Yankee. In addition, the settlement contains incentives for Maine Yankee to achieve further savings in its decommissioning and ISFSI-related costs and resolves issues concerning restoration and future use of the Plant site and environmental matters of concern to certain of the intervenors in the proceeding.

As a separate part of the settlement, Central Maine, the other two Maine utilities which own interests in Maine Yankee, the MPUC Staff, and the OPA entered into a further agreement resolving retail rate issues and other issues specific to the Maine parties, including those that had been raised concerning the prudence of the operation and shutdown of the Plant (the "Maine Agreement"). Under the Maine Agreement Central Maine will continue to recover its Maine Yankee costs in accordance with its most recent ARP order from the MPUC without any adjustment reflecting the outcome of the FERC proceeding. To the extent that Central Maine has collected from its retail customers a return on equity in excess of the 6.50 percent contemplated by the settlement, no refunds would be required, but such excess amounts would be credited to the customers to the extent required by the ARP.

Finally, a major provision of the Maine Agreement requires the Maine owners, for the period from March 1, 2000, through December 1, 2004, to hold their Maine retail ratepayers harmless from the amounts by which the replacement power costs for Maine Yankee exceed the replacement power costs assumed in the report to the Maine Yankee Board of Directors that served as a basis for the Plant shutdown decision, up to a maximum cumulative amount of $41.0 million. Central Maine's share of that amount would be $31.16 million for the period. The Maine Agreement, which was approved by the MPUC on December 22, 1998, also sets forth the methodology for calculating such replacement power costs.

CMP Group and Central Maine believe that the approved settlement, including the Maine Agreement, constitutes a reasonable resolution of the issues raised in the Maine Yankee FERC proceeding, and should eliminate significant uncertainties concerning CMP Group's and Central Maine's future financial performance.

Legal and Environmental Matters - Central Maine and certain of its affiliates are subject to regulation by federal and state authorities with respect to air and water quality, the handling and disposal of toxic substances and hazardous and solid wastes, and the handling and use of chemical products. Electric utility companies generally use or generate in their operations a range of potentially hazardous products and by-products that are the focus of such regulation. Central Maine believes that its current practices and operations are in compliance with all existing environmental laws except for such non-compliance as would not have a material adverse effect on Central Maine's financial position. Central Maine reviews its overall compliance and measures the liability quarterly by assessing a range of reasonably likely costs for each identified site using currently available information, including existing technology, presently enacted laws and regulations, experience gained at similar sites, and the probable level of involvement and financial condition of other potentially responsible parties. These estimates include costs for site investigations, remediation, operation and maintenance, monitoring and site closure.

New and changing environmental requirements could hinder the construction and/or modification of transmission and distribution lines, substations and other facilities, and could raise operating costs significantly. As a result, Central Maine may incur significant additional environmental costs, greater than amounts reserved, in connection with the generation and transmission of electricity and the storage, transportation and disposal of by-products and wastes. Central Maine may also encounter significantly increased costs to remedy the environmental effects of prior waste handling activities. The cumulative long-term cost impact of increasingly stringent environmental requirements cannot accurately be estimated.

Central Maine has recorded a liability, based upon currently available information, for what it believes are the estimated environmental remediation costs that it expects to incur for identified waste disposal sites. In most cases, additional future environmental cleanup costs are not reasonably estimable due to a number of factors, including the unknown magnitude of possible contamination, the appropriate remediation methods, the possible effects of future legislation or regulation and the possible effects of technological changes. Central Maine cannot predict the schedule or scope of remediation due to the regulatory process and involvement of non-governmental parties. At June 30, 1999, the liability recorded by Central Maine for its estimated environmental remediation costs amounted to $3.0 million, which management has determined to be the most probable amount within the range of $3.0 million

to $10.3 million. Such costs may be higher if Central Maine is found to be responsible for cleanup costs at additional sites or identifiable possible outcomes change.

Wyman No. 4 Arbitration - By notice of claim dated June 24, 1999, the non-operator owners of the Wyman No. 4 oil-fired generating unit in Yarmouth, Maine, which was approximately 60-percent owned by Central Maine, served notice on Central Maine that they believe they are entitled to a portion of the proceeds of the sale of Central Maine's interest in the unit as part of the April 1999 sale of its non-nuclear generation assets to FPL Energy. The claimants contend that certain sections of the joint ownership agreement under which they share in the output of the unit require a pro-rata distribution to them of part of those proceeds as a result of Central Maine's sale of its interest in the unit. The joint ownership agreement provides for arbitration of claims arising under the agreement.

Central Maine believes that although the amount of the claim is substantial ($62 million), the claimants have suffered no loss and are not entitled to any part of the generation-asset sale proceeds. Central Maine intends to contest any such claim vigorously, but cannot predict the result of any arbitration proceeding that the non-operator owners may initiate.

Millstone Unit No. 3 Litigation - On August 7, 1997, Central Maine and the other minority owners of Millstone Unit No. 3 filed suit in Massachusetts Superior Court against Northeast Utilities and its trustees, and initiated an arbitration claim against two of its subsidiaries, alleging mismanagement of the unit by the defendants. The minority owners are seeking to recover their additional costs resulting from such mismanagement, including their replacement power costs. The parties have been engaged in resolving preliminary issues and in extensive pre-hearing discovery on a schedule calling for an arbitration hearing in November of 1999. Central Maine cannot predict the outcome of the litigation and arbitration or whether the current schedule will be maintained.

Tax Settlement - On September 12, 1997, Central Maine received a notice of deficiency from the Internal Revenue Service ("IRS") as a result of its audit of Central Maine's federal income tax returns for the years 1992 through 1994. There were two significant adjustments among those proposed by the IRS. The first was a disallowance of Central Maine's write-off of the under-collected balance of fuel and purchased-power costs and the unrecovered balance of its unbilled Electric Revenue Adjustment Mechanism ("ERAM") revenues, both as of December 31, 1994, which had been charged to income in 1994 in connection with the adoption of the ARP effective January 1, 1995. The second major adjustment disallowed Central Maine's 1994 deduction of the cost of the buyout of the Fairfield Energy Venture ("FEV") purchased-power contract.

On December 10, 1997 Central Maine filed a petition in the United States Tax Court contesting the entire amount of the deficiencies. Subsequently, Central Maine sought review of the asserted deficiencies by an IRS Appeals Officer to determine whether all or part of the dispute could be resolved in advance of a court determination.

In June 1999, the IRS Appeals Officer and Central Maine reached agreement resolving all issues. Under the proposed agreement the ERAM component was allowed as fully deductible in 1994, while $24 million of the fuel and purchased-power costs were deemed to be deductible in 1994 and the remaining $30 million deductible in 1995. The parties also agreed to increase the tax basis of the FEV plant from $2 million to $11 million, to be depreciated

over 20 years, and that the remaining FEV contract buyout costs would be fully deductible in 1994.

As a result of the settlement, Central Maine made payments to the IRS and the State of Maine totaling $11.8 million for the 1992 to 1994 tax deficiencies, as well as $6.0 million in associated interest. Substantially all of the tax impacts were normalized, as Central Maine will be deducting any disallowed costs for tax purposes in future years. The net impact of the tax and interest true-up for all the years under consideration reduced net income in the second quarter of 1999 by $0.6 million due primarily to interest expense. Of the $6.0 million interest payment, approximately $1.0 million was previously accrued, $1.8 million associated with the FEV facility was deferred consistent with regulatory practice, and $2.0 million of interest income was accrued for the years 1995 through June 1999.

Due to the materiality of the amounts involved, approval of the settlement from the Congress's Joint Committee on Taxation is required and is being sought by the IRS.

Natural Gas Distribution. CMP Group and Energy East, through subsidiaries, have entered into a joint-venture agreement to pursue opportunities to distribute natural gas at retail in many Maine communities. They would offer natural-gas service in several areas of Maine, primarily the Augusta, Bangor, Bath-Brunswick, Bethel, Windham and Waterville areas, none of which had a natural-gas distribution system in place. The gas is to be drawn from two new gas-pipeline projects that will carry Canadian gas through Maine and into the regional energy market using substantial portions of electric transmission-line corridors owned by Central Maine and MEPCO. On July 24, 1998, the MPUC authorized the joint venture to serve the areas it had applied to serve. The new company, CMP Natural Gas could face competition from new or existing gas utilities in some of the areas it has targeted.

CMP Natural Gas began construction of its first local distribution system in Windham, Maine, in early 1999 and began serving its first customer in May. On July 8, 1999, CMP Natural Gas and Calpine Corporation, a California-based independent power company, announced the signing of a 20-year contract for CMP Natural Gas to provide natural gas delivery service to Calpine's proposed 540-megawatt natural gas-fired power plant under construction in Westbrook, Maine. CMP Natural Gas expects to commence service to the plant by June 1, 2000, after MPUC approval and construction of a two-mile lateral pipeline along an existing Central Maine right of way that would interconnect with the new interstate pipeline facilities. Upon completion of the proposed merger of Energy East and CMP Group, Energy East will hold all of the interests in CMP Natural Gas.

5. Regulatory Matters and Electric-Utility Industry Restructuring

Alternative Rate Plan - On March 15, 1999, Central Maine submitted its 1999 ARP compliance filing to the MPUC. In the filing Central Maine recommended that rates remain unchanged for the period July 1, 1999 to February 29, 2000. On July 13, 1999, the MPUC issued an order which provided for no increase in rates effective July 1, 1999. In a related matter, on August 2, 1999, the MPUC issued an order regarding the treatment of gains on the sale of easements by Central Maine in late 1998 and early 1999. The order allocated 90 percent of the proceeds from the sale of easements to ratepayers and 10 percent to shareholders. Further the ratepayer portion must be amortized over a 5 year period. Central Maine believes that both under Maine Law Court precedent and under the terms of the ARP these gains should be recognized when the property was sold and accrue to the benefit of shareholders; accordingly, Central

Maine will vigorously work to overturn the decision through reconsideration by the Commission and/or appeal to Maine's Law Court. As of June 30, 1999, approximately $9.9 million of the gain would be deferred and net income reduced accordingly, if the MPUC position prevails. The design and levels of Central Maine's rates as a transmission-and-distribution company, effective March 1, 2000, will be determined in Phase II of the MPUC proceeding discussed below in this note under "MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design."

Stranded Costs - The enactment by Congress of the Energy Policy Act of 1992 accelerated planning by electric utilities, including Central Maine, for a transition to a more competitive industry. In Maine, legislation that will restructure the electric-utility industry on March 1, 2000, was enacted by the Maine Legislature in May 1997, and is discussed in detail below. Such a departure from traditional regulation, however, could have a substantial impact on the value of utility assets and on the ability of electric utilities to recover their costs through rates. In the absence of full recovery, utilities would find their above-market costs to be "stranded", or unrecoverable, in the new competitive setting.

Central Maine has substantial exposure to cost stranding relative to its size. In general, its stranded costs reflect the excess costs of Central Maine's purchased-power obligations over the market value of the power, and the costs of deferred charges and other regulatory assets. The major portion of Central Maine's stranded costs is related to above-market costs of purchased-power obligations arising from Central Maine's long-term, noncancelable contracts for the purchase of capacity and energy from NUGs estimated at $800 million, with lesser estimated amounts related to Central Maine's deferred regulatory assets.

Maine Restructuring Legislation. The 1997 Maine restructuring legislation requires the MPUC, when retail access to generation begins on March 1, 2000, to provide a "reasonable opportunity" to recover stranded costs through the rates of the transmission-and-distribution company, comparable to the utility's opportunity to recover stranded costs before the implementation of retail access under the legislation. Stranded costs are defined as the legitimate, verifiable and unmitigable costs made unrecoverable as a result of the restructuring required by the legislation. Central Maine's recoverable amount and timing of recovery will be determined by the MPUC in the second phase of the ongoing proceeding discussed under the heading "MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design," below.

The principal restructuring provisions of the legislation provide for customers to have direct retail access to generation services and for deregulation of competitive electric providers, commencing March 1, 2000, with transmission-and-distribution companies continuing to be regulated by the MPUC. By that date, subject to possible extensions of time granted by the MPUC to improve the sale value of generation assets, investor-owned utilities are required to divest all generation assets and generation-related business activities, with two major exceptions: (1) non-utility generator contracts with qualifying facilities and contracts with demand-side management or conservation providers, brokers or hosts, and (2) ownership interests in nuclear power plants. As discussed below under "Sale of Generation Assets," Central Maine completed the sale of its non-nuclear generating assets on April 7, 1999.

The legislation also requires investor-owned utilities, after February 29, 2000, to sell their rights to the capacity and energy from all generation assets, including the purchased-power contracts that had not previously been divested pursuant to the legislation, with certain

immaterial exceptions. On July 30, 1998, Central Maine offered its rights to the capacity and energy from its nuclear generation assets and its NUG contracts to prospective bidders.

Upon the commencement of retail access on March 1, 2000, Central Maine, as a transmission-and-distribution utility, will be prohibited from selling electric energy to retail customers. Any competitive electricity provider that is affiliated with Central Maine would be allowed to sell electricity outside Central Maine's service territory without limitation as to amount, but within Central Maine's service territory the affiliate would be limited to providing not more than 33 percent of the total kilowatt-hours sold within Central Maine's service territory, as determined by the MPUC. CMP Group does not now intend to engage in the sale of electric energy after March 1, 2000.

For a summary of other provisions of the 1997 legislation, see the Annual Report on Form 10-K of CMP Group and Central Maine for the twelve months ended December 31, 1998.

MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design. By order dated March 19, 1999, the MPUC completed the first phase of the proceeding contemplated by Maine's restructuring legislation that will ultimately determine the recovery of Central Maine's stranded costs, its revenue requirements, and the design of its rates to be effective when Central Maine becomes a transmission-and-distribution utility at the time retail access to generation begins in Maine on March 1, 2000. The MPUC stressed in its Phase I order that it was deciding the "principles" by which it would set Central Maine's transmission-and-distribution rates, effective March 1, 2000, but was deferring calculating the rates themselves until Phase II of the proceeding because such calculations at that time would rely excessively on estimates.

With respect to stranded costs, the MPUC indicated that it would set the amount of recoverable stranded costs for Central Maine in Phase II of the proceeding pursuant to its mandate under the restructuring statute to provide transmission-and-distribution utilities a reasonable opportunity to recover such costs that is equivalent to the utility's opportunity to recover those costs prior to the commencement of retail access. The MPUC also reviewed the prescribed methodology for determining the amount of a utility's stranded costs, including among other factors the application of excess value from Central Maine's divested generation assets to offset stranded costs.

In the area of revenue requirements, the Phase I order did not include definitive amounts, but did contain the MPUC's conclusions as to the appropriate cost of common equity for Central Maine as a transmission-and-distribution company beginning March 1, 2000. Central Maine had recommended a 12-percent cost of common equity with a 55-percent common equity component in the capital structure. The MPUC approved a common-equity cost of 10.50 percent with a common-equity component of 47 percent, and an overall weighted-average cost of capital of 8.68 percent. In dealing with rate design, the MPUC limited itself in the first phase of the proceeding primarily to establishing principles that would guide it in designing Central Maine's rates to be effective March 1, 2000.

Central Maine submitted its Phase II filing to the MPUC on July 1, 1999. The filing is organized into sections covering revenue requirements, a sales forecast, stranded costs, and rate design, with updated information provided in each area. As with Phase I, some of the

calculations submitted in the Phase II filing are still estimates, since some of the information that will provide the basis for the MPUC's decisions in the proceeding is not yet available. This information will include the results of the auctioning of Central Maine's energy and capacity of undivested generation-related assets and NUG contracts and the market prices for electricity, including the standard-offer price, all of which Central Maine expects to be able to provide the MPUC in an updated filing in December 1999.

Central Maine's requested revenue requirement amount, together with its interim assumption for market electricity prices, would result in an average 10.4-percent price decrease for its core rate customers effective March 1, 2000. This amount will change, however, depending on the information to be submitted in the December filing and the MPUC's decision on Central Maine's revenue requirements.

Sale of Generation Assets

On April 7, 1999, Central Maine completed the sale of all of its hydro, fossil and biomass power plants with a combined generating capacity of 1,185 megawatts for $846 million in cash, including approximately $18 million for assets of Union Water, to affiliates of Florida-based FPL Group. The related book value for these assets was approximately $217.8 million. In addition, as part of its agreement with FPL Group, Central Maine entered into energy buy-back agreements to assist in fulfilling its obligation to supply its customers with power until March 1, 2000. Subsequently, an agreement was reached to sell related storage facilities to FPL Group for an additional $4.6 million ($1.5 million for the assets and $3.1 million estimated for lease revenue associated with the properties that CMP will retain), including $2.0 million for Union Water assets. The related book value of these assets was approximately $11.9 million.

Central Maine recorded a pre-tax deferred gain of $215.7 million net of selling costs and certain non-normalized income tax impacts from the sale of generation assets by establishing a regulatory liability in the second quarter of 1999 eliminating any income recognition. Central Maine also recorded curtailment and special termination deferred charges of $8.1 million associated with pension and postretirement benefit costs of employees leaving the company as a result of the generation asset sale. These deferred charges will be amortized over a three year period beginning March 1, 2000 as required by the MPUC. In Phase II of the above described "MPUC Proceeding on Stranded Costs, Revenue Requirements and Rate Design," the MPUC will determine the amount of the regulatory liability that will be used to reduce stranded costs and the utilization and timing of the recognition of any remaining regulatory liability.

Central Maine also recorded a pre-tax deferred gain amounting to $30.8 million to offset the income impact of the flow-through of unamortized investment tax credits and excess deferred taxes associated with the assets sold. Central Maine has requested a private letter ruling from the IRS regarding the appropriate treatment of these items based on directives from the MPUC. Central Maine is of the opinion, based on its review of the rules and regulation and IRS rulings in similar situations, that any unamortized investment tax credits and excess deferred taxes relating to the property sold become nonregulated property at the point of sale. Central Maine believes that regulatory agencies, therefore, are precluded from considering these unamortized investment tax credits and excess deferred tax reserves in establishing regulated rates because they would constitute a violation of the normalization requirement of the Internal Revenue Code. The MPUC has directed Central Maine to seek the private ruling to be absolutely clear in this particular case whether ratepayers can continue to benefit from these excess reserves. Central

Maine does not know when the IRS will rule on its requests, but expects a ruling before the end of 1999.

Union Water's net income reflects a $3.7 million increase during the second quarter of 1999 due to its portion of the proceeds of the sale of generation assets as determined by the MPUC. Central Maine is appealing to the Maine Supreme Judicial Court the imputation of $13.2 million of value of the Union Water assets to Central Maine. The $13.2 million imputation is included in the Central Maine deferred gain of $515.7 million.

With the cash proceeds of the sale Central Maine redeemed the remaining $118.7 million of its outstanding General and Refunding Mortgage Bonds on May 10, 1999, and paid at maturity $47 million of its medium-term notes on May 4, 1999. On June 1, 1999, Central Maine redeemed $180 million of its medium-term notes, as well as all of the outstanding $10 million Town of Yarmouth Pollution Control Revenue Bonds, which had been issued in 1977 and 1978. Approximately $294.5 million of the proceeds will be required for federal and state income taxes resulting from the sale and, after providing for closing costs and energy purchases to meet power-supply obligations until the start of retail competition on March 1, 2000, Central Maine expects to transfer the balance to its parent, CMP Group. Proceeds that have not been applied have been invested in accordance with Central Maine's cash investment policy. Uses of the balance of the proceeds are under consideration by CMP Group.

Storm Damage to Company's System - In January 1998, an ice storm of unprecedented breadth and severity struck Central Maine's service territory, causing power outages for approximately 280,000 of Central Maine's 528,000 customers, and substantial widespread damage to Central Maine's transmission and distribution system. To restore its electrical system, Central Maine supplemented its own crews with utility and tree-service crews from throughout the northeastern United States and the Canadian maritime provinces, with assistance from the Maine national guard.

On January 15, 1998, the MPUC issued an order allowing Central Maine to defer on its books the incremental non-capital costs associated with Central Maine's efforts to restore service in response to the damage resulting from the storm. Based on the MPUC order, Central Maine has deferred $52.7 million in storm related costs as of June 30, 1999, including $2.8 million of carrying costs. In October 1998, the MPUC staff issued a report of its summary investigation of the Maine utilities' response to the ice storm. The report found no basis for formal adjudicatory investigation into the response and supported the utilities' actions.

On May 1, 1998, President Clinton signed a Congressional appropriation bill that included $130 million for Presidentially declared disasters in 1998, including storm-damage cost reimbursement for electric utilities. On November 5, 1998 the United States Department of Housing and Urban Development ("HUD") announced that of those funds, $2.2 million had been awarded to Maine, with none designated for utility infrastructure, which Central Maine and the Maine Congressional delegation protested as inadequate and inconsistent with Congressional intent. On March 23, 1999, HUD announced that Maine would receive an additional $2.15 million, and later announced that another $17 million would be available for Maine. The MPUC has stated its belief that Central Maine's prudently incurred ice-storm costs should be recovered through rates commencing March 1, 2000, but has deferred action pending the determination of the amount of federal reimbursement. Central Maine believes that it will receive a substantial portion of the funds now designated for Maine, but cannot predict with certainty what portion of its ice storm-

re, .d costs it will recover through federal assistance, or from its customers, or when any such reco.ery will take place.

6. Income Taxes

The CMP Group effective tax rate is higher than the statutory rate and the prior year's effective tax rate primarily due to losses associated with a CMP Group equity investment in a subsidiary.

7. Transactions with Affiliated Companies

Central Maine provides certain services to CMP Group and its subsidiaries, including administrative support services and pension and employee benefit arrangements. Charges related to those services have been determined based on a combination of direct charges and allocations designed to recover Central Maine's cost. These assessments are reflected as an offset to Central Maine's expenses and totaled approximately $3.1 million for the six months ended June 30, 1999.

CMP Group provides certain managerial services to its subsidiaries. Charges related to those services have been determined based on a combination of direct charges and allocation in order to recover the majority of their expenses. These assessments are reflected as an offset to CMP Group's expenses and totaled approximately $5.0 million for the six months ended June 30, 1999.

In addition, a subsidiary of CMP Group has been providing certain real estate and river management services charged to Central Maine at cost and environmental, engineering, utility locator and construction services based on a contracted rate. These expenses amounted to $3.5 million for the six months ended June 30, 1999.

Central Maine provides services to CMP Group and its subsidiaries as well as non-affiliated parties. As of June 30, 1999, Central Maine's accounts receivable and accounts payable included the following:

(Dollars in thousands)

	Accounts Receivable	Accounts Payable
CMP Group	$ 373	$1,681
CNEX	275	10
MaineCom	40	6
Telesmart	29	57
Union Water	13,908	999
	$14,625	$2,753

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations of CMP Group and Central Maine Power Company

This is a combined Quarterly Report on Form 10-Q of CMP Group and Central Maine. Therefore, our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) applies to both CMP Group and Central Maine. CMP Group's consolidated financial statements include the accounts of CMP Group and its wholly owned and controlled subsidiaries, including Central Maine (collectively, the CMP Group System). Central Maine's consolidated financial statements include its accounts as well as those of its wholly owned and controlled subsidiaries. The MD&A should be read in conjunction with the consolidated financial statements included in this report.

Note re Forward-Looking Statements

This Report on Form 10-Q contains forecast information items that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. CMP Group and Central Maine undertake no obligation to republish revised forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events. Readers are urged to carefully review and consider the factors in the succeeding paragraph.

Factors that could cause actual results to differ materially include, among other matters, the outcome of the shareholder vote and the regulatory proceedings involving the proposed acquisition of CMP Group by Energy East; the costs of decommissioning the Maine Yankee plant; failure to resolve any significant aspect of the "Year 2000 problem"; electric utility industry restructuring, including the ongoing state and federal activities that will determine Central Maine's ability to recover its stranded costs and establish its revenue requirements and rate design as a transmission-and-distribution utility commencing March 1, 2000; Central Maine's ability to recover its costs resulting from the January 1998 ice storms that damaged its transmission and distribution system; future economic conditions; earnings-retention and dividend-payout policies; developments in the legislative, regulatory, and competitive environments in which CMP Group and Central Maine operate; CMP Group's investments in unregulated businesses; other circumstances that could affect anticipated revenues and costs, such as unscheduled maintenance or repair requirements at nuclear plants and other facilities; and compliance with laws and regulations.

Corporate Organization

General. CMP Group is a holding company organized effective September 1, 1998, which owns all of the common stock of Central Maine and the former non-utility subsidiaries of Central Maine. As part of the reorganization, all of the shares of Central Maine's common stock were converted into an equal number of shares of CMP Group common stock, which are listed on the New York Stock Exchange under the symbol CTP. The reorganization was approved by Central Maine's shareholders on May 21, 1998, and on various dates in 1998 by the appropriate state and federal regulatory agencies. On June 14, 1999, CMP Group and Energy East entered into an Agreement and Plan of Merger. See "Proposed Merger" below, for a discussion of this matter.

Operating Results

	CMP Group		Central Maine	
		(dollars in millions)		
Net income				
Six months ended:				
June 30, 1999	$37.3	$1.15/share	$40.9	
June 30, 1998	17.0	$.52/share	19.9	
Increase	$20.3		$21.0	
Earnings applicable to common stock				
Six months ended:				
June 30, 1999	N/A		$39.1	$1.25/share
June 30, 1998	N/A		$17.0	$.52/share

The increase in net income of $20.3 million for the six months ended June 30, 1999 versus the same period last year is driven primarily by improvements in operations, particularly electric service revenues, while operation expenses have remained relatively flat year to year. Revenues increased $43.0 million for the first six months of 1999 and when adjusted to exclude approximately $15 million of subsidiary operations revenue not consolidated in 1998, the basic electric business revenues show an increase of $28 million, or 6.1 percent. The residential and commercial sectors have seen the strongest growth in Kwh sales year-to-date, rising 3.3 percent and 2.8 percent, respectively. The improvement in electric revenues is due to higher sales volume attributed to colder weather in the first quarter of 1999 as compared to the same period in 1998. Also, in 1998 Central Maine lost sales due to the unprecedented ice storm. Overall growth in electric sales was up 0.5 percent for the period ended June 1999 over June 1998.

Operating expenses were $16.1 million higher than 1998 for the six months ended June 1999. Similar to the revenues, subsidiary operations not consolidated in 1998 account for approximately $15 million of the increase, resulting in essentially flat expense growth year to year. While operation expenses associated with generation are expected to decrease year over year due to the sale of generation assets on April 7, 1999, purchased-power costs are expected to increase due to Central Maine's interim purchase power agreements entered into with FPL to provide power until March 1, 2000. The MPUC has segregated $49 million of sales proceeds to offset these costs.

Service Area Kwh Sales - Central Maine's service area sales of electricity totaled approximately 2.16 billion kilowatt-hours in the second quarter of 1999, down 1.3 percent from the 2.19 billion kilowatt-hour level of a year ago, as follows:

Service Area Kilowatt-hour Sales (Millions of KWHs)
Period Ended June 30,

	Three Months			Six Months		
	1999	1998	% Change	1999	1998	% Change
Residential	644.2	648.1	(0.6)%	1,436.9	1,391.3	3.3 %
Commercial	622.9	615.5	1.2	1,270.8	1,236.5	2.8
Industrial	875.0	868.2	0.8	1,708.4	1,714.2	(0.3)
Other	17.6	57.2	(69.2)	65.0	117.8	(44.8)
	2,159.7	2,189.0	(1.3)%	4,481.1	4,459.8	0.5%

The changes in service area kilowatt-hour sales reflect the following:

Kilowatt-hour sales to residential customers decreased by 0.6 percent in the second quarter, but increased 3.3 percent when compared to the same six-month period in 1998. The decrease for the quarter related primarily to June 1999 having 1.2 fewer meter-reading days than June 1998. Most of the overall growth for the first six months in 1999 is due to the absence of an ice-storm in 1999 of the kind that caused widespread customer outages in January 1998. Another contributor was the return to colder winter weather, with the temperatures through April being 6.6 percent colder than the same period last year. There was also an increase in the number of new residential customers added to Central Maine's system.

Commercial kilowatt-hour sales increased by 1.2 percent in the second quarter and by 2.8 percent for the six months ended June 30, 1999. The increase sales in the retail trade and service sectors, which comprise the largest percentage of commercial sales, were due primarily to the absence of widespread storm-caused outages in 1999 and the return to colder winter weather conditions in 1999.

Industrial kilowatt-hour sales increased by 0.8 percent in the second quarter and were slightly lower for the six months ended June 30, 1999 as compared to the same period in 1998. Decreased sales of 28.5 million kwh to the paper industry more than offset the positive sales growth of 22.7 million kwh experienced in the other industrial sector. The primary factors contributing to the 3.0 percent drop in sales to the paper industry were 1) the shutdown of two of the four paper machines at one mill in November of 1998 to balance production with demand. The same mill had internal generation problems that boosted purchases by about 5 million kwh for that period; and 2) the closure of another mill in 1998, continued to impact 1999 results. The absence of sales to that mill in 1999, compared to the same time period in 1998 amounted to a decrease of 6.1 million kwh. The pulp-and-paper sector of the industrial class accounts for approximately 55 percent of the industrial sales category.

Wholesale kilowatt-hour sales, which is included under 'Other' in the chart above, decreased by 52.2 percent through June 1999 compared to 1998 due to the expected loss through contract expirations with three wholesale companies – one ending in February, and the other two ending in May of 1999.

Operating Expenses

Central Maine's fuel used for company generation decreased by approximately $6.6 million in the second quarter of 1999 compared to 1998 due to the sale of its generation assets.

Central Maine's purchased power-capacity expense increased $10.1 million in the second quarter and $8.5 million year-to-date compared to 1998. The increase is due primarily to increased capacity costs associated with the restructuring of a NUG contract and the FPL contract for increased power, partially offset by the effects of the permanent shutdown of the Maine Yankee plant in August 1997 and the resulting decline in operating costs.

CMP Group's maintenance expense decreased $2.4 million for the six months ended June 30, 1999 compared to 1998. This decrease was due primarily to the temporary increase in costs in 1998 caused by Central Maine's operations personnel working in a maintenance capacity and to subsequent cleanup efforts that resulted from the 1998 ice storm.

CMP Group's other operations expense increased by $12.6 million in the second quarter of 1999 and $20 million year-to-date as compared to 1998. The increase is due primarily to the consolidation of its subsidiaries in 1999 which accounts for approximately $14.6 million of the increase year-to-date.

Federal and state income taxes fluctuate with the level of pre-tax earnings and the regulatory treatment of taxes by the MPUC. This expense increased by $2.3 million and $16.5 million, respectively, for the second quarter ended June 30, 1999, and year to date compared to the same period in 1998, as a result of higher pre-tax earnings.

Other Income and Expense

Equity in Earnings of Associated Companies for CMP Group decreased by $4.4 million in the first half of 1999 compared to 1998.This decrease is due primarily to losses associated with NEON, which is an equity investment of MaineCom, a CMP Group subsidiary.

The increase in gain on sale of investments and properties of $6.0 million and $13.0 million for the three and six month periods ending June 30, 1999, respectively, is due primarily to the sale of Union Water's generation assets to FPL and the sale of transmission line right-of-way access to a gas-pipeline project.

Long-term debt interest expense has decreased by $3.0 million and $3.4 million, respectively, for the second quarter of 1999 and year-to-date, as compared to 1998. The decrease is due to the repurchase of mortgage bonds with asset sale proceeds.

Other Interest Expense increased by $9.6 million during the second quarter of 1999 and $9.3 million year-to-date as compared to 1998. The increase was due primarily to interest accruing to ratepayers of $5.1 million associated with the deferred gain of $515.0 million relating to Central Maine's generation asset sale to FPL and $4.5 million due to the interest expense on the settlement of tax years 1992 – 1994 with the IRS.

Other income increased $6.0 million in the second quarter of 1999 and $6.6 million year-to-date over the same period in 1998 due primarily to interest income associated with sales proceeds from the generation asset sale.

For the quarter ended June 30, 1999, Central Maine reduced preferred-stock dividends by $155 thousand as a result of the earlier redemption of its 8 7/8% Series Preferred Stock at par, under the mandatory and optional sinking-fund provisions of that series. Year-to-date preferred stock dividends were reduced by $1.1 million as compared to 1998 due to redemptions in several series of preferred stock.

Liquidity and Capital Resources

Increases in Central Maine's retail rates are limited by Central Maine's ARP. For a discussion of the ARP, see Note 3, "Regulatory Matters," "Alternative Rate Plan" of CMP Group and Central Maine's Form 10-K for the year ended December 31, 1998.

Approximately $63.1 million of cash was provided during the six months ended June 30, 1999, from net income before non-cash items, primarily depreciation, amortization and deferred income taxes. During that period approximately $17.6 million of cash was used for fluctuations in certain assets and liabilities and from other operating activities. In addition $13.9 million of incremental power costs were incurred due to the sale of generation assets and $13.0 million was provided due to the gain on sale of investments of properties.

Investing activities provided approximately $677.1 million for the six months ended June 30, 1999. The $677.1 million is comprised of the following; proceeds of $850.6 million for generation assets sale, utilization of $153.7 for tax payments and $11.7 for selling expenses associated with the generation asset sale, proceeds of $18.1 million for sale of investments and properties, along with construction expenditures, which utilized $26.2 million in cash during second half of 1999 for generation, transmission, distribution, and general construction expenditures. In order to accommodate existing and future loads on its electric system Central Maine is engaged in a continuing construction program. Central Maine's plans for improvements and expansions, its load forecast and its power-supply sources are under a process of continuing review. Actual construction expenditures depend upon the availability of capital and other resources, load forecasts, the timing of its divestiture of its generating assets, customer growth and general business conditions. The ultimate nature, timing and amount of financing for Central Maine's total construction programs, refinancing and energy-management capital requirements will be determined in light of market conditions, earnings and other relevant factors.

During the six months ended June 30, 1999, CMP Group paid dividends on common stock of $14.6 million and preferred-stock dividends of $.9 million.

At the annual meeting of the stockholders of Central Maine on May 15, 1997, the holders of Central Maine's outstanding preferred stock consented to the issuance of $350 million in principal amount of Central Maine's medium-term notes in addition to the $150 million in principal amount to which they had previously consented. This expansion of the medium-term note program was implemented to increase Central Maine's financing flexibility in anticipation of restructuring and increased competition. On June 30, 1999, Central Maine had $110 million of its medium-term notes outstanding.

To support its short-term capital requirements, in October 1996, Central Maine entered into a $125 million Credit Agreement with several banks, with BankBoston, N.A., and The Bank of New York acting as agents for the lenders. The arrangement originally had two credit facilities: a $75 million, 364-day revolving credit facility and a $50-million, 3-year revolving credit facility. Effective December 15, 1998, the banks' commitments under the 364-day facility were reduced from $75 million to $25 million by agreement of the parties, and other provisions were amended to reflect the reorganization of Central Maine into a holding-company structure and recognize other changed circumstances. Both credit facilities require annual fees on the total credit lines. The fees are based on Central Maine's credit ratings and allow for various borrowing options including LIBOR-priced, base-rate-priced and competitive-bid-priced loans. The amount of outstanding short-term borrowing will fluctuate with day-to-day operational needs, the timing of long-term financing, and market conditions. Central Maine had no outstanding notes as of June 30, 1999 under the credit facilities.

On May 10, 1999, Central Maine redeemed its last two series of General and Refunding Mortgage Bonds. On July 27, 1999, Central Maine discharged its General and Refunding Mortgage Indenture, leaving no class of secured debt outstanding.

On August 5, 1998, the MPUC approved Central Maine's application to purchase up to 11 million shares of its outstanding common stock over a three-year period. The amount of any stock purchases and their timing by Central Maine or CMP Group would depend on the need for equity in the respective company's capital structure, investment opportunities and other considerations and, in the case of CMP Group, would require the consent of Energy East under the Merger Agreement. Neither Central Maine nor CMP Group has adopted a formal stock-purchase plan.

On February 12, 1999, Central Maine restructured a power-purchase contract with a NUG in Livermore, Maine, which it expects will save its customers the equivalent of $21 million in net present value..

Securities Ratings

The current ratings assigned Central Maine's securities by the three major securities-rating agencies on April 7, 1999, coincident with the completion of the sale of its non-nuclear generation assets to FPL Energy, Inc., are shown below:

	Mortgage Bonds	Unsecured Notes	Commercial Paper	Preferred Stock
S&P	A	A-	A-2	BBB
Moody's	A3	Baa1	P2	Baa2
D&P	A-	A-	D1	BBB+

Proposed Merger

On June 14, 1999, CMP Group and Energy East, a New York holding company which is an energy delivery, products and services company doing business in New York, Massachusetts, Maine and New Hampshire and EE Merger Corp., a Maine corporation that is a wholly-owned subsidiary of Energy East, entered into an Agreement and Plan of Merger, dated as of June 14,

1999 (the "Merger Agreement"), providing for a merger transaction among CMP Group, Energy East and EE Merger Corp.

Pursuant to the Merger Agreement, EE Merger Corp. will merge with and into CMP Group (the "Merger"), with CMP Group being the surviving corporation and becoming a wholly-owned subsidiary of Energy East. The Merger, which was unanimously approved by the respective boards of directors of CMP Group, Energy East and EE Merger Corp., is expected to occur shortly after all of the conditions to the consummation of the Merger, including the receipt of required regulatory and shareholder approvals, are satisfied. CMP Group expects that decisions of regulatory agencies can be obtained within 12 months. CMP Group filed its petition for approval of the merger with the MPUC on July 1, 1999, and requested expedited consideration to assure receipt of approval on or before December 31, 1999.

Under the terms of the Merger Agreement, each outstanding share of CMP Group common stock, $5.00 par value per share (the "CMP Group Common Stock"), other than any treasury shares or shares owned by Energy East or any subsidiary of CMP Group or Energy East, will be converted into the right to receive $29.50 in cash (the "Merger Consideration"). Pursuant to the Merger Agreement, approximately $957 million in cash will be paid to holders of shares of CMP Group Common Stock, with additional payments being made to holders of stock options and performance shares awarded under CMP Group's performance incentive plans.

The Board of Directors of CMP Group received an opinion from its financial advisor, Warburg Dillon Read LLC, to the effect that as of the date of the Merger Agreement, the Merger Consideration to be received was fair from a financial point of view to the holders of CMP Group Common Stock.

The Merger is subject to certain customary closing conditions, including without limitation, the receipt of the required approval of CMP Group's shareholders and of all necessary governmental approvals and the making of all necessary governmental filings. Approvals of the MPUC, the Connecticut DPUC, the SEC under the Public Utility Holding Company Act of 1935, as amended, FERC, the NRC and the FCC are necessary. Filings of the requisite notifications with the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the expiration of the associated waiting period are also required. A meeting of CMP Group's shareholders to vote on the Merger will be convened as soon as practicable and is expected to be held in the fall of 1999.

The Merger Agreement contains certain covenants of the parties pending the consummation of the Merger. Generally, unless the parties have otherwise agreed with respect to specified business activities, CMP Group and its subsidiaries must carry on their respective businesses in the ordinary course consistent with past practice and use all commercially reasonable efforts to preserve intact their present business organizations and goodwill. CMP Group is permitted to declare and pay its regular quarterly dividends, but may not increase dividends or issue or repurchase any capital stock. The Merger Agreement contains other restrictions or limitations on CMP Group's activities, including amendments of its Articles of Incorporation or bylaws, acquisitions and dispositions of assets, capital expenditures, incurrence of indebtedness, modification of employee compensation and benefits, changes in accounting methods, discharge of liabilities, and matters relating to CMP Group's investment in NEON.

The Merger Agreement prevents CMP Group and its subsidiaries from initiating, soliciting or encouraging any inquiry or offer that constitutes or may reasonably be expected to lead to any alternative business combination proposal, or engaging in discussions or negotiations with or providing any confidential information to any third party relating to an alternative proposal. CMP Group must notify Energy East of any such inquiry, offer or proposal. Prior to the time of any approval by CMP Group's shareholders of the Merger Agreement, CMP Group may enter into discussions or negotiations with a third party that were not initiated, solicited or encouraged by CMP Group and furnish confidential business information to such third party if (i) CMP Group gives Energy East at least two business days' prior notice, (ii) the third party has made an alternative proposal that is financially superior to the terms of the Merger and the proposal can be financed, (iii) CMP Group's Board of Directors concludes, based on the advice of outside counsel, that failure to engage in such discussions or negotiations or provide such information could constitute a breach of fiduciary duty, (iv) CMP Group provides Energy East a reasonable opportunity to respond to the alternative proposal, and (v) CMP Group executes a confidentiality agreement with the third party. Upon five days' prior notice to Energy East, CMP Group may terminate the Merger Agreement to accept a superior alternative proposal upon paying a termination fee of $33.5 million plus expenses, except that prior to any such termination, CMP Group must negotiate with Energy East to attempt to make adjustments in the terms and conditions of the Merger Agreement that would enable the transactions contemplated therein to proceed.

On the consummation of the Merger, CMP Group's President and Chief Executive Officer, David T. Flanagan, and two current directors of CMP Group will be elected as members of the Board of Directors of Energy East. At that time, Mr. Flanagan will become President of Energy East, and Arthur W. Adelberg, who serves as Executive Vice President of CMP Group, will become Senior Vice President and Chief Financial Officer of Energy East.

Sara J. Burns, who currently serves as President of Central Maine, will continue serving as President of Central Maine after consummation of the Merger. F. Michael McClain, CMP Group's Vice President, Corporate Development, will serve as the President of one or more subsidiaries after the Merger becomes effective.

In addition to the circumstances described above, the Merger Agreement may be terminated by mutual consent of the parties; by either party if the Merger is not consummated by June 14, 2000, with an automatic six-month extension if all required statutory approvals have not been obtained by June 14, 2000 but all other conditions to closing have been satisfied; by either party if the approval of CMP Group's shareholders is not obtained at a special meeting of the shareholders; by either party if any state or federal law, regulation or order that is adopted or issued has the effect of prohibiting the Merger, or by a non-breaching party for an uncured material breach of any representation, warranty, covenant or agreement contained in the Merger Agreement. Upon termination of the Merger Agreement by a party for a non-willful breach, the breaching party must reimburse the non-breaching party up to $10 million of out-of-pocket fees and expenses incurred in connection with the Merger Agreement or the Merger. In addition to recovery of such out-of-pocket fees and expenses, a non-breaching party may pursue all available legal remedies in the event of a willful breach of the Merger Agreement by the other party.

"Year 2000" Computer Issues

The "Year 2000 problem" arose because many computer programs have used only the last two digits to refer to a year. Therefore those computer programs do not properly recognize a year that begins with "20" instead of the familiar "19". If not corrected, many computer applications could fail or create erroneous results, with potentially serious and widespread adverse consequences.

CMP Group, through Central Maine, began its Year 2000 problem remediation efforts in 1996, and since that time has developed a broad-based and comprehensive project plan for addressing Year 2000 issues. The plan includes both Information Technology ("IT") and non-IT systems, addresses both centralized and distributed systems, and encompasses systems critical to the transmission and distribution of electric energy as well as the traditional business systems necessary to the CMP Group System.

CMP Group has met the target date for systems critical to the delivery of electric power. CMP Group reported to the North American Electric Reliability Council (NERC) at the end of June 1999 that all "mission critical" systems (those systems essential to the delivery of power to customers) had been made Year 2000 ready. This target had been established at the direction of the Department of Energy. Utility progress in achieving this goal has been tracked by NERC. CMP Group has been reporting to NERC on a monthly basis since August 1998.

CMP Group has also completed remediation efforts for most of its internal technology infrastructure systems. All components and systems required to support telephone, radio, microwave and fiber optics communications have been readied for Year 2000. In addition, Year 2000 readiness is complete for all hardware in the company's mainframe, client server, and local and wide area network environments. Additional work on non-critical systems and components is scheduled for completion during the third quarter of 1999.

In addition to the internal Year 2000 readiness activities discussed above, CMP Group is actively participating in a joint ISO/NEPOOL initiative designed to assess, and assure, power reliability within the NEPOOL area. This initiative encompasses all participants, including Central Maine, within the New England area.

CMP Group also has an active program in place to identify and address issues associated with third-party providers. The program addresses business relationships with all third-party providers, but focuses on those suppliers deemed critical to CMP Group's business. At this time CMP Group has no indication that any third-party with which CMP Group has a material relationship is expecting a Year 2000-related business interruption, although some vendors are reporting increased lead time as a result of inventory build up within the industry. CMP Group will continue to monitor and assess its third-party relationships.

CMP Group estimates it will incur approximately $4.1 million of costs associated with making the necessary modifications identified to date to both the centralized and non-centralized systems. As of June 30, 1999, approximately $3.7 million of such costs has been incurred. Some of these costs are associated with the generation facilities sold to FPL Energy on April 7, 1999.

CMP Group recognizes that failure to correct problems associated with Year 2000 issues has the potential to result in material operational and financial risks if the affected systems either cease to function or produce erroneous results. Such risks could include disruptions in the operation of

Central Maine's transmission and distribution systems, an inability to access interconnections with other utilities, and disruptions to Central Maine's major business systems (customer information and service, administrative, financial).

Central Maine believes, however, that the most likely worst-case scenario resulting from these risks would be a temporary, and short-term, disruption of electric service. This could occur either as a failure on the part of Central Maine to successfully address all critical Year 2000 issues, as a failure on the part of a critical third-party provider, or as a failure on the part of other entities, including ISO-New England, to successfully maintain the short-term reliability of power supply and delivery on a regional basis. Central Maine does not expect that any such short-term service disruption would have a material impact on its operations, liquidity, or financial condition.

In order to minimize these risks, and the potential recovery time, from Year 2000 problems, CMP Group is actively involved in contingency planning. Although CMP Group has extensive knowledge and specific experience in disaster/recovery planning and execution, CMP Group recognizes the importance of Year 2000 specific contingency planning. Accordingly, Central Maine is participating in the integrated contingency planning effort headed by NERC and the Northeast Power Coordinating Council. Further, Central Maine has completed a comprehensive Year 2000 specific contingency plan for its own independent operations. This plan includes provisions for additional staffing during the date change at critical substations, operations centers, and other key locations throughout the company. Central Maine will be positioned to respond rapidly to any situation that might occur, and will have staff prepared to confirm functionality of systems after the date has changed.

CMP Group believes its plans are adequate to attain Year 2000 readiness, and that the contingency plans currently under development both internally and at a regional level should substantially mitigate the risks discussed above.

Storm Damage to Company's System - In January 1998, an ice storm of unprecedented breadth and severity struck Central Maine's service territory, causing power outages for approximately 280,000 of Central Maine's 528,000 customers, and substantial widespread damage to Central Maine's transmission and distribution system. To restore its electrical system, Central Maine supplemented its own crews with utility and tree-service crews from throughout the northeastern United States and the Canadian maritime provinces, with assistance from the Maine national guard.

On January 15, 1998, the MPUC issued an order allowing Central Maine to defer on its books the incremental non-capital costs associated with Central Maine's efforts to restore service in response to the damage resulting from the storm. Based on the MPUC order, Central Maine has deferred $52.7 million in storm related costs as of June 30, 1999, including $2.8 million of carrying costs. In October 1998, the MPUC staff issued a report of its summary investigation of the Maine utilities' response to the ice storm. The report found no basis for formal adjudicatory investigation into the response and supported the utilities' actions.

On May 1, 1998, President Clinton signed a Congressional appropriation bill that included $130 million for Presidentially declared disasters in 1998, including storm-damage cost reimbursement for electric utilities. On November 5, 1998 the United States Department of Housing and Urban Development ("HUD") announced that of those funds, $2.2 million had been awarded to Maine, with

none designated for utility infrastructure, which Central Maine and the Maine Congressional delegation protested as inadequate and inconsistent with Congressional intent. On March 23, 1999, HUD announced that Maine would receive an additional $2.15 million, and later announced that another $17 million would be available for Maine. The MPUC has stated its belief that Central Maine's prudently incurred ice-storm costs should be recovered through rates commencing March 1, 2000, but has deferred action pending the determination of the amount of federal reimbursement. Central Maine believes that it will receive a substantial portion of the funds now designated for Maine, but cannot predict with certainty what portion of its ice storm-related costs it will recover through federal assistance, or from its customers, or when any such recovery will take place.

Permanent Shutdown of Maine Yankee Plant

On August 6, 1997, the Board of Directors of Maine Yankee voted to permanently cease power operations at its nuclear generating plant at Wiscasset, Maine (the "Plant") and to begin decommissioning the Plant. As reported in detail in Central Maine's Annual Report on Form 10-K for the year ended December 31, 1998, the Plant had experienced a number of operational and regulatory problems and did not operate after December 6, 1996. The decision to close the Plant permanently was based on an economic analysis of the costs, risks and uncertainties associated with operating the Plant compared to those associated with closing and decommissioning it. The Plant's operating license from the NRC was scheduled to expire on October 21, 2008.

FERC Rate Case. On November 6, 1997, Maine Yankee submitted to FERC for filing certain amendments to the Power Contracts (the "Amendatory Agreements") and revised rates to reflect the decision to shut down the Plant and to request approval of an increase in the decommissioning component of its formula rates. Maine Yankee's submittal also requested certain other rate changes, including recovery of unamortized investment (including fuel) and certain changes to its billing formula, consistent with the non-operating status of the Plant. By Order dated January 14, 1998, the FERC accepted Maine Yankee's new rates for filing, subject to refund after a minimum suspension period, and set Maine Yankee's Amendatory Agreements, rates and issues concerning the prudence of the Plant-shutdown decision for hearing.

Since the filing of the rate request, Maine Yankee and the active intervenors, including among others the MPUC Staff, the Maine Office of the Public Advocate ("OPA"), Central Maine and other owners, municipal and cooperative purchasers of Maine Yankee Power (the "Secondary Purchasers"), and a Maine environmental group (the "Settling Parties"), engaged in extensive discovery and negotiations which resulted in a settlement agreement filed by those parties with the FERC on January 19, 1999. A separately negotiated settlement filed with the FERC on February 5, 1999, resolved the issues raised by the Secondary Purchasers by limiting the amounts they will pay for decommissioning the Plant and by settling other points of contention affecting individual Secondary Purchasers. Both settlements were found to be in the public interest and approved by the FERC on June 1, 1999. The settlement constitutes a full settlement of all issues raised in the consolidated FERC proceeding, including decommissioning-cost issues and issues pertaining to the prudence of the management, operation, and decision to permanently cease operation of the Plant.

The primary settlement provides for Maine Yankee to collect $33.1 million in the aggregate annually, effective August 1, 1999, including both decommissioning costs and ISFSI-related costs. The original filing with FERC on November 6, 1997, called for an aggregate annual collection rate of $36.4 million for decommissioning and the ISFSI, based on a 1997 estimate. Under the approved settlement the amount collected annually is to be reduced to approximately $24.4 million as a result of legislation allowing Maine Yankee to (1) use for construction of the ISFSI funds held in trust

under Maine law for spent-fuel disposal, and (2) access approximately $6.8 million held by the State of Maine for eventual payment to the State of Texas pursuant to a compact for low-level nuclear waste disposal, the future of which is in question after rejection of the selected disposal site in west Texas by a Texas regulatory agency. Both required authorizing legislation in Maine, which was adopted on May 13, 1999.

The settlement also provides for recovery of the unamortized investment (including fuel) in the Plant, together with a return on equity of 6.50 percent, effective January 15, 1998, on equity balances up to maximum allowed equity amounts, which resulted in a pro-rata refund of $9.3 million (including tax impacts) to the sponsors on July 15, 1999. The Settling Parties also agreed in the settlement not to contest the effectiveness of the Amendatory Agreements submitted to FERC as part of the original filing, subject to certain limitations including the right to challenge any accelerated recovery of unamortized investment under the terms of the Amendatory Agreements after a required informational filing with the FERC by Maine Yankee. In addition, the settlement contains incentives for Maine Yankee to achieve further savings in its decommissioning and ISFSI-related costs and resolves issues concerning restoration and future use of the Plant site and environmental matters of concern to certain of the intervenors in the proceeding.

As a separate part of the settlement, Central Maine, the other two Maine utilities which own interests in Maine Yankee, the MPUC Staff, and the OPA entered into a further agreement resolving retail rate issues and other issues specific to the Maine parties, including those that had been raised concerning the prudence of the operation and shutdown of the Plant (the "Maine Agreement"). Under the Maine Agreement Central Maine will continue to recover its Maine Yankee costs in accordance with its most recent ARP order from the MPUC without any adjustment reflecting the outcome of the FERC proceeding. To the extent that Central Maine has collected from its retail customers a return on equity in excess of the 6.50 percent contemplated by the settlement, no refunds would be required, but such excess amounts would be credited to the customers to the extent required by the ARP.

Finally, a major provision of the Maine Agreement requires the Maine owners, for the period from March 1, 2000, through December 1, 2004, to hold their Maine retail ratepayers harmless from the amounts by which the replacement power costs for Maine Yankee exceed the replacement power costs assumed in the report to the Maine Yankee Board of Directors that served as a basis for the Plant shutdown decision, up to a maximum cumulative amount of $41 million. Central Maine's share of that amount would be $31.16 million for the period. The Maine Agreement, which was approved by the MPUC on December 22, 1998, also sets forth the methodology for calculating such replacement power costs.

CMP Group and Central Maine believe that the approved settlement, including the Maine Agreement, constitutes a reasonable resolution of the issues raised in the Maine Yankee FERC proceeding, and should eliminate significant uncertainties concerning CMP Group's and Central Maine's future financial performance

Other Maine Yankee Shareholders. Periodically-higher nuclear-related costs have affected the financial condition of other stockholders of Maine Yankee in varying degrees. A default by a Maine Yankee stockholder in making payments under its Power Contract or Capital Funds Agreement could have a material adverse effect on Maine Yankee, depending on the magnitude of the default. CMP Group and Central Maine cannot predict, however, what effect, if any, the financial and regulatory difficulties experienced by some Maine Yankee stockholders might have on Maine Yankee or Central Maine.

Regulatory Matters and Electric-Utility Industry Restructuring

Alternative Rate Plan - On March 15, 1999, Central Maine submitted its 1999 ARP compliance filing to the MPUC. In the filing Central Maine recommended that rates remain unchanged for the period July 1, 1999 to February 29, 2000. On July 13, 1999, the MPUC issued an order which provided for no increase in rates effective July 1, 1999. In a related matter, on August 2, 1999, the MPUC issued an order regarding the treatment of gains on the sale of easements by Central Maine in late 1998 and early 1999. The order allocated 90 percent of the proceeds from the sale of easements to ratepayers and 10 percent to shareholders. Further the ratepayer portion must be amortized over a 5 year period. Central Maine believes that both under Maine Law Court precedent and under the terms of the ARP these gains should be recognized when the property was sold and accrue to the benefit of shareholders; accordingly, Central Maine will vigorously work to overturn the decision through reconsideration by the Commission and/or appeal to Maine's Law Court. As of June 30, 1999, approximately $9.9 million of the gain would be deferred and net income reduced accordingly, if the MPUC position prevails. The design and levels of Central Maine's rates as a transmission-and-distribution company, effective March 1, 2000, will be determined in Phase II of the MPUC proceeding discussed below in this note under "MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design."

Stranded Costs. The enactment by Congress of the Energy Policy Act of 1992 accelerated planning by electric utilities, including Central Maine, for a transition to a more competitive industry. In Maine, legislation that will restructure the electric-utility industry on March 1, 2000, was enacted by the Maine Legislature in May 1997, and is discussed in detail under this heading below. Such a departure from traditional regulation, however, could have a substantial impact on the value of utility assets and on the ability of electric utilities to recover their costs through rates. In the absence of full recovery, utilities would find their above-market costs to be "stranded", or unrecoverable, in the new competitive setting.

Central Maine has substantial exposure to cost stranding relative to its size. In general, its stranded costs reflect the excess costs of Central Maine's purchased-power obligations over the market value of the power, and the costs of deferred charges and other regulatory assets. The major portion of Central Maine's stranded costs is related to above-market costs of purchased-power obligations arising from Central Maine's long-term, noncancelable contracts for the purchase of capacity and energy from NUGs, with lesser estimated amounts related to Central Maine's deferred regulatory assets.

Maine Restructuring Legislation. The 1997 Maine restructuring legislation requires the MPUC, when retail access to generation begins on March 1, 2000, to provide a "reasonable opportunity" to recover stranded costs through the rates of the transmission-and-distribution company, comparable to the utility's opportunity to recover stranded costs before the implementation of retail access under the legislation. Stranded costs are defined as the legitimate, verifiable and unmitigable costs made unrecoverable as a result of the restructuring required by the legislation. Central Maine's recoverable amount and timing of recovery will be determined by the MPUC in the second phase of the ongoing proceeding discussed under the heading "MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design," below.

The principal restructuring provisions of the legislation provide for customers to have direct retail access to generation services and for deregulation of competitive electric providers,

commencing March 1, 2000, with transmission-and-distribution companies continuing to be regulated by the MPUC. By that date, subject to possible extensions of time granted by the MPUC to improve the sale value of generation assets, investor-owned utilities are required to divest all generation assets and generation-related business activities, with two major exceptions: (1) non-utility generator contracts with qualifying facilities and contracts with demand-side management or conservation providers, brokers or hosts, and (2) ownership interests in nuclear power plants. As discussed below under "Sale of Generation Assets," Central Maine completed the sale of its non-nuclear generating assets on April 7, 1999.

The legislation also requires investor-owned utilities, after February 29, 2000, to sell their rights to the capacity and energy from all generation assets, including the purchased-power contracts that had not previously been divested pursuant to the legislation, with certain immaterial exceptions. On July 30, 1999, Central Maine offered its rights to the capacity and energy from its nuclear generation assets and its NUG to prospective bidders.

Upon the commencement of retail access on March 1, 2000, Central Maine, as a transmission-and-distribution utility, will be prohibited from selling electric energy to retail customers. Any competitive electricity provider that is affiliated with Central Maine would be allowed to sell electricity outside Central Maine's service territory without limitation as to amount, but within Central Maine's service territory the affiliate would be limited to providing not more than 33 percent of the total kilowatt-hours sold within Central Maine's service territory, as determined by the MPUC. CMP Group does not now intend to engage in the sale of electric energy after March 1, 2000.

For a summary of other provisions of the 1997 legislation, see the Annual Report on Form 10-K of CMP Group and Central Maine for the twelve months ended December 31, 1998.

MPUC Proceeding on Stranded Costs, Revenue Requirements, and Rate Design. By order dated March 19, 1999, the MPUC completed the first phase of the proceeding contemplated by Maine's restructuring legislation that will ultimately determine the recovery of Central Maine's stranded costs, its revenue requirements, and the design of its rates to be effective when Central Maine becomes a transmission-and-distribution utility at the time retail access to generation begins in Maine on March 1, 2000. The MPUC stressed in its Phase I order that it was deciding the "principles" by which it would set Central Maine's transmission-and-distribution rates, effective March 1, 2000, but was deferring calculating the rates themselves until Phase II of the proceeding because such calculations at that time would rely excessively on estimates.

With respect to stranded costs, the MPUC indicated that it would set the amount of recoverable stranded costs for Central Maine in Phase II of the proceeding pursuant to its mandate under the restructuring statute to provide transmission-and-distribution utilities a reasonable opportunity to recover such costs that is equivalent to the utility's opportunity to recover those costs prior to the commencement of retail access. The MPUC also reviewed the prescribed methodology for determining the amount of a utility's stranded costs, including among other factors the application of excess value from Central Maine's divested generation assets to offset stranded costs.

In the area of revenue requirements, the Phase I order did not include definitive amounts, but did contain the MPUC's conclusions as to the appropriate cost of common equity for Central Maine as a transmission-and-distribution company beginning March 1, 2000. Central Maine had recommended a 12-percent cost of common equity with a 55-percent common equity component

in the capital structure. The MPUC approved a common-equity cost of 10.50 percent with a common-equity component of 47 percent, and an overall weighted-average cost of capital of 8.68 percent. In dealing with rate design, the MPUC limited itself in the first phase of the proceeding primarily to establishing principles that would guide it in designing Central Maine's rates to be effective March 1, 2000.

Central Maine submitted its Phase II filing to the MPUC on July 1, 1999. The filing is organized into sections covering revenue requirements, a sales forecast, stranded costs, and rate design, with updated information provided in each area. As with Phase I, some of the calculations submitted in the Phase II filing are still estimates, since some of the information that will provide the basis for the MPUC's decisions in the proceeding is not yet available. This information will include the results of the auctioning of Central Maine's energy and capacity of undivested generation-related assets and NUG contracts and the market prices for electricity, including the standard-offer price, all of which Central Maine expects to be able to provide the MPUC in an updated filing in December 1999.

Central Maine's requested revenue requirement amount, together with its interim assumption for market electricity prices, would result in an average 10.4-percent price decrease for its core rate customers effective March 1, 2000. This amount will change, however, depending on the information to be submitted in the December filing and the MPUC's decision on Central Maine's revenue requirements.

Sale of Generation Assets

On April 7, 1999, Central Maine completed the sale of all of its hydro, fossil and biomass power plants with a combined generating capacity of 1,185 megawatts for $846 million in cash, including approximately $18 million for assets of Union Water, to affiliates of Florida-based FPL Group. The related book value for these assets was approximately $217.8 million. In addition, as part of its agreement with FPL Group, Central Maine entered into energy buy-back agreements to assist in fulfilling its obligation to supply its customers with power until March 1, 2000. Subsequently, an agreement was reached to sell related storage facilities to FPL Group for an additional $4.6 million ($1.5 million for the assets and $3.1 million estimated for lease revenue associated with the properties that CMP will retain), including $2.0 million for Union Water assets. The related book value of these assets was approximately $11.9 million.

Central Maine recorded a pre-tax deferred gain of $515.7 million net of selling costs and certain non-normalized income tax impacts from the sale of generation assets by establishing a regulatory liability in the second quarter of 1999 eliminating any income recognition. Central Maine also recorded curtailment and special termination deferred charges of $8.1 million associated with pension and postretirement benefit costs of employees leaving the company as a result of the generation asset sale. These deferred charges will be amortized over a three year period beginning March 1, 2000 as required by the MPUC. In Phase II of the above described "MPUC Proceeding on Stranded Costs, Revenue Requirements and Rate Design," the MPUC will determine the amount of the regulatory liability that will be used to reduce stranded costs and the utilization and timing of the recognition of any remaining regulatory liability.

Central Maine also recorded a pre-tax deferred gain amounting to $30.8 million to offset the income impact of the flow-through of unamortized investment tax credits and excess deferred taxes associated with the assets sold. Central Maine has requested a private letter ruling from the IRS regarding the appropriate treatment of these items based on directives from the MPUC. Central

Maine is of the opinion, based on its review of the rules and regulation and IRS rulings in similar situations, that any unamortized investment tax credits and excess deferred taxes relating to the property sold become nonregulated property at the point of sale. Central Maine believes that regulatory agencies, therefore, are precluded from considering these unamortized investment tax credits and excess deferred tax reserves in establishing regulated rates because they would constitute a violation of the normalization requirement of the Internal Revenue Code. The MPUC has directed Central Maine to seek the private ruling to be absolutely clear in this particular case whether ratepayers can continue to benefit from these excess reserves. Central Maine does not know when the IRS will rule on its requests, but expects a ruling before the end of 1999.

Union Water's net income reflects a $3.7 million increase during the second quarter of 1999 due to its portion of the proceeds of the sale of generation assets as determined by the MPUC. Central Maine is appealing to the Maine Supreme Judicial Court the imputation of $13.2 million of value of the Union Water assets to Central Maine. The $13.2 million imputation is included in the Central Maine deferred gain of $515.7 million.

With the cash proceeds of the sale Central Maine redeemed the remaining $118.7 million of its outstanding General and Refunding Mortgage Bonds on May 10, 1999, and paid at maturity $47 million of its medium-term notes on May 4, 1999. On June 1, 1999, Central Maine redeemed $180 million of its medium-term notes, as well as all of the outstanding $10 million Town of Yarmouth Pollution Control Revenue Bonds, which had been issued in 1977 and 1978. Approximately $294.5 million of the proceeds will be required for federal and state income taxes resulting from the sale and, after providing for closing costs and energy purchases to meet power-supply obligations until the start of retail competition on March 1, 2000, Central Maine expects to transfer the balance to its parent, CMP Group. Proceeds that have not been applied have been invested in accordance with Central Maine's cash investment policy. Uses of the balance of the proceeds are under consideration by CMP Group.

Accounting for the Effects of Certain Types of Regulation

Central Maine prepares its financial statements in accordance with SFAS No. 71, which requires rate regulated companies to reflect the effects of regulatory decisions in their financial statements. Central Maine has deferred certain costs pursuant to rate actions of the MPUC and FERC and is recovering, or expects to recover, such costs in electric, transmission and distribution rates charged to customers.

The FASB's EITF has addressed the appropriateness of continued application of SFAS No. 71 by entities in states that have enacted restructuring legislation similar to Maine's. The EITF issued its statement No. 97-4 "Deregulation of Pricing Electricity – Issues Related to the Application of FASB Statements 71 and 101", which concluded that an entity should cease to apply SFAS 71 when a deregulation plan is in place and its terms are known. With respect to the generation portion of Central Maine's business, this occurred during the second quarter of 1999 with the completion of the sale of most of its generation assets to FPL and the subsequent development of a compliance filing with the MPUC in Phase II of the ongoing MPUC proceeding on stranded costs, revenue requirements and rate design. Effective June 30,1999, Central Maine adopted SFAS 101 for the generation segment of its business. SFAS 101 requires a determination of impairment of plant assets under SFAS 121, and the elimination of all effects of rate regulation that have been recognized as assets and liabilities under SFAS 71.

Central Maine performed impairment tests on its two operating nuclear generation facilities, Millstone 3 and Vermont Yankee, on a plant specific basis and determined that $82.9 million was impaired as of June 30,1999. Impaired plant is the excess of net plant investment at June 30,1999 over the value of net cash flows during the remaining lives of the investments. Annual net cash flows were determined by subtracting estimated generation sustenance costs from the estimated market value of power from the plants. The MPUC in its decision in Phase I order dated March 19,1999 of the "Investigation of Stranded Cost, Transmission and Distribution Utility Revenue Requirements and Rate Design" provided for future recovery of nuclear generation and other generation related stranded costs. Central Maine has established a regulatory asset as of June 30, 1999 for $82.9 million consistent with that order associated with the two operating nuclear investments. As a result there is no income impact from these impairment test but rather recognition of the future obligation and regulatory asset on the balance sheet.

Central Maine has long term power purchase contracts requiring payment of above anticipated market rates from NUGs. The estimate of above-market payment is approximately $800 million. The costs associated with these NUG contracts remain a regulated obligation of the transmission and distribution company as a statutory requirement and have been provided for by the MPUC in its revenue requirement determination in Phase I of the above mentioned proceeding.

Central Maine believes that its electric transmission and distribution operations continue to meet the requirements of SFAS 71 and that regulatory assets associated with those operations as well as any generation-related costs that the MPUC has determined to be recoverable from ratepayers also meet the criteria. At June 30,1999 $958.7 million of regulatory assets remain on Central Maine's books. Approximately $214.4 million will be charged against the estimated deferred gain and associated carrying costs through March 1, 2000 of $548.6 million resulting from the generation asset sale while the remainder will be amortized over periods to be determined by the MPUC in Phase II of the above mentioned proceeding.

Tax Settlement

On September 12, 1997, Central Maine received a notice of deficiency from the Internal Revenue Service ("IRS") as a result of its audit of Central Maine's federal income tax returns for the years 1992 through 1994. There were two significant adjustments among those proposed by the IRS. The first was a disallowance of Central Maine's write-off of the under-collected balance of fuel and purchased-power costs and the unrecovered balance of its unbilled Electric Revenue Adjustment Mechanism ("ERAM") revenues, both as of December 31, 1994, which had been charged to income in 1994 in connection with the adoption of the ARP effective January 1, 1995. The second major adjustment disallowed Central Maine's 1994 deduction of the cost of the buyout of the Fairfield Energy Venture ("FEV") purchased-power contract.

On December 10, 1997 Central Maine filed a petition in the United States Tax Court contesting the entire amount of the deficiencies. Subsequently, Central Maine sought review of the asserted deficiencies by an IRS Appeals Officer to determine whether all or part of the dispute could be resolved in advance of a court determination.

In June 1999, the IRS Appeals Officer and Central Maine reached agreement resolving all issues. Under the proposed agreement the ERAM component was allowed as fully deductible in 1994,

while $24 million of the fuel and purchased-power costs were deemed to be deductible in 1994 and the remaining $30 million deductible in 1995. The parties also agreed to increase the tax basis of the FEV plant from $2 million to $11 million, to be depreciated over 20 years, and that the remaining FEV contract buyout costs would be fully deductible in 1994.

As a result of the settlement, Central Maine made payments to the IRS and the State of Maine totaling $11.8 million for the 1992 to 1994 tax deficiencies, as well as $6.0 million in associated interest. Substantially all of the tax impacts were normalized, as Central Maine will be deducting any disallowed costs for tax purposes in future years. The net impact of the tax and interest true-up for all the years under consideration reduced net income in the second quarter of 1999 by $0.6 million due primarily to interest expense. Of the $6.0 million interest payment, approximately $1 million was previously accrued, $1.8 million associated with the FEV facility was deferred consistent with regulatory practice, and $2.0 million of interest income was accrued for the years 1995 through June 1999.

Due to the materiality of the amounts involved, approval of the settlement from the Congress's Joint Committee on Taxation is required and is being sought by the IRS.

Expansion of Lines of Business

General. CMP Group is also preparing for competition by expanding its business opportunities through investments that capitalize on core competencies. MaineCom Services is a subsidiary that arranges, through other investments fiber-optic data service for bulk carriers, offering support for cable television or "super-cellular" personal communication vendors, and providing other telecommunications consulting services. TeleSmart is a wholly-owned accounts receivable management subsidiary. Another wholly-owned subsidiary, CNEX, formerly CMP International Consultants, provides utility consulting (domestic and international) and research. The wholly-owned Union Water Power Company provides locating of underground utility facilities and thermovision (infrared) detection services, real estate brokerage and management, modular housing, energy-efficiency contracting, and utility construction services. Union Water's operating divisions include On Target Utility Services, UnionLand Services, Maine HomeCrafters, and Combined Energies™. These subsidiaries often utilize skills of former Central Maine employees and regularly compete for business with other companies.

Natural Gas Distribution. CMP Group and Energy East, through subsidiaries, have entered into a joint-venture agreement to pursue opportunities to distribute natural gas at retail in many Maine communities. They would offer natural-gas service in several areas of Maine, primarily the Augusta, Bangor, Bath-Brunswick, Bethel, Windham and Waterville areas, none of which had a natural-gas distribution system in place. The gas is to be drawn from two new gas-pipeline projects that will carry Canadian gas through Maine and into the regional energy market using substantial portions of electric transmission-line corridors owned by Central Maine and MEPCO. On July 24, 1998, the MPUC authorized the joint venture to serve the areas it had applied to serve. The new company, CMP Natural Gas could face competition from new or existing gas utilities in some of the areas it has targeted.

CMP Natural Gas began construction of its first local distribution system in Windham, Maine, in early 1999 and began serving its first customer in May. On July 8, 1999, CMP Natural Gas and Calpine Corporation, a California-based independent power company, announced the signing of a 20-year contract for CMP Natural Gas to provide natural gas delivery service to Calpine's proposed 540-megawatt natural gas-fired power plant under construction in Westbrook, Maine. CMP Natural

Gas expects to commence service to the plant by June 1, 2000, after MPUC approval and construction of a two-mile lateral pipeline along an existing Central Maine right of way that would interconnect with the new interstate pipeline facilities. Upon completion of the proposed merger of Energy East and CMP Group, Energy East will hold all of the interests in CMP Natural Gas.

Fiber Optic Network. CMP Group, through its wholly-owned subsidiary MaineCom Services, owns 38.5 percent of the common stock of Northeast Optic Network, Inc. ("NEON"), which is a facilities-based provider of technologically advanced, high-bandwidth, fiber optic transmission capacity for communications carriers on local loop, inter-city and interstate facilities. NEON is currently expanding its fiber optic network in New England and New York, utilizing primarily electric-utility rights-of-way, including some of Central Maine's in Maine and some owned by other electric utilities including Northeast Utilities, another substantial minority stockholder. NEON is creating a continuous fiber optic link between New York City and Portland, Maine, with access into and around Boston and numerous other major service areas in the Northeast. On July 13, 1999, NEON announced that it had activated its first high-capacity carrier circuit into the borough of Manhattan, which NEON said fulfilled its goal of providing carrier customers with such high-capacity facilities into the New York City market before the end of 1999.

On August 5, 1998, NEON completed initial public offerings of $48.0 million of common stock and $180.0 million of senior notes, and Central Maine, as part of the common-stock offering, sold some of the shares in NEON it then owned for proceeds of approximately $3.1 million. In addition, with some of the proceeds of the offering NEON repaid approximately $18 million Central Maine had advanced under an earlier construction loan agreement. CMP Group believes there is a growing need for such a fiber optic network in the Northeast and that NEON's outside financing will provide substantial assistance in completing construction of the network, but cannot predict the results of this venture.

Environmental Matters

CMP Group and its subsidiaries assess compliance with laws and regulations related to hazardous substance remediation on an ongoing basis. At June 30, 1999, Central Maine had an accrued liability of $3.0 million for remediation costs at various sites. The costs at identified sites may be significantly higher if, among other things, other potentially responsible parties are not financially able to contribute to these costs or identified possible outcomes change. See Note 2, "Commitments and Contingencies." - "Legal and Environmental Matters" for further discussion of this subject.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Central Maine is exposed to interest rate risk through the use of fixed-rate and variable-rate debt and preferred stock as sources of capital. As of June 30, 1999, Central Maine had $110 million of medium-term notes outstanding, $10 million of which bear floating, LIBOR-based rates.

	Variable Long Term	Fixed Long Term
	(dollars in thousands)	
Weighted Average Rates	9.12%	6.82%
Balance at June 30, 1999	34,593	236,224
Maturity Period	1999 - 2019	1999 - 2021

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Claim Against Central Maine - By notice of claim dated June 24, 1999, the non-operator owners of the Wyman No. 4 oil-fired generating unit in Yarmouth, Maine, which was approximately 60-percent owned by Central Maine, served notice on Central Maine that they believe they are entitled to a portion of the proceeds of the sale of Central Maine's interest in the unit as part of the April 1999 sale of its non-nuclear generation assets to FPL Energy. The claimants contend that certain sections of the joint ownership agreement under which they share in the output of the unit require a pro-rata distribution to them of part of those proceeds as a result of Central Maine's sale of its interest in the unit. The joint ownership agreement provides for arbitration of claims arising under the agreement.

Central Maine believes that although the amount that may be claimed could be substantial, the claimants have suffered no loss and are not entitled to any part of the generation-asset sale proceeds. Central Maine intends to contest any such claim vigorously, but cannot predict the result of any arbitration proceeding that the non-operator owners may initiate.

Regulatory Matters - For a discussion of certain significant regulatory matters affecting CMP Group and Central Maine, including those related to the permanent shutdown of the Maine Yankee Plant, the proposed merger with Energy East, and an MPUC proceeding that will determine Central Maine's stranded costs and related matters, see Item 2 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operation" - "Permanent Shutdown of Maine Yankee Plant", "Proposed Merger," and "MPUC Proceeding on Stranded Costs, Revenue Requirements and Rate Design," which are incorporated herein by reference.

Tax Settlement - For a discussion of Central Maine's settlement of significant federal income tax adjustments see Note 4, "Commitments and Contingencies" - "Tax Settlement."

Environmental Matters - For a discussion of administrative and judicial proceedings concerning cleanup of hazardous waste sites, see Note 2, "Commitments and Contingencies," "Legal and Environmental Matters," which is incorporated herein by reference.

Item 2. and Item 3. Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

The annual meetings of the stockholders of CMP Group and Central Maine were held concurrently on May 20, 1999. Proxies for the meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934. There was no solicitation in opposition to the managements' nominees as listed in the proxy statement, and all of such nominees were elected.

Two matters were voted on at the CMP Group annual meeting and one matter was voted on at the Central Maine meeting. The first was the election of four directors to Class I of the Board of Directors of CMP Group for a three-year term. The following are the vote tabulations for the four nominees:

Charleen M. Chase
Votes for –26,606,143
Votes withheld –754,431

David T. Flanagan
Votes for –26,619,205
Votes withheld –741,369

Robert H. Gardiner
Votes for –26,605,923
Votes withheld –754,651

Peter J. Moynihan
Votes for –26,615,468
Votes withheld –745,106

The second matter voted on at the CMP Group meeting was approval of the appointment of PricewaterhouseCoopers LLP as auditors for CMP Group for 1999. The appointment was approved, with the following vote tabulations:

Votes for –27,151,514
Votes against –65,814
Abstentions -143,246

The only matter voted on at the Central Maine meeting was the election of four directors to Class III of the Board of Directors of Central Maine for a three-year term. The four nominees were elected, with the following vote tabulations:

Charleen M. Chase
Votes for –3,125,192
Votes withheld –96

David T. Flanagan
Votes for –3,125,192
Votes withheld –96

Robert H. Gardiner
Votes for –3,125,192
Votes withheld –96

Peter J. Moynihan
Votes for –3,125,192
Votes withheld –96

Item 5. Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits. None.

(b) Reports on Form 8-K. CMP Group and Central Maine filed one report on Form 8-K during the second quarter of 1999 and thereafter to date:

Date of Report	Items Reported
June 14, 1999	Item 5

The registrants reported that CMP Group and Energy East had entered into an Agreement and Plan of Merger.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their respective behalfs by the undersigned thereunto duly authorized.

CMP GROUP, INC.

Date: August 10, 1999

By _____
David E. Marsh, Chief Financial Officer
(Principal Financial Officer and duly authorized officer)

CENTRAL MAINE POWER COMPANY

Date: August 10, 1999

By _____
Michael W. Caron, Comptroller (Chief Accounting Officer and duly authorized officer)

AGREEMENT AND PLAN OF MERGER

by and among

CMP GROUP, INC.,

ENERGY EAST CORPORATION

and

EE MERGER CORP.

dated as of June 14, 1999

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AGREEMENT AND PLAN OF MERGER, dated as of June 14, 1999 (this "Agreement"), by and among CMP Group, Inc., a Maine corporation (the "Company"), Energy East Corporation, a New York corporation ("Parent"), and EE Merger Corp., a Maine corporation and a wholly owned subsidiary of Parent ("Merger Sub").

WHEREAS, the Company and Parent have determined to engage in a business combination transaction on the terms stated herein; and

WHEREAS, the Boards of Directors of the Company and Parent have approved and deemed it advisable and in the best interests of their respective shareholders to consummate the transactions contemplated herein under which the businesses of the Company and Parent would be combined by means of the merger of Merger Sub with and into the Company;

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained herein, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I

THE MERGER

Section 1.1 The Merger. Upon the terms and subject to the conditions of this Agreement, at the Effective Time (as defined in Section 1.3) Merger Sub shall be merged with and into the Company (the "Merger") in accordance with the laws of the State of Maine. The Company shall be the surviving corporation in the Merger and shall continue its corporate existence under the laws of the State of Maine. The effects and the consequences of the Merger shall be as set forth in Section 1.2. Throughout this Agreement, the term "Merger Sub" shall refer to Merger Sub prior to the Merger and the term "Surviving Corporation" shall refer to the Company in its capacity as the surviving corporation in the Merger.

Section 1.2 Effects of the Merger. At the Effective Time, (i) the articles of incorporation of Merger Sub, as in effect immediately prior to the Effective Time, shall be the articles of incorporation of the Surviving Corporation until thereafter amended as provided by law and such articles of incorporation, except that the name of the Surviving Corporation shall be "CMP Group, Inc." and (ii) the by-laws of Merger Sub, as in effect immediately prior to the Effective Time, shall be the by-laws of the Surviving Corporation until thereafter amended as provided by law, the articles of incorporation or by-laws of the Surviving Corporation. Subject to the foregoing, the additional effects of the Merger shall be as provided in Section 905 of the Maine Business Corporation Act, as amended (the "MBCA").

Section 1.3 Effective Time of the Merger. On the Closing Date (as defined in Section 3.1), with respect to the Merger, articles of merger complying with Section 903 of the MBCA (the "Articles of Merger") shall be delivered to the Secretary of the State of Maine for filing. The Merger shall become effective upon the filing of the Articles of Merger (the "Effective Time").

Section 1.4 Directors. The directors of Merger Sub immediately prior to the Effective Time and Messrs. David T. Flanagan and Arthur W. Adelberg shall be the directors of the Surviving Corporation and shall nold office from the Effective Time until their respective successors are duly elected or appointed and qualified in the manner provided in the articles of incorporation and by-laws of the Surviving Corporation, or as otherwise provided by the MBCA.

Section 1.5 Officers. Except for the Chief Executive Officer of the Company, who shall become the Chairman of the Board, President and Chief Executive Officer of the Surviving Corporation, the officers of Merger Sub immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation and shall hold office from the Effective Time until their respective successors are duly elected or appointed and qualified in the manner provided in the articles of incorporation and by-laws of the Surviving Corporation, or as otherwise provided by the MBCA.

ARTICLE II

TREATMENT OF SHARES

Section 2.1 Effect of the Merger on Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of any holder of any capital stock of the Company or Merger Sub:

(a) Shares of Merger Sub Stock. Each share of common stock, par value $.01 per share, of Merger Sub (the "Merger Sub Common Stock") that is issued and outstanding immediately prior to the Effective Time shall be converted into one fully paid and nonassessable share of common stock, par value $.01 per share, of the Surviving Corporation.

(b) Cancellation of Certain Company Common Stock. Each share of common stock, par value $5.00 per share, of the Company (the "Company Common Stock"), that is owned by the Company as treasury stock and all shares of Company Common Stock that are owned by any subsidiary of the Company, Parent, Merger Sub or any other subsidiary of Parent shall be cancelled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor.

(c) Conversion of Company Common Stock. Each share of Company Common Stock, other than Dissenting Shares (as defined in Section 2.1(d)) and shares cancelled pursuant to Section 2.1(b), issued and outstanding immediately prior to the Effective Time shall by virtue of the Merger and without any action on the part of the holder thereof be converted into the right to receive an amount in cash, without interest, equal to $29.50 (the "Merger Consideration"). At the Effective Time, all such shares of Company Common Stock shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate representing any such shares of Company Common Stock shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration.

(d) Dissenting Shares. Each outstanding share of Company Common Stock the holder of which has perfected his right to dissent under applicable law and has not effectively withdrawn or lost such right as of the Effective Time (the "Dissenting Shares") shall not be converted into or represent a right to receive the Merger Consideration, and the holder thereof shall be entitled only to such rights as are granted by applicable law; provided, however, that any Dissenting Share held by a person at the Effective Time who shall, after the Effective Time, withdraw the demand for payment for shares or lose the right to payment for shares, in either case pursuant to the MBCA, shall be deemed to be converted into, as of the Effective Time, the right to receive the Merger Consideration. The Company or the Surviving Corporation shall give Parent prompt notice upon receipt by the Company or the Surviving Corporation, respectively, of any such written demands for payment of the fair value of such shares of Company Common Stock and of withdrawals of such notice and any other instruments provided pursuant to applicable law. Any payments made in respect of Dissenting Shares shall be made by the Surviving Corporation.

Section 2.2 Exchange of Certificates. (a) Deposit with Paying Agent. Prior to the Effective Time, Parent and the Company shall appoint a mutually acceptable bank or trust to act as paying agent (the "Paying Agent") for the payment of the Merger Consideration upon surrender of certificates representing shares of Company Common Stock. Parent will enter into a customary paying agent agreement acceptable to both Parent and the Company with the Paying Agent. As soon as practicable after the Effective Time, Parent shall deposit or cause to be deposited with the Paying Agent in trust for the benefit of the Company's stockholders cash representing the aggregate Merger Consideration to which Company stockholders who have properly completed, signed and submitted letters of transmittal shall be entitled pursuant to Section 2.1(c); and from time to time cash representing the aggregate Merger Consideration to which Company stockholders who later submit letters of transmittal shall be entitled pursuant to Section 2.1(c) (such amounts being hereinafter referred to as the "Exchange Fund"). The Paying Agent shall invest the Exchange Fund as Parent directs. Any net profit resulting from, or interest or income produced by, such investments shall be payable to Parent. The Exchange Fund shall not be used for any other purpose except as provided in this Agreement.

(b) Exchange and Payment Procedures. As soon as practicable after the Effective Time, Parent shall cause the Paying Agent to mail to each holder of record, as of the Effective Time, of a certificate representing shares of Company Common Stock (a "Certificate") that has been converted pursuant to Section 2.1: (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass only upon actual delivery of the Certificates to the Paying Agent) and (ii) instructions for effecting the surrender of the Certificates and receiving the Merger Consideration to which such holder shall be entitled therefor pursuant to Section 2.1(c). Upon surrender of a Certificate to the Paying Agent for cancellation, together with a duly executed letter of transmittal and such other documents as the Paying Agent may require, the holder of such Certificate shall be entitled to receive in exchange therefor the Merger Consideration. In the event the Merger Consideration is to be delivered to any person who is not the person in whose name the Certificate surrendered in exchange therefor is registered in the transfer records of the Company, the Merger Consideration may be delivered to a transferee if the Certificate is presented to the Paying Agent, accompanied by all documents

required to evidence and effect such transfer and by evidence satisfactory to the Paying Agent that any applicable stock transfer taxes have been paid. Until surrendered as contemplated by this Section 2.2, each Certificate (other than a certificate representing (i) shares of Company Common Stock to be cancelled in accordance with Section 2.1(b) or (ii) Dissenting Shares) shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the Merger Consideration. No interest will be paid or will accrue on any cash payable to holders of Certificates pursuant to provisions of this Article II. In the event any Certificate has been lost, stolen or destroyed, the Paying Agent shall issue in exchange for such lost, stolen or destroyed Certificate upon the making of an affidavit of that fact by the holder thereof the Merger Consideration payable with respect thereto pursuant to Section 2.1(c), provided, however, that Parent may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed Certificate to deliver a bond in such sum as it may reasonably direct as indemnity against any claim that may be made against Parent or the Paying Agent with respect to the Certificate alleged to have been lost, stolen or destroyed.

(c) Closing of Transfer Books. From and after the Effective Time, the stock transfer books of the Company shall be closed and no registration of any transfer of any capital stock of the Company shall thereafter be made in the records of the Company. If, after the Effective Time, Certificates are presented to the Surviving Corporation, they shall be cancelled and exchanged for the Merger Consideration.

(d) Termination of Exchange Fund. All funds held by the Paying Agent for payment to the holders of unsurrendered Certificates and unclaimed at the end of six months from the Effective Time shall be returned to Parent, after which time any holder of unsurrendered Certificates shall look as a general creditor only to the Surviving Corporation for payment of such funds to which such holder may be due, subject to applicable law.

(e) Escheat. The Company shall not be liable to any person for such shares or funds delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

Section 2.3 Treatment of Stock Options; Withholding Rights. (a) Treatment of Stock Options. Prior to the Effective Time, the Board of Directors of the Company (or, if appropriate, any committee thereof) shall adopt appropriate resolutions and take all other actions necessary (including obtaining the consent of holders) to provide for the cancellation, effective at the Effective Time, of all the outstanding stock options (the "Options") outstanding immediately prior to the Effective Time heretofore granted under any stock option or similar plan of the Company or under any agreement, without any payment therefor except as otherwise provided in this Section 2.3. As of the Effective Time, all Options (whether vested or unvested) which are listed in Section 2.3 of the Company Disclosure Schedule (as defined in Section 6.11(ii)) shall be cancelled (and to the extent formerly so exercisable shall no longer be exercisable) and shall entitle each holder thereof, in cancellation and settlement therefor, to a payment, if any, in cash by the Company (less any applicable withholding taxes), promptly following the Effective Time, equal to the product of (i) the total number of shares of the Company Common Stock subject to

such Option (whether vested or unvested) and (ii) the excess, if any, of $29.50 over the exercise price per share of the Company Common Stock subject to such Option.

(b) Withholding Rights. Each of the Surviving Corporation, the Company and Parent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of the Company Common Stock such amounts as it is required to deduct and withhold with respect to the making of such payment under the Internal Revenue Code of 1986, as amended (the "Code") and the rules and regulations promulgated thereunder, or any provision of state, local or foreign Tax law. To the extent that amounts are so withheld by the Surviving Corporation, the Company or Parent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock in respect of which such deduction and withholding was made by the Surviving Corporation, the Company or Parent, as the case may be.

ARTICLE III

THE CLOSING

Section 3.1 Closing. The closing of the Merger (the "Closing") shall take place at the offices of Wachtell, Lipton, Rosen & Katz, at 10:00 a.m., New York City time, on the second business day immediately following the date on which the last of the conditions set forth in Article VII hereof is fulfilled or waived (other than conditions that by their nature are required to be performed on the Closing Date, but subject to satisfaction of such conditions), or at such other time and date and place as the Company and Parent shall mutually agree (the "Closing Date").

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent as follows:

Section 4.1 Organization and Qualification. Except as set forth in Section 4.1 of the Company Disclosure Schedule, the Company and each of its subsidiaries (as defined below) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite corporate power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent currently owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary, other than in such jurisdictions where the failure to be so qualified and in good standing will not, when taken together with all other such failures, have a material adverse effect on the business, properties, condition (financial or otherwise) or results of operations of the Company and its subsidiaries taken as a whole or on the consummation of this Agreement (any such material adverse effect being hereafter referred to as

a "Company Material Adverse Effect"). As used in this Agreement, the term "subsidiary" of a person shall mean any corporation or other entity (including partnerships and other business associations) of which a majority of the outstanding capital stock or other voting securities having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or entity shall at the time be held, directly or indirectly, by such person.

Section 4.2 Subsidiaries. Section 4.2 of the Company Disclosure Schedule sets forth a description as of the date hereof, of all subsidiaries and joint ventures of the Company, including the name of each such entity, the state or jurisdiction of its incorporation or organization, the Company's interest therein and a brief description of the principal line or lines of business conducted by each such entity. Except as set forth in Section 4.2 of the Company Disclosure Schedule, all of the issued and outstanding shares of capital stock owned by the Company of each Company subsidiary are validly issued, fully paid, nonassessable and free of preemptive rights, and are owned, directly or indirectly, by the Company free and clear of any liens, claims, encumbrances, security interests, equities, charges and options of any nature whatsoever, and there are no outstanding subscriptions, options, calls, contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating any such subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of its capital stock or obligating it to grant, extend or enter into any such agreement or commitment, except for any of the foregoing that could not reasonably be expected to have a Company Material Adverse Effect. As used in this Agreement, the term "joint venture" of a person shall mean any corporation or other entity (including partnerships and other business associations) that is not a subsidiary of such person, in which such person or one or more of its subsidiaries owns an equity interest, other than equity interests held for passive investment purposes which are less than 10% of any class of the outstanding voting securities or equity of any such entity.

Section 4.3 Capitalization. The authorized capital stock of the Company consists of 80,000,000 shares of Company Common Stock and 5,000,000 shares of preferred stock, par value $100.00 per share, of the Company ("Company Preferred Stock"). As of the close of business on June 14, 1999, there were issued and outstanding 32,442,552 shares of Company Common Stock and no shares of Company Preferred Stock. All of the issued and outstanding shares of the capital stock of the Company are validly issued, fully paid, nonassessable and free of preemptive rights. Except as set forth in Section 4.3 of the Company Disclosure Schedule, as of the date hereof there are no outstanding subscriptions, options, calls, contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating the Company or any of the subsidiaries of the Company to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of the capital stock of the Company, or obligating the Company to grant, extend or enter into any such agreement or commitment.

Section 4.4 Authority; Non-Contravention; Statutory Approvals; Compliance. (a) Authority. The Company has all requisite corporate power and authority to enter into this Agreement and, subject to obtaining the Company Shareholders' Approval (as defined in Section 4.13) and the Company Required Statutory Approvals (as defined in Section 4.4(c)), to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation by the Company of the transactions contemplated hereby, have been duly authorized by all necessary corporate action on the part of the Company subject to obtaining the applicable Company Shareholders' Approval. This Agreement has been duly and validly executed and delivered by the Company and, assuming the due authorization, execution and delivery by the other signatories hereto, constitutes the valid and binding obligation of the Company enforceable against it in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance or other similar laws affecting the enforcement of creditors' rights generally, and except that the availability of equitable remedies, including specific performance, may be subject to the discretion of any court before which any proceedings may be brought.

(b) Non-Contravention. Except as set forth in Section 4.4(b) of the Company Disclosure Schedule, the execution and delivery of this Agreement by the Company does not, and the consummation of the transactions contemplated hereby will not, violate, conflict with, or result in a breach of any provision of, or constitute a default (with or without notice or lapse of time or both) under, or result in the termination or modification of, or accelerate the performance required by, or result in a right of termination, cancellation, or acceleration of any obligation or the loss of a benefit under, or result in the creation of any lien, security interest, charge or encumbrance ("Liens") upon any of the properties or assets of the Company or any of its subsidiaries or any of its joint ventures (any such violation, conflict, breach, default, right of termination, modification, cancellation or acceleration, loss or creation, a "Violation" with respect to the Company (such term when used in Article V having a correlative meaning with respect to Parent)) pursuant to any provisions (i) of the articles of incorporation, by-laws or similar governing documents of the Company, any of its subsidiaries or any of its joint ventures; (ii) subject to obtaining the Company Required Statutory Approvals and the receipt of the Company Shareholders' Approval, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority (as defined in Section 4.4(c)) applicable to the Company, any of its subsidiaries or any of its joint ventures, or any of their respective properties or assets; or (iii) subject to obtaining the third-party consents or other approvals set forth in Section 4.4(b) of the Company Disclosure Schedule (the "Company Required Consents"), any note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind to which the Company, any of its subsidiaries or any of its joint ventures is a party or by which it or any of its properties or assets may be bound or affected, excluding from the foregoing clauses (ii) and (iii) such Violations as would not have, in the aggregate, a Company Material Adverse Effect.

(c) Statutory Approvals. Except as described in Section 4.4(c) of the Company Disclosure Schedule, no declaration, filing or registration with, or notice to or authorization, consent or approval of, any court, federal, state, local or foreign governmental or regulatory body

(including a stock exchange or other self-regulatory body) or authority (each, a "Governmental Authority") is necessary for the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby, the failure to obtain, make or give which would have, in the aggregate, a Company Material Adverse Effect (the "Company Required Statutory Approvals"), it being understood that references in this Agreement to "obtaining" such Company Required Statutory Approvals shall mean making such declarations, filings or registrations, giving such notices, obtaining such authorizations, consents or approvals and having such waiting periods expire as are necessary to avoid a violation of law.

(d) Compliance. Except as set forth in Section 4.4(d) or Section 4.11 of the Company Disclosure Schedule or as disclosed in the Company SEC Reports (as defined in Section 4.5) filed prior to the date hereof, neither the Company, nor any of its subsidiaries nor any of its joint ventures, is in violation of, is under investigation with respect to any violation of, or has been given notice or been charged with any violation of, any law, statute, order, rule, regulation, ordinance or judgment (including, without limitation, any applicable Environmental Law, as defined in Section 4.11(f)(ii)) of any Governmental Authority except for violations that, in the aggregate, do not have and are not reasonably likely to have a Company Material Adverse Effect. Except as set forth in Section 4.4(d) of the Company Disclosure Schedule or in Section 4.11 of the Company Disclosure Schedule, the Company and its subsidiaries and joint ventures have all permits, licenses, franchises and other governmental authorizations, consents and approvals necessary to conduct their respective businesses as currently conducted in all respects, except those which the failure to obtain would, in the aggregate, not have a Company Material Adverse Effect. Except as set forth in Section 4.4(d) of the Company Disclosure Schedule, the Company and each of its subsidiaries are not in breach or violation of or in default in the performance or observance of any term or provision of, and no event has occurred which, with lapse of time or action by a third party, could result in a default under, (i) its articles of incorporation or by-laws or (ii) any material contract, commitment, agreement, indenture, mortgage, loan agreement, note, lease, bond, license, approval or other instrument to which it is a party or by which it is bound or to which any of its property is subject, except for Violations that, in the aggregate, do not have, and to the knowledge of the Company are not reasonably likely to have, a Company Material Adverse Effect.

(e) Non-Competition. Except as set forth in Section 4.4(e) of the Company Disclosure Schedule, there is no "non-competition" or other similar contract, commitment, agreement or understanding that restricts the ability of the Company or any of its affiliates to conduct business in any geographic area or that would reasonably be likely to restrict the Surviving Corporation or any of its affiliates to conduct business in any geographic area.

Section 4.5 Reports and Financial Statements. The filings required to be made by the Company and its subsidiaries since January 1, 1995 under the Securities Act of 1933, as amended (the "Securities Act"), the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Public Utility Holding Company Act of 1935, as amended (the "1935 Act"), the Federal Power Act, as amended (the "Power Act") and applicable state public utility laws and regulations have been filed with the Securities and Exchange Commission (the "SEC"), the Federal Energy Regulatory Commission (the "FERC") or the appropriate state public utilities commission, as the

case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, and complied, as of their respective dates, in all material respects with all applicable requirements of the appropriate statute and the rules and regulations thereunder. The Company has delivered or made available to Parent a true and complete copy of each report, schedule, registration statement and definitive proxy statement filed by the Company with the SEC since January 1, 1995 (as such documents have since the time of their filing been amended, the "Company SEC Reports"). As of their respective dates, the Company SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of the Company included in the Company SEC Reports (collectively, the "Company Financial Statements") have been prepared in accordance with generally accepted accounting principles applied on a consistent basis ("GAAP") (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q of the SEC) and fairly present the consolidated financial position of the Company as of the dates thereof and the consolidated results of operations and cash flows for the periods then ended. True, accurate and complete copies of the articles of incorporation and by-laws of the Company, as in effect on the date hereof, have been made available to Parent.

Section 4.6 Absence of Certain Changes or Events. Except as set forth in Section 4.6 of the Company Disclosure Schedule or disclosed in the Company SEC Reports filed prior to the date hereof, the Company and each of its subsidiaries have conducted their business only in the ordinary course of business consistent with past practice, and there has not been, and no fact or condition exists which could have, in the aggregate, a Company Material Adverse Effect.

Section 4.7 Litigation. Except as set forth in Section 4.7 or Section 4.11 of the Company Disclosure Schedule or disclosed in the Company SEC Reports filed prior to the date hereof, (i) there are no claims, suits, actions or proceedings, pending or to the knowledge of the Company threatened, nor are there any investigations or reviews pending or threatened against, relating to or affecting the Company or any of its subsidiaries, and (ii) there are no judgments, decrees, injunctions, rules or orders of any court, governmental department, commission, agency, instrumentality, authority or any arbitrator applicable to the Company or any of its subsidiaries, except for any of the foregoing under clauses (i) and (ii) that in the aggregate could not reasonably be expected to have a Company Material Adverse Effect.

Section 4.8 Proxy Statement. None of the information supplied or to be supplied by or on behalf of the Company for inclusion or incorporation by reference in the proxy statement, in definitive form (the "Proxy Statement"), relating to the Company Special Meeting (as defined below) shall, at the date mailed to shareholders and at the time of the Company Special Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement, insofar as it relates to the Company or any of its subsidiaries, shall comply as to form in all material respects with the applicable provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder.

Section 4.9 Tax Matters. "Taxes," as used in this Agreement, means any federal, state, county, local or foreign taxes, charges, fees, levies or other assessments, including, without limitation, all net income, gross income, sales and use, ad valorem, transfer, gains, profits, excise, franchise, real and personal property, gross receipts, capital stock, production, business and occupation, disability, employment, payroll, license, estimated, stamp, custom duties, severance or withholding taxes or charges imposed by any governmental entity, and includes any interest and penalties (civil or criminal) on or additions to any such taxes and any expenses incurred in connection with the determination, settlement or litigation of any tax liability. "Tax Return," as used in this Agreement, means a report, return or other written information required to be supplied to a governmental entity with respect to Taxes. Except as set forth in the appropriate subsection of Section 4.9 of the Company Disclosure Schedule:

(a) Filing of Timely Tax Returns. The Company and each of its subsidiaries have duly filed (or there has been filed on its behalf) all material Tax Returns required to be filed by each of them under applicable law. All such Tax Returns were and are in all material respects true, complete and correct and filed on a timely basis.

(b) Payment of Taxes. The Company and each of its subsidiaries have, within the time and in the manner prescribed by law, paid all Taxes that are currently due and payable except for those contested in good faith and for which adequate reserves have been taken.

(c) Tax Reserves. All Taxes payable by the Company and its subsidiaries for all taxable periods and portions thereof through the date of the most recent financial statements contained in the Company Financial Statements filed prior to the date of this Agreement are properly reflected in such financial statements in accordance with GAAP, and the unpaid Taxes of the Company and its subsidiaries as of the Effective Time are not reasonably expected to exceed the amount shown therefor on such financial statements adjusted for the passage of time through the Effective Time in accordance with past custom and practice of the Company and its subsidiaries in filing their Tax Returns.

(d) Extensions of Time for Filing Tax Returns. Neither the Company nor any of its subsidiaries has requested any extension of time within which to file any Tax Return, which Tax Return has not since been filed.

(e) Waivers of Statute of Limitations. Neither the Company nor any of its subsidiaries has executed any outstanding waivers or comparable consents regarding the application of the statute of limitations with respect to any Taxes or Tax Returns.

(f) Expiration of Statute of Limitations. The statute of limitations for the assessment of all Taxes has expired for all applicable Tax Returns of the Company and each of its subsidiaries, or those Tax Returns have been examined by the appropriate taxing authorities for all periods through the date hereof, and no deficiency for any Taxes has been proposed, asserted or assessed against the Company or any of its subsidiaries that has not been resolved and paid in full.

(g) Audit, Administrative and Court Proceedings. No claims, audits, disputes, controversies, examinations, investigations or other proceedings are presently pending with regard to any Taxes or Tax Returns of the Company or any of its subsidiaries.

(h) Tax Rulings. For any taxable years since and including 1990, neither the Company nor any of its subsidiaries has received a Tax Ruling (as defined below) or entered into a Closing Agreement (as defined below) with any taxing authority that would have a continuing adverse effect after the Closing Date. "Tax Ruling," as used in this Agreement, shall mean a written ruling of a taxing authority relating to Taxes. "Closing Agreement," as used in this Agreement, shall mean a written and legally binding agreement with a taxing authority relating to Taxes.

(i) Availability of Tax Returns. The Company has provided or made available to Parent complete and accurate copies of (i) all Tax Returns, and any amendments thereto, filed by the Company or any of its subsidiaries for the tax years after December 31, 1992, (ii) all audit reports received from any taxing authority relating to any Tax Return filed by the Company or any of its subsidiaries for any taxable year since and including 1990 and (iii) any Closing Agreements entered into by the Company or any of its subsidiaries with any taxing authority, relating to any Tax Return filed by the Company or any of its subsidiaries for any taxable year since and including 1990.

(j) Tax Sharing Agreements. Neither the Company nor any of its subsidiaries is a party to any agreement, understanding or arrangement relating to allocating or sharing of Taxes.

(k) Liability for Others. Neither the Company nor any of its subsidiaries has any liability for Taxes of any person other than the Company and its subsidiaries (i) under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign law), (ii) as a transferee or successor, (iii) by contract or (iv) otherwise.

(l) Code Section 897. To the best knowledge of the Company after due inquiry, no foreign person owns or has owned, for purposes of Section 897 of the Code, more than five percent of the total fair market value of Company Common Stock during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code, and, at all times during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code, Company Common Stock has been regularly traded in an established securities market within the meaning of Treasury Regulation Section 1.897-1(m).

(m) Code Section 355(e). Neither the Company nor any of its subsidiaries has constituted a "distributing corporation" or a "controlled corporation" in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (x) in the past 24-month period or (y) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

Section 4.10 Employee Matters; ERISA. Except as set forth in the appropriate subsection of Section 4.10 of the Company Disclosure Schedule:

(a) For purposes of this Section 4.10, the following terms have the definitions set forth below:

(i) "Controlled Group Liability" means any and all liabilities (a) under Title IV of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (b) under the minimum funding requirements of Section 302 of ERISA or Section 412 of the Code, (c) under Section 4971 of the Code, and (d) as a result of a failure to comply with the continuation coverage requirements of Section 601 et seq. of ERISA and Section 4980B of the Code, other than such liabilities that arise solely out of, or relate solely to, the Employee Benefit Plans.

(ii) "ERISA Affiliate" means, with respect to any entity, trade or business, any other entity, trade or business that is a member of a group described in Section 414(b), (c), (m) or (o) of the Code or Section 4001(b)(1) of ERISA that includes the first entity, trade or business, or that is a member of the same "controlled group" as the first entity, trade or business pursuant to Section 4001(a)(14) of ERISA.

(iii) An "Employee Benefit Plan" means any material employee benefit plan, program, policy, practice or other arrangement providing benefits to any current or former employee, officer or director of the Company or any of its subsidiaries or any beneficiary or dependent thereof that is sponsored or maintained by the Company or any of its subsidiaries or to which the Company or any of its subsidiaries contributes or is obligated to contribute, whether or not written, including without limitation any employee welfare benefit plan within the meaning of Section 3(1) of ERISA, any employee pension benefit plan within the meaning of Section 3(2) of ERISA (whether or not such plan is subject to ERISA) and any material bonus, incentive, deferred compensation, vacation, stock purchase, stock option, severance, employment, change of control or fringe benefit plan, program or agreement.

(iv) A "Plan" means any Employee Benefit Plan other than a Multiemployer Plan.

(v) A "Multiemployer Plan" means any "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA.

(vi) "Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as those terms are defined in Part 1 of Subtitle E of Title IV of ERISA.

(b) Section 4.10(b) of the Company Disclosure Schedule includes a complete list of all material Employee Benefit Plans.

(c) With respect to each Plan, the Company has delivered to Parent a true, correct [illegible]mplete copy of: (i) each writing constituting a part of such Plan, including without [illegible]ll material plan documents, trust agreements, and insurance contracts and other [illegible]; (ii) the most recent Annual Report (Form 5500 Series) and accompanying [illegible] the current summary plan description and any material modifications [illegible] furnished under ERISA; (iv) the most recent annual financial report, if

any; (v) the most recent actuarial report, if any; and (vi) the most recent determination letter the Internal Revenue Service (the "IRS"), if any. Except as specifically provided in the foregoing documents delivered to Parent, there are no amendments to any Plan that have been adopted or approved nor has the Company or any of its subsidiaries undertaken to make any such amendments or to adopt or approve any new Plan except as required under applicable law.

(d) Section 4.10(d) of the Company Disclosure Schedule identifies each Plan that is intended to be a "qualified plan" within the meaning of Section 401(a) of the Code ("Qualified Plans"). The IRS has issued a favorable determination letter with respect to each Qualified Plan and the related trust that has not been revoked, and to the knowledge of the Company there are no existing circumstances nor any events that have occurred that could reasonably be expected to adversely affect the qualified status of any Qualified Plan or the related trust. No Plan is intended to meet the requirements of Code Section 501(c)(9).

(e) All material contributions required to be made to any Plan by applicable law or regulation or by any Plan document or other contractual undertaking, and all material premiums due or payable with respect to insurance policies funding any Plan, for any period through the date hereof have been timely made or paid in full or, to the extent not required to be made or paid on or before the date hereof, have been fully reflected on the Company Financial Statements. Each Employee Benefit Plan that is an employee welfare benefit plan under Section 3(1) of ERISA (i) is funded through an insurance company contract and is not a "welfare benefit fund" within the meaning of Section 419 of the Code, or (ii) is unfunded.

(f) With respect to each Employee Benefit Plan, the Company and its subsidiaries have complied (or, as disclosed to Parent prior to the date of this Agreement, have corrected any noncompliance under applicable IRS self correction programs), and are now in compliance in all material respects, with all provisions of ERISA, the Code and all laws and regulations applicable to such Employee Benefit Plans and each Employee Benefit Plan has been administered in all material respects in accordance with its terms. There is not now, nor do any circumstances exist that could reasonably be expected to give rise to, any requirement for the posting of security with respect to a Plan or the imposition of any lien on the assets of the Company or any of its subsidiaries under ERISA or the Code. To the knowledge of the Company, no non-exempt prohibited transaction (as defined in Section 406 of ERISA or Section 4975 of the Code) has occurred with respect to any Plan.

(g) With respect to each Plan that is subject to Title IV of ERISA, the minimum funding requirements of Section 302 of ERISA or Section 412 of the Code, or Section 4971 of the Code: (i) there does not exist any accumulated funding deficiency within the meaning of Section 412 of the Code or Section 302 of ERISA, whether or not waived; (ii) the fair market value of the assets of each such Plan that is a defined benefit plan equals or exceeds the actuarial present value of all accrued benefits under such Plan (whether or not vested), based upon the actuarial assumptions set forth in the most recent actuarial report for such Plan; (iii) no reportable event within the meaning of Section 4043(c) of ERISA for which the 30-day notice requirement has not been waived has occurred since December 31, 1993; (iv) all material premiums to the Pension Benefit Guaranty Corporation ("PBGC") have been timely paid in full; (v) no material

liability (other than for premiums to the PBGC and for the payment of benefits in the ordinary course) under Title IV of ERISA has been or could reasonably be expected to be incurred by the Company or any of its subsidiaries; and (vi) the PBGC has not instituted proceedings to terminate any such Plan and no condition exists that presents a material risk that such proceedings will be instituted or which would constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such Plan.

(h) No Employee Benefit Plan is a Multiemployer Plan or a plan that has two or more contributing sponsors at least two of which are not under common control, within the meaning of Section 4063 of ERISA (a "Multiple Employer Plan"). None of the Company and its subsidiaries nor any of their respective ERISA Affiliates has, at any time during the last six years, contributed to or been obligated to contribute to any Multiemployer Plan or Multiple Employer Plan. None of the Company and its subsidiaries nor any ERISA Affiliates has incurred any Withdrawal Liability that has not been satisfied in full.

(i) There does not now exist, nor do any circumstances exist that could reasonably be expected to result in, any Controlled Group Liability that would be a material liability of the Surviving Corporation following the Closing. Without limiting the generality of the foregoing, neither the Company nor any of its subsidiaries, nor any of their respective ERISA Affiliates, has engaged in any transaction described in Section 4069 or Section 4204 or 4212 of ERISA.

(j) Except for health continuation coverage as required by Section 4980B of the Code or Part 6 of Title I of ERISA, the Company and its subsidiaries have no material liability for life, health, medical or other welfare benefits to former employees or beneficiaries or dependents of former employees. The Company and each of its subsidiaries has reserved the right to amend, terminate or modify at any time all plans or arrangements providing for retiree health or life insurance coverage.

(k) Neither the execution and delivery of this Agreement nor the consummation of any of the transactions contemplated hereby will (either alone or in conjunction with any other event) result in, cause the accelerated funding, vesting or delivery of, or increase the amount or value of, any material payment or benefit to any employee, officer or director of the Company or any of its subsidiaries. Without limiting the generality of the foregoing, no amount paid or payable by the Company or any of its subsidiaries in connection with the transactions contemplated hereby (either solely as a result thereof or as a result of such transactions in conjunction with any other event) will be an "excess parachute payment" within the meaning of Section 280G of the Code.

(l) No labor organization or group of employees of the Company or any of its subsidiaries has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or, to the knowledge of the Company, threatened to be brought or filed, with the National Labor Relations Board or any other labor relations tribunal or authority. There are no organizing activities, strikes, work stoppages, slowdowns, lockouts, material arbitrations or

material grievances, or other material labor disputes pending or, to the knowledge of the Company, threatened against or involving the Company or any of its subsidiaries. Each of the Company and its subsidiaries is in compliance in all material respects with all applicable laws and collective bargaining agreements respecting employment and employment practices, terms and conditions of employment, wages and hours and occupational safety and health.

(m) There are no pending or, to the knowledge of the Company, threatened claims (other than claims for benefits in the ordinary course), lawsuits or arbitrations which have been asserted or instituted, and there is no set of circumstances which may reasonably give rise to a claim or lawsuit, against the Plans, any fiduciaries thereof with respect to their duties to the Plans or the assets of any of the trusts under any of the Plans which could reasonably be expected to result in any material liability of the Company or any of its subsidiaries to the PBGC, the Department of Treasury, the Department of Labor, any Multiemployer Plan, any Plan or any participant in a Plan.

(n) The Company, its subsidiaries and each member of their respective business enterprise has complied with the Worker Adjustment and Retraining Notification Act.

Section 4.11 Environmental Protection. Except as set forth in Section 4.11 of the Company Disclosure Schedule or in the Company SEC Reports filed prior to the date hereof:

(a) Compliance. The Company and each of its subsidiaries are in compliance with all applicable Environmental Laws (as defined in Section 4.11(f)(ii)); and neither the Company nor any of its subsidiaries has received any communication from any Governmental Authority or any written communication from any other person that alleges that the Company or any of its subsidiaries is not in compliance with applicable Environmental Laws, except where the failure to be in such compliance would not in the aggregate have a Company Material Adverse Effect.

(b) Environmental Permits. The Company and each of its subsidiaries has obtained or has applied for all environmental, health and safety permits and governmental authorizations (collectively, the "Environmental Permits") necessary for the construction of its facilities or the conduct of its operations, and all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending agency approval, and the Company and its subsidiaries are in compliance with all terms and conditions of the Environmental Permits, and the Company reasonably believes that any transfer, renewal or reapplication for any Environmental Permit required as a result of the Merger can be accomplished in the ordinary course of business, except where the failure to obtain or be in compliance with all such Environmental Permits would not, in the aggregate, have a Company Material Adverse Effect.

(c) Environmental Claims. There is no Environmental Claim (as defined in Section 4.11(f)(i)) pending (i) against the Company or any of its subsidiaries or joint ventures, or (ii) against any real or personal property or operations that the Company or any of its subsidiaries owns, leases or manages, in whole or in part that, if adversely determined, would have a Company Material Adverse Effect.

(d) Releases. Except for Releases of Hazardous Materials, the liability for which would not have, in the aggregate, a Company Material Adverse Effect, there have been no Releases (as defined in Section 4.11(f)(iv)) of any Hazardous Material (as defined in Section 4.11(f)(iii)) that would be reasonably likely to (A) form the basis of any Environmental Claim against the Company or any of its subsidiaries, or (B) to the knowledge of the Company, cause damage or diminution of value to any of the operations or real properties owned, leased or managed, in whole or in part, by the Company or any of its subsidiaries.

(e) Predecessors. The Company has no knowledge of any Environmental Claim pending or threatened, or of any Release of Hazardous Materials that would be reasonably likely to form the basis of any Environmental Claim, in each case against any person or entity (including, without limitation, any predecessor of the Company or any of its subsidiaries) whose liability the Company or any of its subsidiaries has or may have retained or assumed either contractually or by operation of law or against any real or personal property which the Company or any of its subsidiaries formerly owned, leased or managed, in whole or in part, except for Releases of Hazardous Materials the liability for which would not have, in the aggregate, a Company Material Adverse Effect.

(f) As used in this Agreement:

(i) "Environmental Claim" means any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation by any person or entity (including any Governmental Authority) alleging potential liability (including, without limitation, potential responsibility for or liability for enforcement costs, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural-resources damages, property damages, personal injuries, fines or penalties) arising out of, based on or resulting from (A) the presence, or Release or threatened Release into the environment, of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by the Company or any of its subsidiaries or joint ventures; or (B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law; or (C) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Materials.

(ii) "Environmental Laws" means all federal, state, local laws, rules, ordinances and regulations relating to pollution, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or protection of human health as it relates to the environment including, without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

(iii) "Hazardous Materials" means (A) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, coal tar residue, and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls ("PCBs") in regulated concentrations; and (B) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances", "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants," "hazardous constituents" or words of similar import, under any Environmental Law; and (C) any other chemical, material, substance or waste, exposure to which is now prohibited, limited or regulated under any Environmental Law in a jurisdiction in which the Company or any of its subsidiaries or joint ventures operates or has stored, treated or disposed of Hazardous Materials.

(iv) "Release" means any release, spill, emission, leaking, injection, deposit, disposal, discharge, dispersal, leaching or migration into the atmosphere, soil, surface water, groundwater or property.

Section 4.12 Regulation as a Utility. Except as set forth in Section 4.12 of the Company Disclosure Schedule, neither the Company nor any "associate company," "subsidiary company" or "affiliate" (as such terms are defined in the 1935 Act) of the Company is subject to regulation as (i) a "holding company," a "public-utility company," a "subsidiary company" or an "affiliate" of a "holding company," within the meaning of Sections 2(a)(5), 2(a)(7), 2(a)(8) and 2(a)(11), respectively, of the 1935 Act, (ii) a "public utility" under the Power Act, (iii) a "natural-gas company" under the Natural Gas Act, or (iv) a public utility or public service company (or similar designation) by any state in the United States other than Maine or by any foreign country.

Section 4.13 Vote Required. The approval of the Merger by the affirmative vote of the holders of at least a majority of the outstanding shares of Company Common Stock (the "Company Shareholders' Approval") is the only vote of the holders of any class or series of the capital stock of Company or any of its subsidiaries required to approve this Agreement, the Merger and the other transactions contemplated hereby.

Section 4.14 Opinion of Financial Advisor. The Company has received the opinion of Warburg Dillon Read LLC, to the effect that, as of June 14, 1999, the Merger Consideration is fair from a financial point of view to the holders of Company Common Stock.

Section 4.15 Ownership of Parent Common Stock. Except as set forth in Section 4.15 of the Company Disclosure Schedule, the Company does not "beneficially own" (as such term is defined for purposes of Section 13(d) of the Exchange Act) any shares of Parent Common Stock.

Section 4.16 Takeover Laws; Rights Plans. The Company has taken all action required to be taken by it in order to exempt this Agreement and the transactions contemplated hereby from, and this Agreement and the transactions contemplated hereby are exempt from, the requirements of any "moratorium," "control share," "fair price" or other anti-takeover laws and

regulations (collectively, "Takeover Laws") of the State of Maine, including Sections 910 and 611-A of the MBCA. The Company is not a party to a shareholders' rights plan or other similar anti-takeover agreement or arrangement.

Section 4.17 Year 2000. Except as set forth in Section 4.17 of the Company Disclosure Schedule, the systems operated or used by the Company or any of its subsidiaries are capable of providing or are being adapted to provide uninterrupted millennium functionality on or after January 1, 2000 to share, record, process and present data in substantially the same manner and with the same functionality as such systems share, records, process and present such data on or before December 31, 1999, except, in the aggregate, as could not have, or reasonably be expected to have, a Company Material Adverse Effect. The costs of the adaptations referred to in the prior sentence, in the aggregate, will not have a Company Material Adverse Effect.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF PARENT

Parent represents and warrants to the Company as follows:

Section 5.1 Organization and Qualification. Except as set forth in Section 5.1 of the Parent Disclosure Schedule (as defined in Section 6.11(i)), Parent and each of its subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite corporate power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent currently owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary, other than in such jurisdictions where the failure to be so qualified and in good standing will not, when taken together with all other such failures, have a material adverse effect on Parent's ability to consummate the transactions contemplated by this Agreement (any such material adverse effect being hereafter referred to as a "Parent Material Adverse Effect").

Section 5.2 Subsidiaries. As of the Closing Date, Parent will be a "holding company" within the meaning of Section 2(a)(7) of the 1935 Act. Except as set forth in Section 5.2 of the Parent Disclosure Schedule, as of the date hereof none of the subsidiaries of Parent is a "public-utility company" within the meaning of Section 2(a)(5) of the 1935 Act.

Section 5.3 Capitalization. (a) The authorized capital stock of Parent consists of 300,000,000 shares of Parent Common Stock and 10,000,000 shares of preferred stock, par value $0.01 per share, of Parent ("Parent Preferred Stock"). As of the close of business on June 10, 1999, there were issued and outstanding 116,173,728 shares of Parent Common Stock and no shares of Parent Preferred Stock.

(b) The authorized capital stock of Merger Sub consists of 1,000 shares of common stock, par value $.01 per share ("Merger Sub Common Stock"). As of the close of business on June 10, 1999, there were issued and outstanding 1,000 shares of Merger Sub Common Stock, all of which were owned by Parent.

Section 5.4 Authority; Non-Contravention; Statutory Approvals. (a) Authority. Parent has all requisite corporate power and authority to enter into this Agreement and, subject to the applicable Parent Required Statutory Approvals (as defined in Section 5.4(c)), to consummate the transactions contemplated hereby. The execution and delivery of this Agreement, and the consummation by Parent of the transactions contemplated hereby, have been duly authorized by all necessary corporate action on the part of Parent. This Agreement has been duly and validly executed and delivered by Parent and, assuming the due authorization, execution and delivery by the other signatories hereto, constitutes the valid and binding obligation of Parent enforceable against it in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance or other similar laws affecting the enforcement of creditors' rights generally, and except that the availability of equitable remedies, including specific performance, may be subject to the discretion of any court before which any proceeding maybe brought.

(b) Non-Contravention. Except as set forth in Section 5.4(b) of the Parent Disclosure Schedule, the execution and delivery of this Agreement by Parent does not, and the consummation of the transactions contemplated hereby will not, result in a Violation pursuant to any provisions (i) of the certificate of incorporation, by-laws or similar governing documents of Parent or any of its subsidiaries or any of its joint ventures, (ii) subject to obtaining the Parent Required Statutory Approvals (as defined in Section 5.4(c)) any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority applicable to Parent or any of its subsidiaries or any of its joint ventures or any of their respective properties or assets or (iii) subject to obtaining the third-party consents or other approvals set forth in Section 5.4(b) of the Parent Disclosure Schedule (the "Parent Required Consents"), any note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind to which Parent or any of its subsidiaries or any of its joint ventures is a party or by which it or any of its properties or assets may be bound or affected, excluding from the foregoing clauses (ii) and (iii) such Violations as would not have, in the aggregate, a Parent Material Adverse Effect.

(c) Statutory Approvals. Except as described in Section 5.4(c) of the Parent Disclosure Schedule, no declaration, filing or registration with, or notice to or authorization, consent or approval of, any Governmental Authority is necessary for the execution and delivery of this Agreement by Parent or the consummation by Parent of the transactions contemplated hereby, the failure to obtain, make or give which would have, in the aggregate, a Parent Material Adverse Effect (the "Parent Required Statutory Approvals"), it being understood that references in this Agreement to "obtaining" such Parent Required Statutory Approvals shall mean making such declarations, filings or registrations; giving such notices; obtaining such authorizations, consents or approvals; and having such waiting periods expire as are necessary to avoid a violation of law.

Section 5.5 Proxy Statement. None of the information supplied or to be supplied by or on behalf of Parent for inclusion or incorporation by reference in the Proxy Statement shall, at the date mailed to the Company shareholders and at the time of the Company Special Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

Section 5.6 Availability of Funds. Parent has sufficient funds available to it or has received binding written commitments subject only to customary terms and conditions from third parties to provide sufficient funds to pay the Merger Consideration on the Closing Date and to enable Parent timely to perform all of its obligations under this Agreement.

Section 5.7 Vote Required. Parent, as the sole stockholder of Merger Sub, has approved the Merger, and such approval is the only vote of the holders of any class or series of the capital stock of Parent or any of its subsidiaries required to approve this Agreement, the Merger and the other transactions contemplated hereby.

ARTICLE VI

COVENANTS

Section 6.1 Conduct of Business by the Company Pending the Merger. After the date hereof and prior to the Effective Time or earlier termination of this Agreement, the Company agrees as follows, each as to itself and to each of its subsidiaries, except as expressly contemplated or permitted in this Agreement, or to the extent the other parties hereto shall otherwise consent in writing:

(a) Ordinary Course of Business. Except as set forth in Section 6.1(a) of the Company Disclosure Schedule, the Company shall, and shall cause its subsidiaries to, carry on their respective businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and use all commercially reasonable efforts to (i) preserve intact their present business organizations and goodwill and preserve the goodwill and relationships with customers, suppliers and others having business dealings with them, (ii) subject to prudent management of workforce needs and ongoing programs currently in force, keep available the services of their present officers and employees as a group, and (iii) maintain and keep material properties and assets in as good repair and condition as at present, subject to ordinary wear and tear, and maintain supplies and inventories in quantities consistent with past practice.

(b) Dividends. The Company shall not, nor shall it permit any of its subsidiaries to (i) declare or pay any dividends on or make other distributions in respect of any capital stock other than (A) dividends by a wholly owned subsidiary to the Company or another wholly owned subsidiary, (B) dividends by a less than wholly owned subsidiary consistent with past practice, including, without limitation, mandatory dividends on the currently outstanding preferred stock of Central Maine Power Company ("CMP Sub"), or (C) regular dividends on Company Common Stock with usual record and payment dates that do not exceed the current regular dividends on

Company Common Stock; (ii) split, combine or reclassify any capital stock or the capital stock of any subsidiary or issue or authorize or propose the issuance of any other securities in respect of, in lieu of, or in substitution for, shares of capital stock or the capital stock of any subsidiary; or (iii) redeem, repurchase or otherwise acquire any shares of capital stock or the capital stock of any subsidiary other than (A) redemptions, repurchases and other acquisitions of shares of capital stock in connection with the administration of employee benefit and dividend reinvestment plans as in effect on the date hereof in the ordinary course of the operation of such plans consistent with past practice, (B) intercompany acquisitions of capital stock or (C) to comply with the mandatory redemption provisions of the Flexible Money Market Preferred Stock, Series A, 7.999% of CMP Sub.

(c) Issuance of Securities. The Company shall not, nor shall it permit any of its subsidiaries to, issue, agree to issue, deliver, sell, award, pledge, dispose of or otherwise encumber or authorize or propose the issuance, delivery, sale, award, pledge, disposal or other encumbrance of, any shares of their capital stock of any class or any securities convertible into or exchangeable for, or any rights, warrants or options to acquire, any such shares or convertible or exchangeable securities, other than pursuant to currently outstanding options granted under Employee Benefit Plans.

(d) Charter Documents. The Company shall not, nor shall it permit any of its non-wholly owned subsidiaries to, amend or propose to amend their respective articles of incorporation, by-laws or regulations, or similar organic documents. The Company shall not permit any of its wholly owned subsidiaries to amend or propose to amend its respective articles of incorporation, by-laws or regulations or similar organic documents in a manner which would reasonably be expected to prevent or materially impede or interfere with the Merger or interfere in any way with Parent's ability to exercise control over such subsidiaries.

(e) Acquisitions. Except as disclosed in Section 6.1(e) of the Company Disclosure Schedule, the Company shall not, nor shall it permit any of its subsidiaries to, acquire or agree to acquire, by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or business organization or division thereof, or otherwise acquire or agree to acquire any material amount of assets other than in the ordinary course of business.

(f) Capital Expenditures. Except as set forth in Section 6.1(f) of the Company Disclosure Schedule, or except with respect to amounts which may be required in connection with a major storm or other catastrophic event in order for the Company to fulfill its public service obligations, the Company shall not, nor shall it permit any of its subsidiaries to, make capital expenditures in excess of 110% per year of the amount budgeted by the Company or its subsidiaries for capital expenditures for the 1999 and 2000 fiscal years respectively, which budgeted amounts have been provided to Parent.

(g) No Dispositions. Except as set forth in Section 6.1(g) of the Company Disclosure Schedule, the Company shall not, nor shall it permit any of its subsidiaries to, sell,

lease, license, encumber or otherwise dispose of, any of its respective assets, other than encumbrances or dispositions in the ordinary course of business consistent with past practice.

(h) Indebtedness. Except as set forth in Section 6.1(h) of the Company Disclosure Schedule, the Company shall not, nor shall it permit any of its subsidiaries to, incur or guarantee any indebtedness (including any debt borrowed or guaranteed or otherwise assumed including, without limitation, the issuance of debt securities or warrants or rights to acquire debt) or enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing other than (i) short-term indebtedness in the ordinary course of business consistent with past practice; (ii) arrangements between the Company and its subsidiaries or among its subsidiaries; (iii) in connection with the refunding at a lower cost of funds of existing indebtedness or (iv) in connection with the refunding at a commercially reasonable rate of existing indebtedness that has matured.

(i) Compensation, Benefits. Except as set forth in Section 6.1(i) of the Company Disclosure Schedule, except as may be required by applicable law, or as expressly contemplated by this Agreement, the Company shall not, nor shall it permit any of its subsidiaries to, (i) enter into, adopt or amend or increase the amount or accelerate the payment or vesting of any benefit or amount payable under, any Employee Benefit Plan or other contract, agreement, commitment, arrangement, plan or policy covering employees, former employees, directors or former directors or their beneficiaries or providing benefits to such persons that is maintained by, contributed to or entered into by the Company or any of its subsidiaries, (ii) increase, or enter into any contract, agreement, commitment or arrangement to increase in any manner, or waive any conditions to the vesting of payment of, the compensation or fringe benefits, or otherwise to extend, expand or enhance the engagement, employment or any related rights of, or take any other action or grant any benefit (including, without limitation, any incentive compensation or stock options or stock option plan) not required under the terms of any existing employee benefit plan, or other contract, agreement, commitment, arrangement, plan or policy to or with any director, officer or other employee of the Company or any of its subsidiaries, except for normal increases in compensation with respect to employees who are not officers of the Company in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to the Company or any of its subsidiaries, or (iii) enter into or amend any employment, severance or special pay arrangement with respect to the termination of employment or other similar contract, agreement or arrangement with any director or officer or other employee except with respect to employees who are not officers of the Company in the ordinary course of business consistent with current industry practice.

(j) Status under 1935 Act. Except as set forth in Section 6.1(j) of the Company Disclosure Schedule, and except as required or contemplated by this Agreement, the Company shall not, nor shall it permit any of its subsidiaries to, engage in any activities which would cause a change in its status, or that of its subsidiaries, under the 1935 Act.

(k) Accounting. Except as set forth in Section 6.1(k) of the Company Disclosure Schedule, the Company shall not, nor shall it permit any of its subsidiaries to, make any changes in their accounting methods, except as required by law, rule, regulation or GAAP.

(l) Discharge of Liabilities. Except as set forth in Schedule 6.1(l) of the Company Disclosure Schedule, the Company shall not pay, discharge or satisfy any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice (which includes the payment of final and unappealable judgments) or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of the Company included in the Company's reports filed with the SEC, or incurred in the ordinary course of business consistent with past practice; provided, however, that notwithstanding this Section 6.1(l), the Company shall not be prohibited from amending any contracts with non-utility generators if (i) the sole effect of such amendment is to reduce the net present value of the payments under any such contract, applying the Company's internal cost of capital, (ii) the term of any such contract is not extended and (iii) the Company's obligation to make accelerated payments under any such contract is financed pursuant to a contract with a third party which has a term equal to the remaining term under any such contract.

(m) Contracts. The Company shall not, except in the ordinary course of business consistent with past practice, modify, amend, terminate, renew any material contract or agreement, other than employment contracts which shall be governed by Section 6.1(i), to which the Company or any of its subsidiaries is a party or waive, release or assign any material rights or claims; provided, however, that notwithstanding this Section 6.1(m), the Company shall not be prohibited from amending any contracts with non-utility generators if (i) the sole effect of such amendment is to reduce the net present value of the payments under any such contract, applying the Company's internal cost of capital, (ii) the term of any such contract is not extended and (iii) the Company's obligation to make accelerated payments under any such contract is financed pursuant to a contract with a third party which has a term equal to the remaining term under any such contract. The Company shall use its reasonable business efforts to renew any material contract or agreement that expires after the date hereof, subject to the written consent of Parent.

(n) Investment in NorthEast Optic Network, Inc. The Company shall, and shall cause its subsidiaries to, take any action requested by Parent in connection with any of the Company's or its subsidiaries' preemptive rights, rights of first refusal, rights in connection with the issuance of shares, rights in connection with certain material transactions or other similar rights owned or held in connection with any investment in NorthEast Optic Network, Inc.

(o) Insurance. The Company shall, and shall cause its subsidiaries to, maintain with financially responsible insurance companies insurance in such amounts and against such risks and losses as are customary for companies engaged in the electric and gas utility industry.

(p) Permits. The Company shall, and shall cause its subsidiaries to, use reasonable efforts to maintain in effect all material existing governmental permits pursuant to which the Company or any of its subsidiaries operate.

(q) Takeover Laws. The Company shall not take any action that would cause the transactions contemplated by this Agreement to be subject to requirements imposed by any Takeover Law, and shall take all necessary steps within its control to exempt (or ensure the continued exemption of) the transactions contemplated by this Agreement from, or if necessary challenge the validity or applicability of, any applicable Takeover Law, as now or hereafter in effect, including Sections 910 and 611-A of the MBCA.

(r) Taxes. Except as may be required by applicable law or as provided in Section 6.1(r) of the Company Disclosure Schedule, the Company shall not, and shall cause its subsidiaries not to, make or rescind any express or deemed election relating to a material amount of Taxes, settle or compromise any claim, audit, dispute, controversy, examination, investigation or other proceeding relating to a material amount of Taxes, change any of its methods of reporting a material amount of income or deductions for federal income Tax purposes, or file any Tax Return other than in a manner consistent with past custom and practice.

Section 6.2 Alternative Proposals. From and after the date hereof, the Company agrees that it (i) will not, its subsidiaries will not, and it will not authorize or permit any of its or its subsidiaries' officers, directors, employees, agents and representatives (including, without limitation, any investment banker, attorney or accountant retained by it or any of its subsidiaries or any of the foregoing) to, directly or indirectly, encourage, initiate or solicit (including by way of furnishing information) or take any other action to facilitate knowingly any inquiries or the making of any proposal or offer (including, without limitation, any proposal or offer to its shareholders) which constitutes or may reasonably be expected to lead to an Alternative Proposal (as defined below) from any person or engage in any discussion or negotiations concerning, or provide any non-public information or data to make or implement an Alternative Proposal; (ii) will immediately cease and cause to be terminated any existing solicitation, initiation, encouragement, activity, discussions or negotiations with any parties conducted heretofore with a view of formulating an Alternative Proposal; and (iii) will notify Parent orally and in writing of any such inquiry, offer or proposals (including, without limitation, the terms and conditions of any such proposal and the identity of the person making it), within 24 hours of the receipt thereof, and that it shall keep Parent informed of the status and details of any such inquiry, offer or proposal and shall give Parent 48 hours' prior notice of any agreement to be entered into or of the fact that it proposes to commence providing information to any person making such inquiry, offer or proposal; provided however, that notwithstanding any other provision hereof, the Company may (i) at any time prior to the time the Company shareholders shall have voted to approve this Agreement engage in discussions or negotiations with a third party who (without any solicitation, initiation, encouragement, discussion or negotiation, directly or indirectly, by or with the Company or its representatives after the date hereof) seeks to initiate such discussions or negotiations and may furnish such third party information concerning the Company and its business, properties and assets if, and only to the extent that, (A)(x) the third party has first made an Alternative Proposal that is financially superior to the terms of the Merger and has

demonstrated that any necessary financing has been obtained or is, in the reasonable judgment of the Board of Directors of the Company, obtainable and (y) the Board of Directors of the Company shall conclude in good faith, based upon the advice of outside counsel and such other matters as the Board of Directors of the Company deems relevant, that failure to do so would likely result in a breach of its fiduciary duties under applicable law and (B) prior to furnishing such information to, or entering into discussions or negotiations with, such person or entity, the Company (x) provides not less than two business days' written notice to Parent to the effect that it intends to furnish information to, or intends to enter into discussions or negotiations with, such person or entity, (y) provides the Parent a reasonable opportunity to respond to the Alternative Proposal and (z) receives from such person an executed confidentiality agreement in reasonably customary form except that such confidentiality agreement shall not prohibit such person from making an unsolicited Alternative Proposal, and (ii) comply with Rule 14e-2 promulgated under the Exchange Act with regard to a tender or exchange offer and/or (iii) accept an Alternative Proposal from a third party, provided the Company terminates this Agreement pursuant to Section 8.1(g). "Alternative Proposal" shall mean any proposal or offer relating to any merger, acquisition, consolidation, reorganization, share exchange, tender offer, exchange offer or similar transaction involving the Company or any of the Company's subsidiaries, or any acquisition in any manner of, directly or indirectly, a substantial equity interest in or a substantial portion of the assets of the Company or any of the Company's subsidiaries. Nothing herein shall prohibit a disposition permitted by Section 6.1(g) hereof.

Section 6.3 Cooperation, Notification. Each party shall, and shall cause its subsidiaries to, (i) confer on a regular and frequent basis with one or more representatives of the other party to discuss, subject to applicable law, material operational matters and the general status of its ongoing operations; (ii) promptly notify the other party of any significant changes in its business, properties, assets, condition (financial or other), results of operations or prospects; (iii) advise the other party of any change or event which has had or, insofar as reasonably can be foreseen, is reasonably likely to result in a Company Material Adverse Effect; and (iv) promptly provide the other party with copies of all filings made by such party or any of its subsidiaries with any state or federal court, administrative agency, commission or other Governmental Authority in connection with this Agreement and the transactions contemplated hereby.

Section 6.4 Third-Party Consents. The Company shall, and shall cause its subsidiaries to, use all commercially reasonable efforts to obtain all the Company Required Consents. The Company shall promptly notify Parent of any failure or prospective failure to obtain any such consents and, if requested by Parent, shall provide to Parent copies of all the Company Required Consents obtained by the Company. Parent shall, and shall cause its subsidiaries to, use all commercially reasonable efforts to obtain all Parent Required Consents. Parent shall promptly notify the Company of any failure or prospective failure to obtain any such consents and, if requested by the Company, shall provide copies of all Parent Required Consents obtained by Parent to the Company.

Section 6.5 No Breach, Etc. No party shall, nor shall any party permit any of its subsidiaries to, willfully take any action that would or is reasonably likely to result in a

material breach of any provision of this Agreement or in any of its representations and warranties set forth in this Agreement being untrue on and as of the Closing Date.

Section 6.6 Access to Information. Upon reasonable notice and during normal business hours, each party shall, and shall cause its subsidiaries to, afford to the officers, directors, employees, accountants, counsel, investment bankers, financial advisors and other representatives of the other (collectively, "Representatives") reasonable access, throughout the period prior to the Effective Time, to all of its properties, books, contracts, commitments and records (including, but not limited to, Tax Returns) and, during such period, each party shall, and shall cause its subsidiaries to, furnish promptly to the other (i) access to each report, schedule and other document filed or received by it or any of its subsidiaries pursuant to the requirements of federal or state securities laws or filed with or sent to the SEC, the FERC, the Department of Justice, the Federal Trade Commission or any other federal or state regulatory agency or commission, and (ii) access to all information concerning themselves, their subsidiaries, directors, officers and shareholders and such other matters as may be reasonably requested by the other party in connection with any filings, applications or approvals required or contemplated by this Agreement. Each party shall, and shall cause its subsidiaries and Representatives to, hold in strict confidence all Proprietary Information (as defined in the Confidentiality Agreement) concerning the other parties furnished to it in connection with the transactions contemplated by this Agreement in accordance with the Confidentiality Agreement, dated as of March 5, 1999, between the Company and Parent, as it may be amended from time to time (the "Confidentiality Agreement").

Section 6.7 Proxy Statement. Preparation and Filing. As soon as reasonably practicable after the date hereof the Company shall prepare the Proxy Statement, file it with the SEC under the Exchange Act, and use all reasonable efforts to have the Proxy Statement cleared by the SEC. Each of the parties hereto shall furnish all information concerning itself which is required or customary for inclusion in the Proxy Statement. No representation, covenant or agreement is made by or on behalf of any party hereto with respect to information supplied by any other party for inclusion in the Proxy Statement.

Section 6.8 Regulatory Matters. Each party hereto shall cooperate and use its best efforts to promptly prepare and file all necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and to use all commercially reasonable efforts to obtain all necessary permits, consents, approvals and authorizations of all Governmental Authorities necessary or advisable to consummate the transactions contemplated by this Agreement, including, without limitation, the Company Required Statutory Approvals and the Parent Required Statutory Approvals.

Section 6.9 Shareholder Approval.

(a) The Company Shareholders. Subject to the provisions of Section 6.9(b), the Company shall, as soon as reasonably practicable after the date hereof (i) take all steps necessary to duly call, give notice of, convene and hold a meeting of its shareholders (the "Company Special Meeting") for the purpose of securing the Company Shareholders' Approval, (ii) distribute to its shareholders the Proxy Statement in accordance with applicable federal and state law and with its articles of incorporation and by-laws, (iii) subject to the fiduciary duties of its Board of Directors, recommend to its shareholders the approval of this Agreement and the transactions contemplated hereby and (iv) cooperate and consult with Parent with respect to each of the foregoing matters.

(b) Meeting Date. The Company Special Meeting for the purpose of securing the Company Shareholders' Approval shall be held on such date as the Company and Parent shall mutually determine.

Section 6.10 Directors' and Officers' Indemnification.

(a) Indemnification. To the extent, if any, not provided by an existing right of indemnification or other agreement or policy, from and after the Effective Time, Parent and the Surviving Corporation shall, to the fullest extent permitted by applicable law and the articles or certificate of incorporation or by-laws of the relevant entity, indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Effective Time, an officer, director or employee of the Company or any of its subsidiaries (each an "Indemnified Party" and collectively, the "Indemnified Parties") against (i) all losses, expenses (including reasonable attorney's fees and expenses), claims, damages or liabilities or, subject to the proviso of the next succeeding sentence, amounts paid in settlement, arising out of actions or omissions occurring at or prior to the Effective Time (and whether asserted or claimed prior to, at or after the Effective Time) that are, in whole or in part, based on or arising out of the fact that such person is or was a director, officer or employee of the Company or a subsidiary of the Company (the "Indemnified Liabilities") and (ii) all Indemnified Liabilities to the extent they are based on or arise out of or pertain to the transactions contemplated by this Agreement. In the event of any such loss, expense, claim, damage or liability (whether or not arising before the Effective Time), (i) Parent shall pay the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to Parent, promptly after statements therefor are received and otherwise advance to such Indemnified Party upon request reimbursement of documented expenses reasonably incurred, (ii) Parent and the Surviving Corporation will cooperate in the defense of all such matters and (iii)any determination required to be made with respect to whether an Indemnified Party's conduct complies with the standards set forth under Maine law, and the relevant articles or certificate of incorporation or by-laws shall be made by independent counsel mutually acceptable to Parent and the Indemnified Party; provided, however, that Parent shall not be liable for any settlement effected without its written consent (which consent shall not be unreasonably withheld). The Indemnified Parties as a group may retain only one law firm with respect to each related matter except to the extent there is, in the opinion of counsel to an

Indemnified Party, under applicable standards of professional conduct, a conflict on any significant issue between positions of such Indemnified Party and any other Indemnified Party or Indemnified Parties.

(b) Insurance. For a period of six years after the Effective Time, Parent shall cause to be maintained in effect policies of directors' and officers' liability insurance, or, if available, an extended reporting period under current policies of directors' and officers' liability insurance, for the benefit of those persons who are currently covered by such policies of the Company on terms no less favorable than the terms of such current insurance coverage; provided, however, that Parent shall not be required to expend in any year an amount in excess of 200% of the annual aggregate premiums currently paid by the Company, for such insurance; and provided, further, that if the annual premiums of such insurance coverage or extended reporting period coverage exceed such amount, Parent shall be obligated to obtain a policy with the best coverage or extended reporting period coverage available, in the reasonable judgment of the Board of Directors of Parent, for a cost not exceeding such amount.

(c) Successors. In the event Parent or any of its successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any person, then, and in either such case, proper provisions shall be made so that the successors and assigns of Parent shall assume the obligations set forth in this Section 6.10.

(d) Survival of Indemnification. To the fullest extent permitted by law, from and after the Effective Time, all rights to indemnification as of the date hereof in favor of the employees, agents, directors and officers of the Company, and its subsidiaries with respect to their activities as such prior to the Effective Time, as provided in its respective articles of incorporation and by-laws in effect on the date hereof, or otherwise in effect on the date hereof, shall survive the Merger and shall continue in full force and effect for a period of not less than six years from the Effective Time.

(e) Benefit. The provisions of this Section 6.10 are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party, his or her heirs and his or her representatives.

Section 6.11 Disclosure Schedules. On the date hereof, (i) Parent has delivered to the Company a schedule (the "Parent Disclosure Schedule"), accompanied by a certificate signed by the Executive Vice President and General Counsel of Parent stating the Parent Disclosure Schedule is being delivered pursuant to this Section 6.11(i) and (ii) the Company has delivered to Parent a schedule (the "Company Disclosure Schedule"), accompanied by a certificate signed by the Treasurer, Corporate Counsel and Secretary of the Company stating the Company Disclosure Schedule is being delivered pursuant to this Section 6.11(ii). The Company Disclosure Schedule and the Parent Disclosure Schedule are collectively referred to herein as the "Disclosure Schedules." The Disclosure Schedules constitute an integral part of this Agreement and modify the respective representations, warranties, covenants or agreements of the parties

hereto contained herein to the extent that such representations, warranties, covenants or agreements expressly refer to the Disclosure Schedules. Anything to the contrary contained herein or in the Disclosure Schedules notwithstanding, any and all statements, representations, warranties or disclosures set forth in the Disclosure Schedules shall be deemed to have been made on and as of the date hereof.

Section 6.12 Public Announcements. Subject to each party's disclosure obligations imposed by law, the Company and Parent will cooperate with each other in the development and distribution of all news releases and other public information disclosures with respect to this Agreement or any of the transactions contemplated hereby and shall not issue any public announcement or statement with respect hereto without the consent of the other party (which consent shall not be unreasonably withheld).

Section 6.13 Certain Employee Agreements. Subject to Section 6.14, Parent and the Surviving Corporation and its subsidiaries shall honor, without modification, all contracts, agreements, collective bargaining agreements and commitments of the parties prior to the date hereof which apply to any current or former employee or current or former director of the parties hereto; provided, however, that the foregoing shall not prevent Parent or the Surviving Corporation from enforcing such contracts, agreements, collective bargaining agreements and commitments in accordance with their terms, including, without limitation, any reserved right to amend, modify, suspend, revoke or terminate any such contract, agreement, collective bargaining agreement or commitment.

Section 6.14 Employee Benefit Plans. Each individual employed by the Company or any of its subsidiaries immediately before the Effective Time who (i) remains employed by Parent, the Surviving Corporation or any of their respective subsidiaries and (ii) is not covered by a collective bargaining agreement (each such individual, a "Continuing Company Employee"), shall be provided with credit, for all purposes other than benefit accrual under the employee benefit plans of Parent and its Affiliates providing benefits after the Effective Time to Continuing Company Employees, for his or her years of service with the Company and its subsidiaries before the Effective Time, to the same extent as such Continuing Company Employee was entitled, before the Effective Time, to credit for such service under any similar Plans, except to the extent such credit would result in a duplication of benefits. In addition, and without limiting the generality of the foregoing, (i) each Company Employee shall be immediately eligible to participate, without any waiting time, in any and all employee benefit plans sponsored by Parent and its subsidiaries for the benefit of Company Employees (such plans, collectively, the "New Plans") to the extent coverage under such New Plan replaces coverage under a comparable Plan in which such Surviving Company Employee participated immediately before the Effective Time (such plans, collectively, the "Old Plans"); and (ii) for purposes of each New Plan providing medical, dental, pharmaceutical and/or vision benefits to any Surviving Company Employee, Parent shall cause all pre-existing condition exclusions and actively-at-work requirements of such New Plan to be waived for such employee and his or her covered dependents, and Parent shall cause any eligible expenses incurred by such employee and his or her covered dependents during the portion of the plan year of the Old Plan ending on the date such employee's participation in the corresponding New Plan begins to be taken into

account under such New Plan for purposes of satisfying all deductible, coinsurance and maximum out-of-pocket requirements applicable to such employee and his or her covered dependents for the applicable plan year as if such amounts had been paid in accordance with such New Plan.

Section 6.15 Expenses. Subject to Section 8.3, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses, except that those expenses incurred in connection with printing the Proxy Statement, as well as the filing fee relating thereto, shall be shared equally by the Company and Parent.

Section 6.16 Further Assurances. Each party will, and will cause its subsidiaries to, execute such further documents and instruments and take such further actions as may reasonably be requested by any other party in order to satisfy the conditions set forth in Article VII and otherwise consummate the Merger in accordance with the terms hereof. The parties expressly acknowledge and agree that, although it is their current intention to effect a business combination among themselves in the form contemplated by this Agreement, it may be preferable to effectuate such a business combination by means of an alternative structure in light of the conditions set forth in Section 7.1(c) or 7.2(f). Accordingly, if the only conditions to the parties' obligations to consummate the Merger which are not satisfied or waived are receipt of any one or more of the Company Required Statutory Approvals or Parent Required Statutory Approvals and the adoption of an alternative structure (that otherwise substantially preserves for Parent and the Company the economic benefits of the Merger and does not require any additional filing with or authorization, consent or approval from any Governmental Authority other than supplements or amendments, to filings already made, to reflect such alternative structure) would result in such conditions being satisfied or waived, then the parties shall use their respective best efforts to effect a business combination among themselves by means of a mutually agreed upon structure other than the Merger that so preserves such benefits; provided that, prior to closing any such restructured transaction, all material third party and Governmental Authority declarations, filings, registrations, notices, authorizations, consents or approvals necessary for the effectuation of such alternative business combination shall have been obtained and all other conditions to the parties' obligations to consummate the Merger, as applied to such alternative business combination, shall have been satisfied or waived.

Section 6.17 Corporate Offices. At and subsequent to the Effective Time, the corporate headquarters of CMP Sub shall be located in Augusta, Maine. At and subsequent to the Effective Time, Parent shall open and maintain an office in Portland, Maine appropriate to the responsibilities of Messrs. Flanagan and Adelberg.

Section 6.18 Parent Directors. In accordance with the by-laws of Parent, at the Effective Time, the Board of Directors of Parent shall increase by three the number of directors on the Board of Directors of Parent and shall thereupon elect as directors of Parent, Mr. Flanagan and two additional directors of the Company to be mutually agreed upon by Parent and the Company.

Section 6.19 Employment Contracts. Parent has entered into employment contracts with Mr. Flanagan, Mr. Adelberg, Ms. Sara J. Burns, and Mr. F. Michael McClain in the forms attached hereto as Exhibits A, B, C and D, respectively (the "Employment Agreements"), which will become effective upon consummation of the Merger.

Section 6.20 Advisory Board. At the Effective Time, there shall be established an advisory board to CMP Sub ("Advisory Board"), which shall be comprised of the persons who were directors of CMP Sub prior to the Effective Time. The Advisory Board shall meet no less frequently than quarterly and shall provide advice to the board of directors of CMP Sub with respect to such issues as the board of directors of CMP Sub may from time to time request, including but not limited to community relations, customer service, economic development, employee development and relations and such other matters of community interest as may be appropriate. The members of the Advisory Board, who shall serve at the discretion of CMP Sub, shall receive remuneration for their services equivalent to the base remuneration currently provided to directors of the Company.

Section 6.21 Community Involvement. Subsequent to the Effective Time, Parent will, or will cause the Surviving Corporation to make at least $100,000 in the aggregate per year in charitable contributions to the communities served by CMP Sub and otherwise maintain a substantial level of involvement in community activities in the state of Maine that is similar to, or greater than, the level of community development and related activities carried on by the Company.

Section 6.22 Transition Steering Team. As soon as reasonably practicable after the date hereof, Parent and the Company shall create a special transition steering team, with representation from the senior management teams of Parent and the Company, that will develop non-binding recommendations for Parent concerning the future structure and operations of Company after the Effective Time, subject to applicable law. The members of the transition steering team shall be appointed by the Chief Executive Officers of Parent and the Company. The functions of the transition steering team shall include the development of recommendations regarding regulatory plans and proposals, corporate organizational and management plans, workforce combination proposals, and such other matters as directed by Parent.

ARTICLE VII

CONDITIONS

Section 7.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the satisfaction on or prior to the Closing Date of the following conditions, except, to the extent permitted by applicable law, that such conditions may be waived in writing pursuant to Section 8.5 by the joint action of the parties hereto:

(a) Shareholder Approval. The Company Shareholders' Approval shall have been obtained.

(b) No Injunction. No temporary restraining order or preliminary or permanent injunction or other order by any federal or state court preventing consummation of the Merger shall have been issued and be continuing in effect, and the Merger and the other transactions contemplated hereby shall not have been prohibited under any applicable federal or state law or regulation.

(c) Statutory Approvals. The Company Required Statutory Approvals and the Parent Required Statutory Approvals shall have been obtained at or prior to the Effective Time, and such approvals shall have become Final Orders. A "Final Order" means action by the relevant regulatory authority which has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by law before the transactions contemplated hereby may be consummated has expired, and as to which all conditions to the consummation of such transactions prescribed by law, regulation or order have been satisfied.

Section 7.2 Conditions to Obligation of Parent to Effect the Merger. The obligation of Parent to effect the Merger shall be further subject to the satisfaction, on the Closing Date, of the following conditions, except as may be waived by Parent in writing pursuant to Section 8.5:

(a) Performance of Obligations of the Company. The Company (and its appropriate subsidiaries) shall have performed in all material respects its agreements and covenants contained in Article VI and shall have performed in all material respects its other agreements and covenants contained in or contemplated by this Agreement to be performed by it at or prior to the Effective Time.

(b) Representations and Warranties. The representations and warranties of the Company set forth in this Agreement shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time other than the date hereof or the Closing Date, which need only be true and correct as of such date or time) except in each of cases (i) and (ii) for such failures of representations or warranties to be true and correct (without regard to any materiality qualifications contained therein) which, in the aggregate, would not be reasonably likely to result in a Company Material Adverse Effect.

(c) Closing Certificates. Parent shall have received a certificate signed by the Treasurer, Corporate Counsel and Secretary of the Company, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Section 7.2(a) and Section 7.2(b) have been satisfied.

(d) No Company Material Adverse Effect. No Company Material Adverse Effect shall have occurred, and there shall exist no fact or circumstance which is reasonably likely to have a Company Material Adverse Effect in each case, other than as described in Section 4.6 of the Company Disclosure Schedule.

(e) Company Required Consents. The Company Required Consents the failure of which to obtain would have a Company Material Adverse Effect shall have been obtained.

(f) Statutory Approvals. The Final Orders shall not impose terms or conditions which, in the aggregate, would have, or insofar as reasonably can be foreseen, could have, a Company Material Adverse Effect or a Parent Material Adverse Effect. Parent acknowledges that it may be required to become a registered holding company pursuant to Section 5 of the 1935 Act, and that the requirement to become so registered shall not constitute a term or condition that could have a Company Material Adverse Effect or Parent Material Adverse Effect; provided however, that the inclusion of a condition or requirement of the SEC's approval of the Merger under the 1935 Act that Parent divest its ownership of New York State Electric & Gas Corporation, a New York corporation and a wholly owned subsidiary of Parent, shall constitute a term or condition which could have a "material adverse effect" within the meaning of this Section 7.2(f).

Section 7.3 Conditions to Obligation of the Company to Effect the Merger. The obligation of the Company to effect the Merger shall be further subject to the satisfaction, on or prior to the Closing Date, of the following conditions, except as may be waived by the Company in writing pursuant to Section 8.5.

(a) Performance of Obligations of Parent. Parent (and its appropriate subsidiaries) shall have performed in all material respects its agreements and covenants contained in Article VI and shall have performed in all material respects its other agreements and covenants contained in or contemplated by this Agreement to be performed by it at or prior to the Effective Time.

(b) Representations and Warranties. The representations and warranties of Parent set forth in this Agreement shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time other than the date hereof or the Closing Date, which need only be true and correct as of such date or time) except in each of cases (i) and (ii) for such failures of representations or warranties to be true and correct (without regard to any materiality qualifications contained therein) which, in the aggregate, would not be reasonably likely to result in a Parent Material Adverse Effect.

(c) Closing Certificates. The Company shall have received a certificate signed by the Executive Vice President and General Counsel of Parent, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Section 7.3(a) and Section 7.3(b) have been satisfied.

(d) Parent Required Consents. The Parent Required Consents the failure of which to obtain would have a Parent Material Adverse Effect shall have been obtained.

ARTICLE VIII

TERMINATION, AMENDMENT AND WAIVER

Section 8.1 Termination. This Agreement may be terminated at any time prior to the Closing Date, whether before or after the Company Shareholders' Approval:

(a) by mutual written consent of the Boards of Directors of the Company and Parent;

(b) by any party hereto, by written notice to the other parties, if the Effective Time shall not have occurred on or before the day which is twelve months from the date of this Agreement (the "Initial Termination Date"); provided, however, that the right to terminate the Agreement under this Section 8.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before such date; and provided, further, that if on the Initial Termination Date the conditions to the Closing set forth in Section 7.1(c), shall not have been fulfilled but all other conditions to the Closing shall be fulfilled or shall be capable of being fulfilled, then the Initial Termination Date shall be extended to the eighteen month anniversary of the date hereof;

(c) by any party hereto, by written notice to the other parties, if the Company Shareholders' Approval shall not have been obtained at a duly held Company Special Meeting, including any adjournments thereof;

(d) by any party hereto, if any state or federal law, order, rule or regulation is adopted or issued, which has the effect, as supported by the written opinion of outside counsel for such party, of prohibiting the Merger, or by any party hereto if any court of competent jurisdiction in the United States or any State shall have issued an order, judgment or decree permanently restraining, enjoining or otherwise prohibiting the Merger, and such order, judgment or decree shall have become final and nonappealable;

(e) by the Company, by written notice to Parent, if (i) there exist breaches of the representations and warranties of Parent made herein as of the date hereof which breaches, in the aggregate, would be reasonably likely to result in a Parent Material Adverse Effect, and such breaches shall not have been remedied within 20 days after receipt by Parent of notice in writing from the Company, specifying the nature of such breaches and requesting that they be remedied or (ii) Parent (or its appropriate subsidiaries) shall have failed to perform and comply with, in all material respects, its agreements and covenants hereunder, and such failure to perform or comply shall not have been remedied within 20 days after receipt by Parent of notice in writing from the Company, specifying the nature of such failure and requesting that it be remedied;

(f) by Parent, by written notice to the Company, if (i) there exist material breaches of the representations and warranties of the Company made herein as of the date hereof which breaches, in the aggregate, would be reasonably likely to result in a Company Material Adverse Effect, and such breaches shall not have been remedied within 20 days after receipt by

the Company of notice in writing from Parent, specifying the nature of such breaches and requesting that they be remedied, (ii) the Company (or its appropriate subsidiaries) shall not have performed and complied with its agreements and covenants contained in Section 6.1(b) and (c) or shall have failed to perform and comply with, in all material respects, its other agreements and covenants hereunder, and such failure to perform or comply shall not have been remedied within 20 days after receipt by the Company of notice in writing from Parent, specifying the nature of such failure and requesting that it be remedied; or (iii) the Board of Directors of the Company or any committee thereof (A) shall withdraw or modify in any manner adverse to Parent its approval or recommendation of this Agreement or the transactions contemplated herein, (B) shall fail to reaffirm such approval or recommendation upon Parent's request within two days of such request, (C) shall approve or recommend any acquisition of the Company or a material portion of its assets or any tender offer for the shares of capital stock of the Company, in each case by a party other than Parent or any of its affiliates, or (D) shall resolve to take any of the actions specified in clause (A), (B) or (C); or

(g) by the Company prior to the approval of this Agreement by the shareholders of the Company, upon five days' prior notice to Parent, if the Company is not in breach of this Agreement and, as a result of an Alternative Proposal, the Board of Directors of the Company determines in good faith, that (i) the Alternative Proposal is financially superior to the Merger and the third party making the Alternative Proposal has demonstrated that any necessary financing has been obtained or is, in the reasonable judgment of the Board of Directors of the Company, obtainable and (ii) based upon the advice of outside counsel and such other matters as the Company Board of Directors deems relevant, including, as appropriate, applicable provisions of state law and after giving effect to all concessions which may be offered by the other party pursuant to the proviso below, that failure to do so would likely result in a breach of its fiduciary duties under applicable law; provided, however, that prior to any such termination, the Company shall, and shall cause its respective financial and legal advisors to, negotiate with Parent to attempt to make such adjustments in the terms and conditions of this Agreement as would enable the Company to proceed with the transactions contemplated herein.

Section 8.2 Effect of Termination. Subject to Section 9.1(b), in the event of termination of this Agreement by either the Company or Parent pursuant to Section 8.1, there shall be no liability on the part of either the Company or Parent or their respective officers or directors hereunder, except that the agreement contained in the last sentence of Section 6.6; Section 6.15; Section 8.3; Section 9.8; and Section 9.9 shall survive the termination.

Section 8.3 Termination Fee; Expenses.

(a) Termination Fee upon Breach or Withdrawal of Approval. If this Agreement is terminated at such time that this Agreement is terminable pursuant to one (but not both) of (x) Section 8.1(e)(i) or (ii) or (y) Section 8.1(f)(i) or (ii), then (i) the breaching party shall promptly (but not later than five business days after receipt of notice from the non-breaching party) pay to the non-breaching party in cash an amount equal to all documented out-of-pocket expenses and fees incurred by the non-breaching party (including, without limitation, fees and expenses payable to all legal, accounting, financial, public relations and other professional advisors arising

out of, in connection with or related to the Merger or the transactions contemplated by this Agreement) not in excess of $10 million ("Expenses"); provided, however, that, if this Agreement is terminated by a party as a result of a willful breach by the other party, the non-breaching party may pursue any remedies available to it at law or in equity and shall, in addition to its out-of-pocket expenses (which shall be paid as specified above and shall not be limited to $10 million, be entitled to retain such additional amounts as such non-breaching party may be entitled to receive at law or in equity.

(b) The Company shall pay Parent a fee of $33.5 million ("Termination Fee") and Expenses, upon the termination of this Agreement by Parent or the Company pursuant to Section 8.1(c) or by Parent pursuant to Section 8.1(f)(iii) or by the Company pursuant to Section 8.1(g); provided, however, that in the event of termination under either Section 8.1(c) or Section 8.1(f)(iii), no payment of the Termination Fee or Expenses shall be required unless and until within two years of such termination the Company enters into a definitive agreement to consummate or consummates an Alternative Proposal, and, in the case of a termination pursuant to Section 8.1(c), there shall have been made and not withdrawn at the time of the Company Special Meeting an Alternative Proposal and, in the case of a termination pursuant to Section 8.1(f)(iii), there shall have been made and not withdrawn at the time of such termination an Alternative Proposal.

(c) Liquidated Damages; Prompt Payment. The parties agree that the agreements contained in this Section 8.3 are an integral part of the transactions contemplated by the Agreement and constitute liquidated damages and not a penalty. If one party fails to pay promptly to the other any fee or expenses due hereunder, the defaulting party shall pay the reasonable costs and expenses (including legal fees and expenses) in connection with any action, including the filing of any lawsuit or other legal action, taken to collect payment, together with interest on the amount of any unpaid fee at the publicly announced prime rate of The Chase Manhattan Bank from the date such fee was required to be paid.

Section 8.4 Amendment. This Agreement may be amended by the Boards of Directors of the parties hereto, at any time before or after approval hereof by the shareholders of the Company and prior to the Effective Time, but after such approvals, no such amendment shall (i) alter or change the amount or nature of the Merger Consideration under Article II or (ii) alter or change any of the terms and conditions of this Agreement if any of the alterations or changes, alone or in the aggregate, would materially adversely affect the rights of holders of Company Common Stock, except for alterations or changes that could otherwise be adopted by the Board of Directors of the Company without the further approval of such shareholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

Section 8.5 Waiver. At any time prior to the Effective Time, the parties hereto may (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions contained herein, to the extent permitted by applicable law. Any

agreement on the part of a party hereto to any such extension or waiver shall be valid if set forth in an instrument in writing signed on behalf of such party.

ARTICLE IX

GENERAL PROVISIONS

Section 9.1 Non-Survival; Effect of Representations and Warranties. (a) All representations, warranties and agreements in this Agreement shall not survive the Merger, except as otherwise provided in this Agreement and except for the agreements contained in this Section 9.1 and in Article II, Section 6.10, Section 9.7, Section 9.8 and Section 9.9.

(b) No party may assert a claim for breach of any representation or warranty contained in this Agreement (whether by direct claim or counterclaim) except in connection with the cancellation of this Agreement pursuant to Section 8.1(e)(i) or Section 8.1(f)(i) (or pursuant to any other subsection of Section 8.1, if the terminating party would have been entitled to terminate this Agreement pursuant to Section 8.1(e)(i) or Section 8.1(f)(i)).

Section 9.2 Brokers. The Company represents and warrants that, except for Warburg Dillon Read LLC whose fees have been disclosed to Parent prior to the date hereof, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Merger or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company. Parent represents and warrants that, except for Goldman, Sachs & Co. whose fees have been disclosed to the Company prior to the date hereof, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Merger or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Parent.

Section 9.3 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if (i) delivered personally, (ii) sent by reputable overnight courier service, (iii) delivered by facsimile transmission (with receipt confirmed) or (iv) five days after being mailed by registered or certified mail (return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) If to the Company, to:

CMP Group, Inc.
83 Edison Drive
Augusta, Maine 04336
Attention: Anne M. Pare, Esq.
Treasurer, Corporate Counsel and Secretary

Telephone: (207) 623-3521
Telecopy: (207) 621-4714

with a copy to:

Thelen Reid & Priest LLP
40 West 57th Street
New York, New York 10019
Attention: J. Michael Parish, Esq.

Telephone: (212) 603-2000
Telecopy: (212) 603-2001

(b) If to Parent, to:

Energy East Corporation
One Canterbury Green
P.O. Box 1196
Stamford, Connecticut 06901
Attention: Mr. Kenneth M. Jasinski
Executive Vice President and General Counsel

Telephone: (203) 325-0690
Telecopy: (203) 325-1901

with a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York 10019
Attention: Seth A. Kaplan, Esq.

Telephone: (212) 403-1000
Telecopy: (212) 403-2000

Section 9.4 Miscellaneous. This Agreement (including the documents and instruments referred to herein) (i) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof other than the Employment Agreements and the Confidentiality Agreement; (ii) shall not be assigned by operation of law or otherwise; and (iii) shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts executed in and to be fully performed in such State, without giving effect to its conflicts of law, rules or principles and except to the extent the provisions of this Agreement (including the documents or instruments referred to herein) are expressly governed by or derive their authority from the MBCA.

Section 9.5 Interpretation. When a reference is made in this Agreement to Sections or Exhibits, such reference shall be to a Section or Exhibit of this Agreement, respectively, unless otherwise indicated. The table of contents and headings contained in this Agreement are for

reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." Whenever the word "person" is used in this Agreement, it shall mean any individual, partnership, limited liability company, joint venture, corporation, trust, association, unincorporated organization, or governmental entity or any department or agency thereof.

Section 9.6 Counterparts; Effect. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

Section 9.7 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and, except for rights of Indemnified Parties as set forth in Section 6.10, nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

Section 9.8 Waiver of Jury Trial and Certain Damages. Each party to this Agreement waives, to the fullest extent permitted by applicable law, (i) any right it may have to a trial by jury in respect of any action, suit or proceeding arising out of this Agreement and (ii) without limiting the effect of Section 8.3, any right it may have, other than in the case of a willful breach, to receive damages from any other party based on any theory of liability for any special, indirect, consequential (including lost profits) or punitive damages.

Section 9.9 Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of New York or in New York state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any federal court located in the State of New York or any New York state court in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a federal or state court sitting in the State of New York.

IN WITNESS WHEREOF, the Company, Parent and Merger Sub have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

CMP GROUP, INC.

By: /s/ David T. Flanagan

Name: David T. Flanagan
Title: President and Chief Executive Officer

ENERGY EAST CORPORATION

By: /s/ Kenneth M. Jasinski

Name: Kenneth M. Jasinski
Title: Executive Vice President and General Counsel

EE MERGER CORP.

By: /s/ Kenneth M. Jasinski

Name: Kenneth M. Jasinski
Title: Secretary, Treasurer and Vice President

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from . . . . . to . . . . . .

Commission file number 1-14766

Energy East Corporation
(Exact name of registrant as specified in its charter)

New York	14-1798693
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P.O. Box 12904, Albany, NY	12212-2904
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (518) 434-3049

N/A
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

The number of shares of common stock (par value $.01 per share) outstanding as of July 31, 1999 was 114,407,028.

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

Energy East Corporation
Consolidated Statements of Income - (Unaudited)

Periods Ended June 30	Three Months		Six Months	
	1999	1998	1999	1998
	(Thousands, except per share amounts)			
Operating Revenues				
Sales and Services	$507,927	$548,308	$1,162,365	$1,185,938
Operating Expenses				
Fuel used in electricity generation	18,272	55,080	74,756	114,172
Electricity purchased	184,871	164,355	333,665	310,566
Natural gas purchased	35,317	31,251	101,529	88,388
Other operating expenses	64,401	83,096	153,019	167,377
Maintenance	19,811	27,748	45,524	59,697
Depreciation and amortization	538,473	48,405	593,805	96,782
Other taxes	56,579	50,556	110,640	105,495
Gain on sale of generation assets	(674,572)	-	(674,572)	-
Writeoff of Nine Mile Point 2	69,930	-	69,930	-
Total Operating Expenses	313,082	460,491	808,296	942,477
Operating Income	194,845	87,817	354,069	243,461
Other (Income) and Deductions	(13,678)	163	(14,360)	1,388
Interest Charges, Net	32,718	30,289	64,901	60,924
Preferred Stock Dividends of Subsidiary	691	2,260	1,721	4,529
Income Before Federal Income Taxes	175,114	55,105	301,807	176,620
Federal Income Taxes	119,618	25,752	159,276	71,096
Net Income	$55,496	$29,353	$142,531	$105,524
Earnings Per Share, basic and diluted	$.48	$.23	$1.19	$.81
Dividends Paid Per Share	$.21	$.20	$.42	$.38
Average Shares Outstanding	116,623	128,699	119,763	130,746

Per share amounts and number of shares outstanding have been restated to reflect the two-for-one common stock split effective April 1, 1999.

The notes on pages 6 and 7 are an integral part of the financial statements.

Item 1. Financial Statements (Cont'd)

Energy East Corporation
Consolidated Balance Sheets - (Unaudited)

Assets	June 30, 1999	Dec. 31, 1998
	(Thousands)	
Current Assets		
Cash and cash equivalents	$1,291,845	$48,068
Special deposits	911	4,729
Accounts receivable, net	133,094	148,712
Fuel, at average cost	9,504	44,643
Materials and supplies, at average cost	7,702	38,040
Prepayments	156,610	111,082
Total Current Assets	1,599,666	395,274
Utility Plant, at Original Cost		
Electric	3,377,253	5,299,604
Natural gas	613,951	602,904
Common	138,771	144,043
	4,129,975	6,046,551
Less accumulated depreciation	1,983,423	2,211,608
Net Utility Plant in Service	2,146,552	3,834,943
Construction work in progress	9,252	27,741
Total Utility Plant	2,155,804	3,862,684
Other Property and Investments, Net	99,328	129,088
Regulatory and Other Assets		
Regulatory assets		
Unfunded future federal income taxes	29,164	136,404
Unamortized debt expense	69,320	71,530
Demand-side management program costs	58,558	64,466
Environmental remediation costs	58,800	60,600
Other	33,191	125,604
Total regulatory assets	249,033	458,604
Other assets	25,329	37,687
Total Regulatory and Other Assets	274,362	496,291
Total Assets	$4,129,160	$4,883,337

The notes on pages 6 and 7 are an integral part of the financial statements.

Energy East Corporation
Consolidated Balance Sheets - (Unaudited)

Liabilities	June 30, 1999	Dec. 31, 1998
	(Thousands)	
Current Liabilities		
Current portion of long-term debt	$2,018	$31,077
Current portion of preferred stock of subsidiary	-	75,000
Commercial paper	-	78,300
Accounts payable and accrued liabilities	117,311	116,582
Interest accrued	19,017	19,556
Taxes accrued	298,215	587
Accumulated deferred federal income tax, net	29,391	10,029
Other	61,835	82,143
Total Current Liabilities	527,787	413,274
Regulatory and Other Liabilities		
Regulatory liabilities		
Deferred income taxes	68,921	98,038
Deferred income taxes, unfunded future federal income taxes	14,238	60,896
Other	22,968	42,182
Total regulatory liabilities	106,127	201,116
Other liabilities		
Deferred income taxes	215,920	765,592
Other postretirement benefits	151,862	137,681
Environmental remediation costs	78,800	80,600
Other	90,687	82,028
Total other liabilities	537,269	1,065,901
Long-term debt	1,386,621	1,435,120
Total Liabilities	2,557,804	3,115,411
Commitments	-	-
Preferred Stock of Subsidiary		
Preferred stock redeemable solely at the option of subsidiary	10,131	29,440
Preferred stock subject to mandatory redemption requirements	25,000	25,000
Common Stock Equity		
Common stock	1,174	631
Capital in excess of par value	819,960	1,057,904
Retained earnings	754,088	662,562
Treasury stock, at cost	(38,997)	(7,611)
Total Common Stock Equity	1,536,225	1,713,486
Total Liabilities and Stockholders' Equity	$4,129,160	$4,883,337

The notes on pages 6 and 7 are an integral part of the financial statements.

Energy East Corporation
Consolidated Statements of Cash Flows - (Unaudited)

Periods Ended June 30	Six Months	
	1999	1998
	(Thousands)	
Operating Activities		
Net income	$142,531	$105,524
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	593,805	96,782
Federal income taxes and investment tax credits deferred, net	(444,342)	(4,445)
Gain on sale of generation assets	(674,572)	-
Writeoff of Nine Mile Point 2	69,930	-
Changes in current operating assets and liabilities		
Accounts receivable	15,618	38,121
Inventory	65,477	4,749
Prepayments	(45,528)	(9,042)
Accounts payable and accrued liabilities	729	17,050
Taxes accrued	297,628	32,696
Other, net	(16,629)	14,353
Net Cash Provided by Operating Activities	4,647	295,788
Investing Activities		
Sale of generation assets	1,850,000	-
Utility plant additions	(29,904)	(76,303)
Other property and investments	(10,829)	25,200
Net Cash Provided by (Used in) Investing Activities	1,809,267	(51,103)
Financing Activities		
Repurchase of common stock	(237,559)	(135,359)
Treasury stock acquired, net	(31,386)	-
Repayments of preferred stock and first mortgage bonds	(144,557)	(30,000)
Long-term notes, net	(27,330)	9,580
Commercial paper, net	(78,300)	12,000
Dividends on common stock	(51,005)	(49,432)
Net Cash Used in Financing Activities	(570,137)	(193,211)
Net Increase in Cash and Cash Equivalents	1,243,777	51,474
Cash and Cash Equivalents, Beginning of Period	48,068	8,168
Cash and Cash Equivalents, End of Period	$1,291,845	$59,642
Supplemental Disclosure of Cash Flows Information		
Cash paid during the period		
Interest, net of amounts capitalized	$55,929	$52,553
Income taxes (includes $262,500 related to gain on sale of generation assets)	$320,422	$37,346

The notes on pages 6 and 7 are an integral part of the financial statements.

Energy East Corporation
Consolidated Statements of Retained Earnings - (Unaudited)

Periods ended June 30	Six Months	
	1999	1998
	(Thousands)	
Balance, beginning of period	$662,562	$568,844
Add net income	142,531	105,524
Deduct dividends on common stock	51,005	49,432
Balance, end of period	$754,088	$624,936

The notes on pages 6 and 7 are an integral part of the financial statements.

Note 1. Unaudited Consolidated Financial Statements

The accompanying unaudited consolidated financial statements reflect all adjustments which are necessary, in the opinion of management, for a fair presentation of our consolidated results for the interim periods. All such adjustments, other than those related to the sale of our coal-fired generation stations and the writeoff of Nine Mile Point 2, are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in our annual report for the year ended December 31, 1998. Due to the seasonal nature of our operations, financial results for interim periods are not necessarily indicative of trends for a 12-month period.

Note 2. Investment in Nine Mile Point nuclear generating unit No. 2

We wrote off our entire 18% investment in Nine Mile Point 2 during the second quarter of 1999. We completed the sale of our Homer City generation assets to Edison Mission Energy in March 1999, and the sale of our remaining coal-fired generation assets to The AES Corporation in May 1999. The proceeds from the sale of those assets, net of taxes and transaction costs, in excess of the net book value, less funded deferred taxes, were used to write down our investment in Nine Mile Point 2 by $384 million. This treatment was in accordance with our restructuring plan approved by the Public Service Commission of the State of New York in January 1998. We wrote down our investment an additional $104 million due to the required writeoff of funded deferred taxes related to Nine Mile Point 2. These writedowns are reflected in depreciation and amortization for the second quarter of 1999.

We announced in June 1999 that we agreed to sell our 18% interest in Nine Mile Point 2 to AmerGen Energy Company, a joint venture of PECO Energy Company and British Energy. (See Item 2(a) - Energy Distribution, Nine Mile Point nuclear generating unit No. 2.) Based on the sale agreement, we wrote off $70 million, our remaining investment in Nine Mile Point 2, in accordance with Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.

Note 3. Common Stock Split

In January 1999 we declared a two-for-one stock split on common stock outstanding. Shareholders of record at the close of business on March 12, 1999, were entitled to the shares effective April 1, 1999. All references to shares outstanding and per share information reflect the stock split.

Note 4. Segment Information

Selected financial information for each of our business segments is presented in the following table. "Energy Distribution" consists of our electricity distribution, transmission and generation operations in New York and our natural gas distribution, transportation and storage operations in New York. "Other" includes our energy services businesses, natural gas and propane air distribution operations outside of New York, corporate assets and intersegment eliminations.

Three Months Ended	Energy Distribution	Other	Total
June 30, 1999			
Operating Revenues	$497,209	$10,718	$507,927
Net Income (Loss)	$58,474	$(2,978)	$55,496
June 30, 1998			
Operating Revenues	$540,412	$7,896	$548,308
Net Income	$28,905	$448	$29,353
Six Months Ended			
June 30, 1999			
Operating Revenues	$1,134,244	$28,121	$1,162,365
Net Income (Loss)	$148,649	$(6,118)	$142,531
June 30, 1998			
Operating Revenues	$1,167,644	$18,294	$1,185,938
Net Income (Loss)	$106,650	$(1,126)	$105,524
Identifiable Assets			
June 30, 1999	$3,189,406	$939,754	$4,129,160
December 31, 1998	$4,807,657	$75,680	$4,883,337

Note 5. Reclassifications

Certain amounts have been reclassified on the consolidated financial statements to conform with the 1999 presentation.

Item 2. Management's discussion and analysis of financial condition and results of operations

(a) Liquidity and Capital Resources

Merger Agreements

Connecticut Energy Merger: On April 23, 1999, we signed a definitive merger agreement with Connecticut Energy Corporation (CNE) under which CNE will become one of our wholly-owned subsidiaries. The transaction is valued at $617 million, including the assumption of approximately $181 million of debt.

Under the agreement 50% of the common stock of CNE will be converted into our common stock with a value of $42.00 per CNE share, and 50% will be converted into $42.00 in cash per CNE share, subject to restrictions on the minimum and maximum number of shares to be issued. Shareholders will be able to specify the percentage of the consideration they wish to receive in stock and in cash, subject to proration. The transaction will be accounted for using the purchase method of accounting.

The merger is subject to, among other things, the approvals of CNE shareholders and various regulatory agencies, including the Connecticut Department of Public Utility Control and the Securities and Exchange Commission. We expect the transaction to close by early 2000.

CMP Group Merger: On June 14, 1999, we signed a definitive merger agreement with CMP Group, Inc. under which CMP Group will become one of our wholly-owned subsidiaries. We will acquire all of the common stock of CMP Group for $29.50 per share in cash. The transaction has an equity market value of approximately $957 million based on approximately 32.4 million CMP Group common shares outstanding. We will also assume approximately $271 million of CMP Group preferred stock and long-term debt. The transaction will be accounted for using the purchase method of accounting.

The merger is subject to, among other things, the approvals of CMP Group shareholders and various regulatory agencies, including the Maine Public Utilities Commission, the Securities and Exchange Commission, the Federal Energy Regulatory Commission and the Nuclear Regulatory Commission. We intend to register as a holding company with the SEC under the Public Utility Holding Company Act of 1935. We expect the transaction to close in the middle of the year 2000.

CTG Resources Merger: On June 29, 1999, we signed a definitive merger agreement with CTG Resources, Inc. under which CTG Resources will become one of our wholly-owned subsidiaries. The transaction values CTG Resources' common equity at approximately $355 million, and we will assume approximately $220 million of CTG Resources' long-term debt. The transaction will be accounted for using the purchase method of accounting.

Under the agreement, 45% of the common stock of CTG Resources will be converted into our common stock with a value of $41.00 per CTG Resources share, and 55% will be converted into $41.00 in cash

per CTG Resources share, subject to restrictions on the minimum and maximum number of shares to be issued. Shareholders will be able to specify the percentage of the consideration they wish to receive in stock and in cash, subject to proration.

The merger is subject to, among other things, the approvals of CTG Resources shareholders and various regulatory agencies, including the Connecticut Department of Public Utility Control and the Securities and Exchange Commission. We expect the transaction to close in the middle of the year 2000.

Notes Payable: We expect to issue long-term debt prior to the closings of the merger transactions. The proceeds from the debt issuance, along with the proceeds from the sale of our generation assets and internally generated funds, will be used to help fund the cash portion of the consideration and to help fund our ongoing share repurchase program.

Energy Distribution

Sale of our Coal-fired Generation Assets: We accepted offers totaling $1.85 billion from The AES Corporation and Edison Mission Energy in August 1998 for our seven coal-fired stations and associated assets and liabilities, which were placed up for auction earlier in 1998. We completed the sale of our Homer City generation assets to Edison Mission Energy in March 1999, and the sale of our remaining coal-fired generation assets to AES in May 1999. (See Item 1 - Note 2 to the Consolidated Financial Statements.)

Now that the sale of our coal-fired generation assets is complete, approximately 60% of our power requirements will be satisfied through generation from our nuclear and hydroelectric stations and by purchases under long-term contracts from nonutility generators and the New York Power Authority. For the remaining power requirements we have assumed the risk of market prices that are sometimes volatile, since we have capped the prices we can charge customers.

We use electricity contracts to manage our exposure to fluctuations in the cost of electricity. These contracts allow us to fix margins on the majority of our retail electricity sales. The cost or benefit of electricity contracts is included in the cost of electricity purchased when the electricity is sold.

Nine Mile Point nuclear generating unit No. 2: We announced in June 1999 that we agreed to sell our 18% interest in Nine Mile Point 2 to AmerGen Energy Company, a joint venture of PECO Energy Company and British Energy. In the same announcement, Niagara Mohawk Power Corporation, the operator and 41% owner of Nine Mile Point 2, announced the sale of its interest in Nine Mile Point 2 to AmerGen. At closing, we will receive $27.9 million in proceeds based on our 18% ownership share. (See Item 1 - Note 2 to the Consolidated Financial Statements.) We may be entitled to additional payments through 2012 under a financial sharing agreement. A power purchase agreement with AmerGen requires us to purchase 17.1% of all electricity from Nine Mile Point 2 at negotiated prices for three years.

AmerGen will assume full responsibility for the decommissioning of its ownership share of Nine Mile Point 2. The decommissioning fund will be pre-funded to a fixed amount by the sellers, with all potential costs above the fixed amount paid by AmerGen. We expect the sale of Nine Mile Point 2 to be completed early next year.

New York Power Pool Restructuring: The Federal Energy Regulatory Commission issued Orders 888 and 889 in 1996 to foster the development of competitive wholesale electricity markets by opening up transmission services and to address the resulting stranded costs. In subsequent orders, the FERC generally affirmed Orders 888 and 889. Various parties, including us, have appealed these orders in the United States Court of Appeals for the D.C. Circuit.

In response to Order 888, the New York Power Pool members submitted filings to the FERC proposing, among other things, to restructure the power pool by establishing a New York Independent System Operator and a New York State Reliability Council. In a series of orders in June 1998, January 1999 and July 1999 the FERC conditionally authorized the formation of the system operator and reliability council and conditionally accepted the tariff and rates applicable to transmission service, and energy capacity and ancillary services filed by the members. In February 1999 power pool members also filed the necessary applications to transfer control of transmission facilities to the system operator, which the FERC accepted in April 1999. On July 29, 1999, the FERC conditionally granted certain authorizations that would allow the system operator to become operational on September 1, 1999, and required an additional filing by the power pool members within 30 days to implement the restructuring proposal. We are currently awaiting the FERC's acceptance of the remaining power pool member filings. We do not expect the restructuring to have a material adverse effect on our financial position or results of operations.

Electric Retail Access Program: Customers in certain sections of our service territory were eligible to choose their electricity supplier in mid-1998. All of our electricity customers were able to choose their electricity supplier by August 1, 1999.

We are responsible for delivery of our customers' electricity on our transmission and distribution system. Rates charged for use of our transmission system are subject to FERC approval, while rates for the use of our distribution system are subject to PSC approval. The PSC approved our distribution rates in January 1998. Our transmission rate case, which was filed with the FERC in March 1997, has not yet been approved.

On July 15, 1999, the PSC issued an Opinion and Order Concerning Retail Access Credit and Customer Identification Issues. This order addressed phase one unbundling issues related to our retail access credit (the amount backed out of a customer's transmission and distribution bill when that customer participates in retail access), suppliers' obligations and customer identification. As a result of the order, our retail access credit was maintained at its current value, retail access suppliers are responsible for energy and capacity for their own customers and we may require a deposit from customers who are not able to provide

adequate identification. The PSC also concluded that costs for line losses, installed reserves and most ancillary services are being recovered through our delivery charge and are not part of the retail access credit. We are currently developing our response to this order and are unable to predict the effect of the order on our financial position or results of operations.

Competitive Electric Metering: In May 1999 the PSC approved a plan to open up to competition electric metering services for certain customers in New York State. The services include installation and maintenance of electric meters, meter reading and meter data retrieval and storage. Competitive metering would initially be available to customers with peak electricity requirements at any given time of 50 kilowatts or more. Utilities will be required to file unbundled metering tariffs by October 1, 1999, that identify their metering costs as a component of existing electricity prices. Utilities will continue their provider of last resort responsibilities for metering. Stranded cost issues will be handled in individual utility proceedings. We are currently unable to predict the effect of this plan on our financial position or results of operations.

Environmental Matters: Since we have completed the sale of our coal-fired generation assets, we will no longer be subject to certain regulation by the federal government and by state and local governments with respect to certain environmental matters and certain water quality, air quality and waste disposal requirements applicable to the coal-fired generation assets. (See Form 10-K for the fiscal year ended December 31, 1998, Item 1 - Business, Environmental matters.)

Role of Natural Gas Local Distribution Companies: On November 3, 1998, the PSC issued a "Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment." The policy statement includes the PSC's vision for furthering competition in the natural gas industry in New York State. The PSC believes the most effective way to establish a competitive gas market is for natural gas utilities to exit the merchant function over a three to seven year period. The PSC also established guidelines and began several proceedings related to implementing its policy statement. We are participating in each of the proceedings and continue to believe the competitive marketplace should decide who will be the suppliers of natural gas.

In compliance with the PSC's Order, effective April 1, 1999, we ceased assigning certain capacity costs to customers who switch from fully bundled sales service to transportation service. Any capacity costs that may be stranded as a result of terminating capacity assignment will be recovered from all applicable customers.

Other Matters

Year 2000 Readiness Disclosure

Many of our computer systems, which include mainframe systems and special-purpose systems, refer to years in terms of their final two digits only. Such systems may interpret the year 2000 as the year 1900. If not corrected, those systems could cause us to, among other things, experience energy delivery problems, report inaccurate data or issue inaccurate bills.

We have been working diligently to address this problem by reviewing all of our mainframe and special-purpose systems; identifying potentially affected software, hardware, and date-sensitive components, often referred to as embedded chips, of various equipment; determining and taking appropriate corrective action; and, when appropriate, testing our systems.

Our mainframe systems consist of the hardware and software components of New York State Electric & Gas Corporation's information technology systems. We believe we have identified, taken appropriate corrective action and tested all of our mainframe systems. We believe those systems are now able to process year 2000 and beyond transactions.

Our special-purpose systems consist of our non-information technology systems and the information technology systems of our subsidiaries other than NYSEG. We have identified approximately 6,000 items in our special-purpose systems that may be affected by the Year 2000 problem. Items identified include software, hardware and embedded chips in systems such as those that control the acquisition and the delivery of electricity and natural gas to customers and those in our communication systems. We believe we have fixed, eliminated, replaced or found no problem with all of the special-purpose items we have identified that affect our electricity and natural gas delivery systems and our communication systems.

Even though we believe we have taken corrective action with respect to our own Year 2000 issues, the Year 2000 issue could adversely affect us if there are items in our mainframe or special-purpose systems that may be affected by the Year 2000 problem and that we have not identified in our review of those systems. The Year 2000 issue could also adversely affect us if third parties such as suppliers, customers, neighboring or interconnected utilities and other entities fail to correct any of their Year 2000 problems. We have contacted key third parties to determine the status of their Year 2000 readiness programs. Many have responded satisfactorily, some have not responded satisfactorily and some have not responded at all. We are following up with key third parties who have not responded satisfactorily or who have not responded at all. We have developed contingency plans, some of which are discussed below, for reasonably likely worst case scenarios based upon an assumption that we and those third parties will not be Year 2000 compliant.

We believe we have taken all necessary steps to address the Year 2000 issue successfully. Through June 30, 1999, we have spent approximately $11.6 million and expect to spend an additional $1.1 million on Year 2000 readiness including contingency plan preparations. We believe this amount is adequate to address our Year 2000 issues. These amounts are being expensed as incurred and are being financed entirely with internally generated funds. Addressing the Year 2000 issue has not caused us to delay any significant information system projects.

As part of our normal business practice we have plans in place for use during emergencies, some of which could arise from Year 2000 problems. We are also implementing an emergency preparedness plan which will help us to address customer emergencies and coordinate with other emergency service providers. Each of our 13 division offices will be open from 10:00 p.m. on December 31, 1999, to 2:00 a.m. on January 1, 2000. NYSEG personnel will be available to staff county emergency preparedness offices during this same time period. Other customer contact sites will also be established. Temporary local numbers will be established so customers can contact us should long distance telephone service fail. We have completed over 75 contingency plans to specifically address reasonably likely worst case scenarios that could arise as a result of the Year 2000 problem.

The contingency plans address, among other scenarios, the interruption or failure of normal business activities or operations such as a partial electrical and/or natural gas system shutdown. If the interruption or failure is due to embedded chips in equipment such as automatic control devices, our contingency plan is to implement the normal system restoration procedures that we utilize during emergencies. If the interruption or failure is due to telecommunications not being available, we plan to use alternative communication devices such as radio systems and satellite phones. Another scenario addressed by our contingency plans is the failure of our customer information system. Should that occur, we plan to rely on customer information previously stored and make the appropriate adjustment to each customer's next bill after the system is restored.

We are dependent on others for our supply of natural gas. In the event a supplier is not able to meet our needs, we plan to purchase the needed amount of natural gas from one of our many other suppliers on the same transmission line. Since the sale of our coal-fired generation assets has been completed, we will be buying from third parties, including nonutility generators and the New York Power Authority, instead of producing the majority of the electricity our customers need. If the electricity available in our region is not adequate for all of the customers on our system, we plan to operate at lower levels of power as outlined in our established emergency procedures. Should our mainframe hardware be disabled, we have a backup mainframe system that is capable of operating all of our business systems. All of our contingency plans are ready and have been tested.

The PSC issued an Order on October 30, 1998, adopting a July 1, 1999, deadline for New York utilities to complete their Year 2000 readiness programs for "mission critical" systems and for

contingency plans. Mission critical systems include those systems that control the acquisition and the delivery of electricity and natural gas to customers, emergency management systems and certain electricity generation plants. We completed our Year 2000 readiness program for mission critical systems and for contingency plans before the PSC's July 1, 1999, deadline.

Investing and Financing Activities

Investing Activities

Capital spending for the first six months of 1999 was $41 million, primarily for extension of energy distribution service and necessary improvements to existing facilities. We estimate our capital spending for 1999 will be about $140 million, and it is expected to be paid for entirely with internally generated funds.

Financing Activities

On February 1, 1999, we redeemed, at par, $25 million of NYSEG's 7.40% preferred stock and $50 million of NYSEG's adjustable rate preferred stock.

On April 1, 1999, we purchased, at a discount, shares of the following series of NYSEG's preferred stock: $7.2 million of 3.75%, $2.8 million of 4 1/2% (Series 1949), $1.4 million of 4.15%, $4.8 million of 4.40%, and $3.1 million of 4.15% (Series 1954).

On April 1, 1999, the holders of a majority of the votes of shares of NYSEG's serial preferred stock consented to increase the amount of unsecured debt NYSEG may issue by up to an additional $1.2 billion.

In June 1999 we redeemed, at a premium, $50 million of NYSEG's 7 5/8% Series first mortgage bonds.

We repurchased 10 million shares of our common stock during the first six months of 1999.

Forward-looking Statements

This Form 10-Q contains certain forward-looking statements that are based upon management's current expectations and information that is currently available. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. Whenever used in this report, the words "estimate," "expect," "believe," or similar expressions are intended to identify such forward-looking statements.

In addition to the assumptions and other factors referred to specifically in connection with such statements, factors that could cause actual results to differ materially from those contemplated in any forward-looking statements include, among others, the risk that more Year 2000 problems may be found; the fact that despite all of our efforts, there can be no assurances that all of our Year 2000 issues have been remedied; the fact that there can be no assurances that all Year 2000 issues that could affect us can or

will be totally eliminated by our suppliers, customers, neighboring or interconnected utilities and other entities; and the fact that our assessment of the effects of Year 2000 issues are based, in part, upon information received from our suppliers, customers, neighboring or interconnected utilities and other entities, our reasonable reliance upon this information and the risk that inaccurate or incomplete information may have been supplied to us.

Some additional factors that could cause actual results to differ materially from those contemplated in any forward-looking statements include, among others, the deregulation and unbundling of energy services; our ability to compete in the rapidly changing and increasingly competitive electricity and natural gas utility markets; our ability to control nonutility generator and other costs; changes in fuel supply or cost and the success of our strategies to satisfy our power requirements now that all of our coal-fired generation assets have been sold; our ability to expand our products and services, including our energy distribution network in the Northeast; our ability to integrate the operations of Connecticut Energy, CMP Group and CTG Resources with our operations; the ability to obtain adequate and timely rate relief; nuclear or environmental incidents; legal or administrative proceedings; changes in the cost or availability of capital; growth in the areas in which we are doing business; weather variations affecting customer energy usage; and other considerations that may be disclosed from time to time in our publicly disseminated documents and filings. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

(b) Results of Operations

	Three Months Ended June 30,		
	1999	1998	Change
	(Thousands, except per share amounts)		
Total Operating Revenues	$507,927	$548,308	(7%)
Operating Income	$194,845	$87,817	122%
Net Income	$55,496	$29,353	89%
Average Shares Outstanding	116,623	128,699	(9%)
Earnings Per Share, basic and diluted	$.48	$.23	109%
Dividends Paid Per Share	$.21	$.20	5%

Earnings per share increased 16 cents for the second quarter of 1999, exclusive of the nonrecurring benefit from the sale of our coal-fired generation assets and the writeoff of Nine Mile Point 2. That increase was primarily driven by investment income, fewer shares of common stock outstanding due to our share repurchase program, higher retail electricity deliveries, which were caused by warmer weather, and cost control efforts. Those increases were partially offset by higher purchased power costs and lower wholesale electricity deliveries due to the sale of our coal-fired generation assets.

	Six Months Ended June 30,		
	1999	1998	Change
	(Thousands, except per share amounts)		
Total Operating Revenues	$1,162,365	$1,185,938	(2%)
Operating Income	$354,069	$243,461	45%
Net Income	$142,531	$105,524	35%
Average Shares Outstanding	119,763	130,746	(8%)
Earnings Per Share, basic and diluted	$1.19	$.81	47%
Dividends Paid Per Share	$.42	$.38	11%

Earnings per share increased 26 cents for the first half of 1999, exclusive of the nonrecurring benefit from the sale of our coal-fired generation assets and the writeoff of Nine Mile Point 2. That increase was primarily due to investment income, fewer shares of common stock outstanding due to our share repurchase program, higher retail electricity and natural gas deliveries, which were caused by weather, and cost control efforts. Those increases were partially offset by higher purchased power costs and lower wholesale electricity deliveries due to the sale of our generation assets and electricity price reductions provided to customers.

Operating Results by Business Segment

Energy Distribution

	Three Months Ended June 30,		
	1999	1998	Change
	(Thousands)		
Retail Deliveries			
Megawatt-hours	3,255	3,130	4%
Dekatherms	9,953	9,305	7%
Operating Revenues	$497,209	$540,412	(8%)
Operating Expenses	$295,944	$450,210	(34%)
Operating Income	$201,265	$90,202	124%

Operating revenues decreased $43 million for the quarter primarily due to lower wholesale electricity deliveries due to the sale of our generation assets. That decrease was partially offset by higher retail electricity deliveries caused by warmer weather this quarter.

Operating expenses decreased $50 million after excluding the nonrecurring benefit from the sale of our coal-fired generation assets and the writeoff of Nine Mile Point 2. Operating expenses were reduced primarily by lower fuel costs and cost control efforts, partially offset by higher purchased power costs.

	Six Months Ended June 30,		
	1999	1998	Change
	(Thousands)		
Retail Deliveries			
Megawatt-hours	6,879	6,520	6%
Dekatherms	34,840	30,584	14%
Operating Revenues	$1,134,244	$1,167,644	(3%)
Operating Expenses	$770,322	$920,301	(16%)
Operating Income	$363,922	$247,343	47%

Operating revenues decreased $33 million for the six months primarily due to lower wholesale electricity deliveries due to the sale of our generation assets, and lower retail electricity and natural gas prices, partially offset by higher retail electricity and natural gas deliveries caused by weather.

Operating expenses decreased $46 million for the six months after excluding the nonrecurring benefit from the sale of our coal-fired generation assets and the writeoff of Nine Mile Point 2. Operating expenses were reduced primarily by lower fuel costs and cost control efforts, partially offset by higher purchased power costs.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

(a) By letter dated January 21, 1992, the New York State Department of Environmental Conservation notified us that we had been identified as a potentially responsible party at the Peter Cooper Corporation's Landfill Site (Peter Cooper Site) in the village of Gowanda, New York. The Peter Cooper Site is listed on the National Priorities List and the New York State Registry. Three other PRPs were identified in the NYSDEC letter. We believe that remediation costs at the Peter Cooper Site might rise to $16 million. By letter dated May 12, 1992, we notified the NYSDEC that we believed we had no responsibility for the alleged contamination at the Peter Cooper Site, and we declined to conduct remediation or finance remediation costs.

On July 2, 1996, the U.S. Environmental Protection Agency notified us of its concern regarding the stream bank erosion along a portion of the Peter Cooper Site that is located on our property. Without admitting to any liability or responsibility, on October 24, 1996, we entered into an Order on Consent with the EPA to stabilize the stream bank. This project was completed in January 1997 at a cost of $120,000. By letter dated June 30, 1999, the EPA notified us and 18 other companies that we are PRPs with respect to the Peter Cooper Site, and offered us the opportunity to perform a remedial investigation and feasibility study at the site. Although we are still evaluating the June 30 letter, we believe that the ultimate disposition of this matter will not have a material adverse effect on our financial position or results of operations.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - See Exhibit Index.

(b) Reports on Form 8-K

Three reports on Form 8-K, dated April 23, 1999, June 14, 1999, and June 29, 1999, were filed to report certain information under Item 5, "Other Events."

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENERGY EAST CORPORATION
(Registrant)

By /s/ Wesley W. von Schack
Wesley W. von Schack
Chairman and Chief Financial Officer

Date: August 10, 1999

STATE OF MAINE PUBLIC UTILITIES COMMISSION

CMP GROUP, INC.
CENTRAL MAINE POWER COMPANY
MAINECOM SERVICES
MAINE ELECTRIC POWER COMPANY, INC.
NORVARCO
CHESTER SVC PARTNERSHIP
MAINE YANKEE ATOMIC POWER COMPANY
CMP NATURAL GAS, L.L.C.

Petition for Approval of Reorganization and
Affiliated Interest Transactions

DOCKET NO. 99-411

PETITION
PREFILED DIRECT TESTIMONY OF ARTHUR W. ADELBERG
PREFILED DIRECT TESTIMONY OF KENNETH GORDON

July 1, 1999

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STATE OF MAINE
PUBLIC UTILITIES COMMISSION

DOCKET NO. 99-411

July 1, 1999

CMP GROUP, INC., CENTRAL MAINE POWER COMPANY, MAINECOM SERVICES, MAINE ELECTRIC POWER COMPANY, INC., NORVARCO, CHESTER SVC PARTNERSHIP, MAINE YANKEE ATOMIC POWER COMPANY, AND CMP NATURAL GAS, L.L.C.,	)
PETITION FOR APPROVAL OF REORGANIZATIONS AND AFFILIATED INTEREST TRANSACTIONS	)

INTRODUCTION

Petitioners CMP Group, Inc., Central Maine Power Company ("CMP"), MaineCom Services ("MaineCom"), Maine Electric Power Company, Inc. ("MEPCO"), NORVARCO, Chester SVC Partnership, Maine Yankee Atomic Power Company ("Maine Yankee") and CMP Natural Gas, L.L.C. ("CMP Natural Gas") request regulatory approval under Title 35-A of the Maine Revised Statutes Annotated, including Sections 707 and 708, of the merger of EE Merger Corp., a wholly-owned subsidiary of Energy East Corporation ("Energy East"), a utility holding company headquartered in Albany, New York, with and into CMP Group. Under the terms and conditions of a merger agreement[1] executed June 14, 1999, CMP Group will become a wholly-owned subsidiary of Energy East. Petitioners also seek (i) approval of the reorganization of CMP Natural Gas by which it will become a wholly-owned subsidiary of an existing Energy East natural gas subsidiary and of the assignment to the reorganized CMP

[1] Agreement and Plan of Merger by and among CMP Group, Inc., Energy East Corporation and EE Merger Corp. (hereinafter referred to as the "Merger Agreement"). A complete copy of the Merger Agreement, including schedules and attachments, is attached hereto as Appendix 1.

Natural Gas of services agreements[2] with various affiliates and (ii) modification of certain conditions associated with the formation of CMP Group.

THE PARTIES

1. Petitioner CMP Group is the holding company whose formation the Commission approved on May 1, 1998 in Docket No. 97-930. Its holdings include 100 percent of the common stock of CMP, MaineCom and New England Gas Development Corporation ("New England Gas"), and other interests, all as shown in Appendix 2.

2. Petitioner CMP is Maine's largest electric utility, serving approximately 530,000 customers. In accordance with 35-A M.R.S.A. §3204 and the Commission's December 24, 1997 and January 14, 1998 Orders in Docket No. 97-523, CMP has divested substantially all of its generating assets and is predominantly an electric transmission and distribution utility.

3. Petitioner MaineCom is a telephone utility under the terms of the Commission's February 19, 1997 Order in Docket No. 96-421. It provides telecommunications services, including point-to-point connections, private networking, consulting, private voice and data transport, carrier services and long-haul transport.

4. Petitioner MEPCO, in which CMP holds a 78.3 percent voting interest (with the remaining interests held by Bangor Hydro-Electric Company and Maine Public Service Company), owns and operates a 345 kV interconnection between New Brunswick, Canada and Wiscasset, Maine, and also owns and operates related facilities. MEPCO transmits power

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[2] These services agreements have been filed with the Commission in Docket No. 99-397. Services agreements between CMP and various affiliates that have previously been approved by the Commission will remain in place after the merger until such time as new services agreements may be approved under Section 707 of Title 35-A M.R.S.A.

under its Open Access Transmission Tariff approved by the Federal Energy Regulatory Commission ("FERC").

5. Petitioner NORVARCO is a wholly-owned subsidiary of CMP. NORVARCO is a general partner with a 50 percent interest in Chester SVC Partnership, which owns a static var compensator ("SVC") facility in Chester, Maine. The SVC facility provides transmission system reinforcement that allows the Hydro-Quebec Phase II transmission line in New Hampshire and the MEPCO line to operate at full capability simultaneously.

6. Petitioner Maine Yankee, in which CMP has a 38 percent voting interest, owns a nuclear electric generating facility in Wiscasset, Maine, that has been permanently shut down since August 6, 1997 and that is currently being decommissioned.

7. Petitioner CMP Natural Gas is engaged in the business of the sale and local distribution of natural gas in Windham, Maine, and has authority to sell and distribute gas in 34 other Maine cities and towns.

ACQUIRING ENTITY

8. Like CMP Group, Energy East is an exempt holding company under the Public Utility Holding Company Act of 1935, as amended ("PUHCA"). It was formed on May 1, 1998, through the exchange of all of the issued and outstanding common stock of New York State Electric & Gas Corporation ("NYSEG"), now its principal subsidiary, in connection with the restructuring of the electric utility industry in the State of New York. NYSEG is a combination electric and gas utility serving approximately 817,000 electric and 243,000 gas customers in upstate New York. All of NYSEG's common stock is owned by Energy East. Like CMP, NYSEG has divested substantially all of its generating assets. NYSEG is now

predominantly engaged in the transmission and distribution of electricity and the distribution of natural gas.

9. Another subsidiary of Energy East, Energy East Enterprises, Inc. ("EE Enterprises"), owns gas interests in Vermont, New Hampshire and, through its interest in CMP Natural Gas, in Maine. EE Merger Corp., another wholly-owned subsidiary of Energy East, exists solely as a means to consummate the merger under Maine law. After it merges with and into CMP Group, EE Merger Corp. will cease to exist.

10. Energy East recently announced that it has entered into an agreement, subject to regulatory approval, to acquire Connecticut Energy Corporation, a public utility holding company that owns The Southern Connecticut Gas Company, a local gas distribution company serving approximately 160,000 customers in Connecticut. It is contemplated that Connecticut Energy will become a directly owned subsidiary of Energy East. On June 30, 1999, Energy East also announced a proposed merger with CTG Resources, Inc. of Connecticut, the parent company of Connecticut Natural Gas Corporation and The Energy Network, Inc. Connecticut Natural Gas sells and distributes natural gas to approximately 142,000 customers principally in greater Hartford and Greenwich, Connecticut, and The Energy Network provides energy-related products and services, including providing through a subsidiary steam and chilled water to buildings in Hartford. It is intended that CTG Resources will become a wholly owned subsidiary of Energy East. A proposed organizational chart showing the structure of Energy East assuming consummation of the merger is attached as Appendix 3.

DESCRIPTION OF THE MERGER AGREEMENT

11. The Merger Agreement addresses the following matters.[3]

a. Article I specifies the process by which an Energy East subsidiary (EE Merger Corp.) will merge with and into CMP Group.

In essence, promptly upon receipt of all regulatory approvals, CMP Group will become a 100 percent-owned subsidiary of Energy East. The Merger Agreement requires no other changes in the ownership or organization of the companies in the CMP Group system; except as discussed below with respect to New England Gas and CMP Natural Gas, CMP Group will continue to own CMP and its other subsidiaries as it does currently.

b. Article II deals primarily with the consideration for the merger, which is $29.50 per share of CMP Group common stock (for a total of approximately $957 million), and the mechanics of exchanging CMP Group shares for that consideration. It also provides for the termination of outstanding stock options, with holders receiving consideration based on the difference between $29.50 and the options' exercise prices.

c. Article III specifies the time and place of closing, following receipt of regulatory approvals and satisfaction of other conditions enumerated in Article VII, discussed below.

d. Article IV contains representations and warranties made by CMP Group. These are essentially standard provisions in corporate mergers and, with respect to CMP Group and its direct and indirect majority-owned subsidiaries, address such issues as

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[3] Petitioners offer what follows as a guide to sections of the Merger Agreement. This description is not intended in any way to alter or interpret the Merger Agreement itself, which is attached as Appendix 1.

organization and qualification to do business; capitalization; authority to enter into the Merger Agreement; compliance with corporate governance documents, laws and material agreements; required approvals; accuracy of reports filed with the Securities and Exchange Commission ("SEC") and of financial statements; absence of extraordinary business events; litigation; tax matters; employment and benefits matters; environmental matters; PUHCA regulation; matters relating to the special meeting of shareholders for approval of the merger; the fairness opinion of CMP Group's financial advisors; and Year 2000 issues. The Article also incorporates separate schedules, in which CMP Group enumerates those matters of which it is aware that could constitute risks to its value, such as threatened litigation or possible environmental remediation obligations.

e. Article V specifies Energy East's representations and warranties. Because CMP Group shareholders are not receiving stock of Energy East as consideration, the need for representations and warranties relating to risks to Energy East's future operations is narrow, and matters addressed in this Article are principally focused on Energy East's likely ability to close the transaction.

f. Article VI addresses covenants of the parties concerning their conduct both in the period leading up to consummation of the merger and, to some extent, thereafter. The covenants are designed to:

- Ensure that CMP Group does not engage in conduct (e.g., incurring significant new indebtedness, making acquisitions or dispositions of assets) which could materially diminish its potential value
- Enable the CMP Group Board of Directors to balance its obligation to seek in good faith to consummate the merger with Energy East with its fiduciary duty to CMP Group shareholders to consider subsequent merger proposals which might be more favorable to them than the Energy East merger

- Encourage cooperation and diligence in meeting disclosure and regulatory requirements
- Ensure that CMP Group moves promptly in securing shareholder approval of the merger
- Ensure continued effectiveness of existing CMP Group collective bargaining agreements
- Recognize the right of employees of CMP Group and its subsidiaries to participate in Energy East benefit plans upon consummation of the merger, with full credit for length of their employment with CMP Group and its subsidiaries
- Provide for continued maintenance of CMP's corporate headquarters in Augusta, Maine, and the establishment of an Energy East corporate office in Portland, Maine
- Provide for the President and CEO of CMP Group and two other current CMP Group Board members to become members of the Energy East Board
- Acknowledge employment agreements between Energy East and three senior CMP Group executives and one senior CMP executive who will continue their employment in the capacities described in Article VI[4]
- Provide for the current CMP Board to continue in existence as an Advisory Board for CMP, and
- Ensure that Energy East continues CMP's commitment to charitable and community activities at least at current levels.

g. Article VII specifies the conditions to the parties' obligations to consummate the merger. Conditions include receipt of CMP Group shareholder approval and regulatory approvals, and the absence of a court or regulatory order prohibiting the merger. Regulatory orders must not include any "terms or conditions which, in the aggregate, would have, or insofar as reasonably can be foreseen, could have" a material adverse effect. A material adverse effect is defined, in the case of CMP Group, to be "a material adverse effect on the business, properties, condition (financial or otherwise) or results of operations of the

[4] David T. Flanagan, Arthur W. Adelberg, F. Michael McClain of CMP Group and Sara J. Burns of CMP.

Company and its subsidiaries taken as a whole c:: on the consummation of [the] Agreement." (Merger Agreement, § 4.1.) The parties must also have honored their representations, warranties and covenants.

h. Article VIII addresses termination, amendment and waivers. Termination is permitted for material, uncured breaches of representations, warranties and covenants. Termination by CMP Group is also permitted if CMP Group, while honoring its obligations under the Merger Agreement (including the obligation not to solicit competing merger proposals), nonetheless receives a superior merger offer which Energy East declines to improve on. Article VIII also permits termination by either party if non-regulatory conditions of the Merger Agreement are not satisfied within 12 months, or if regulatory conditions are not satisfied within 18 months.

Article VIII additionally provides for damages and other payments for various kinds of breaches and terminations. In general, for a non-willful breach (such as an unintentional inability to honor a warranty), the party in breach must pay the other party up to $10 million for its actual out-of-pocket expenses; if the breach is willful, the non-breaching party may also avail itself of other legal remedies. If the termination results from CMP Group having received a superior, competing merger offer, Energy East is entitled to a "break-up fee" of $33.5 million, which equates to 3.5% percent of the total consideration for the merger.

i. Article IX, the final section, contains miscellaneous provisions addressing contract execution, forms of notice, and dispute resolution procedures.

REORGANIZATION CONDITIONS

12. By Order dated May 1, 1998, in Docket No. 97-930 (Central Maine Power Company, Application for Approvals of Reorganizations under Section 708), the Commission approved the formation of CMP Group as a holding company over CMP, subject to specified conditions to protect the interests of ratepayers. In addition, in its Order in Docket No. 98-077, also issued on May 1, 1998, the Commission approved the creation of entities within the holding company group to participate in the natural gas distribution business in Maine, subject to certain conditions.

13. Petitioners believe that it is appropriate to eliminate certain conditions established in Docket Nos. 97-930 and 98-077 in this proceeding, as follows:

a. Investment Level in Non-Utility Businesses. The limit of $240 million on investments by CMP Group in non-utility subsidiaries and other non-utility activities, other than subsidiaries created to participate in the natural gas distribution business, established in Docket No. 97-930, should be eliminated.

In its May 1, 1998 Order in Docket No. 97-930, the Commission stated:

> We find that a basic advantage of the holding company organizational structure is that non-utility activities can be more cleanly separated from utility activities. In particular, the capital structures of utility entities are separated from non-utility entities with the holding company form, which better 'insulates' ratepayers from the activities of the HoldCo's non-utility affiliates. Nevertheless, some limit on HoldCo's investment in non-utility activities may provide useful additional protection for utility ratepayers. As the testimony of Dr. Bower suggested, it is prudent to limit, at least to some degree, the extent to which HoldCo management will be distracted from its obligations to CMP by issues arising from its unregulated activities.

Docket No. 97-930, Order at 4 (May 1, 1998).

In the proposed merger, Energy East will become the parent holding company of CMP Group. The non-utility and utility businesses of Energy East, including the CMP Group system companies, will continue to be operated in separate entities, each with its own management and board of directors. The CMP management team will remain essentially intact after the merger is consummated. In addition, David Flanagan will serve as a board member and President of Energy East and Chairman of the Board and Chief Executive Officer of CMP Group. CMP's President, Sara J. Burns, will report directly to Mr. Flanagan. Further, two outside directors on CMP's existing Board of Directors will serve as directors of Energy East and, along with other existing CMP Board members, will also continue to serve as members of the advisory board of CMP. This continuity of management will promote an identity of interest that will continue to ensure the protection of ratepayer interests. Moreover, the merger of CMP Group and Energy East will permit CMP access to the management resources available from Energy East, a company with significant success in the delivery of electric and natural gas products and services.

Energy East's significantly larger size as compared to CMP Group, both in terms of assets and revenues, does not warrant the imposition of an investment limit. In its Form 10-Q for the quarter ended March 31, 1999, filed with the SEC, Energy East reported total assets of $5.7 billion as compared to total assets of $2.2 billion reported by CMP Group for the first quarter of 1999, and total revenues of $654.4 million as compared to $276.6 million of total revenues reported by CMP Group for the same period. In its January 27, 1998 Order approving the holding company restructuring of NYSEG, the New York Public Service Commission did not impose any limitation on investment by Energy East in non-utility or utility businesses or other activities.

Another key factor also ensures that ratepayers will be protected. Energy East has noted that it shares with CMP Group a common vision for the future in that both companies have chosen to focus on their core competencies of distributing electricity and natural gas. Of the $654.4 million of total revenues reported by Energy East for the three months ended March 31, 1999, NYSEG's electric revenues contributed $415.3 million of that amount and gas revenues contributed an additional $135.4 million, for a total of $ 50.7 million, or 84 percent. For CMP Group, CMP contributed $270.6 million of the $276.6 million of revenues reported for that quarter, or over 97 percent of revenues for the period. The significance of these utility businesses for Energy East and CMP Group is obvious from this financial information. As CMP stated in its Petition filed with the Commission on December 8, 1997 in Docket No. 97-930:

> Following the reorganization, the Company's core utility business will continue to be the principal business focus of the combined enterprise and of efforts to operate a financially sound and growing business whose objective will be to provide service effectively and efficiently. Maintenance and improvement in the quality of the Company's service will continue to be top priorities. From a business standpoint, the focus must remain on CMP's business reputation as a predominant component of the entire corporate group. In addition, the overwhelming portion of invested capital will continue to be invested in assets in CMP's service area dedicated to providing service to its Maine customers. The Company will not compromise its ability to perform its public service obligation or its relationship with regulators or risk invested capital by retaining insufficient talent or resources to manage those assets effectively and efficiently.

Docket No. 97-930, Petition at 4 (Dec. 8, 1997). Both CMP Group and Energy East reaffirmed their commitment to their core businesses in announcing the proposed merger.

In addition, both CMP Group and Energy East have a proven track record in serving their customers and have pledged continued superior service to all utility customers.

Finally, the Commission should remove the investment limitation because, if CMP Group is limited in terms of what it can invest in subsidiaries, it will compromise Energy East's ability to invest in Maine generally since this can best be accomplished through CMP Group.

b. Investment Level in and Reorganization of CMP Natural Gas. In its Order in Docket No. 98-077, in which the Commission approved the creation of entities to participate in the natural gas distribution business in Maine, the Commission addressed the level of investment in CMP Natural Gas, a Maine public utility. In that proceeding, the Commission adopted CMP's proposed initial investment of $10 million in the natural gas distribution business but directed CMP to seek approval for any additional investment.[5] Petitioners believe that any investment limit should be eliminated in this proceeding.

CMP Natural Gas is a Maine limited liability company in which New England Gas and EE Enterprises hold membership interests under a joint venture agreement approved by the Commission in Docket No. 98-077. As a result of the merger, Energy East will hold all interests in CMP Natural Gas. For this reason, Energy East and CMP Group have agreed, subject to Commission and any other necessary regulatory approvals, to dissolve New England Gas (whose only asset is its membership interest in CMP Natural Gas), terminate the joint venture agreement, terminate the limited liability company form of organization for CMP Natural Gas, and

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[5] In its Order in Docket No. 98-077, the Commission stated as follows:

> The major provision of the Joint Agreement that we must consider . . .provide[s] that the initial capital contribution of each member will be $10 million. CMP requests that the Commission authorize its GasCo subsidiary to invest $10 million in the limited liability company. No party disputes this $10 million investment. We find that the investment of $10 million by HoldCo in GasCo is reasonable.

Docket No. 98-077, Order at 8 (May 1, 1998).

simultaneously re-establish CMP Natural Gas as a wholly-owned corporate public utility subsidiary of EE Enterprises. Approval is sought in this proceeding under 35-A M.R.S.A. § 708 for this reorganization of CMP Natural Gas. Approval is also sought in this proceeding for the assignment to the reorganized CMP Natural Gas of services agreements between CMP Natural Gas and various affiliated entities that may be approved by the Commission in Docket No. 99-397.

As an EE Enterprises subsidiary, CMP Natural Gas will retain its name (without the "L.L.C." reference) and will continue pursuing the development of a natural gas distribution business in the Maine cities and towns in which it was authorized to do business in the Commission's August 17, 1998 Order in Docket No. 96-786. As the testimony showed in that Docket, the planned construction of the natural gas distribution system by CMP Natural Gas is expected to cost approximately $100-135 million over the anticipated six-year build-out of the system, with a planned financing of project costs through equal amounts of debt and equity. To provide sufficient funds for this project, which is part of Energy East's and CMP Group's focus on energy delivery businesses, and for the additional reasons relating to investment level by CMP Group discussed above, Petitioners believe that the Commission should remove the $10 million investment limitation and permit equity investment in CMP Natural Gas to be made by Energy East and/or EE Enterprises as business needs dictate, consistent with sound investment policy.

c. CMP Natural Gas Name. CMP Natural Gas is required to pay royalties for use of the CMP name under the terms of a Stipulation approved by the Commission in Docket No. 98-077 on June 10, 1998. The royalty payment is based on the presumption set forth in the Commission's Chapter 820 Rules that the value of the use of a utility's goodwill, including its name, is the lesser of one percent of the total capitalization of CMP Natural Gas or two percent of its gross revenues. Legislation signed into law on May 12, 1999, which will become effective on

September 18, 1999, eliminates this presumption for use of goodwill by regulated affiliates of CMP, such as CMP Natural Gas. Petitioners believe that the terms of the existing Stipulation should be set aside and CMP Natural Gas should no longer be required to make royalty payments in light of the amended law and the more remote connection to CMP under the proposed new structure.

d. Issuance of Debt. In its Order in Docket No. 97-930, the Commission accepted a condition that CMP Group be permitted to issue debt, whether long-term or short-term debt, in an amount up to 50 percent of total capitalization. This limitation should be eliminated in this proceeding. At the time the merger becomes effective, the capitalization of CMP Group will change substantially. Currently, CMP Group's capitalization consists of 32,442,552 shares of common stock, $5.00 par value, for a total equity capitalization of $162,21.,760. The Merger Agreement provides that shares of common stock of CMP Group after the merger will have a par value of $.01 per share. Although the number of issued and outstanding shares of CMP Group com. non stock after the merger is as yet undetermined, since CMP Group will be wholly owned by Energy East, and its common stock will not share voting power with any other class of stock, there will be no need to have a large number of issued and outstanding shares of CMP Group common stock. For this reason, the limitation on debt issuances established in Docket No. 97-930 will no longer be appropriate when the merger becomes effective and, therefore, should be eliminated.

Certain other conditions on CMP's holding company restructuring in the Commission's Order in Docket No. 97-930 will continue to provide protection for ratepayers. These conditions state:

> h. Utilities Securities Issuance. Securities issued by the Company [i.e., CMP] will be done independently of HoldCo. The proceeds of any securities issued by the

Company will be used exclusively by the Company for its business.

* * *

r. Financial Integrity of T&D Co. To protect and maintain the financial integrity of the regulated T&D Company:

* * *

(ii) . . . the debt of the Company will be raised by CMP and will not be derived from HoldCo.

(iii) The T&D Co. will not make loans to HoldCo or any of the unregulated subsidiaries and affiliates; guarantee the obligations of either the HoldCo or any or [sic] the unregulated subsidiaries and affiliates; or pledge its assets as security for the indebtedness of HoldCo or any subsidiary or affiliate.

Docket No. 97-930, Order at 13, 15 (May 1, 1998). Considering these ratepayer protections, Energy East's financial strength, and the express intention of CMP Group and Energy East to focus on energy delivery businesses, no limitation on debt issuances should be imposed in this proceeding. Rather, the issuance of debt by the holding companies should be guided by the sound financial policy of the companies.

e. SEC Filings. The Order in Docket No. 97-930 requires CMP Group to provide copies of periodic reports filed with the SEC to the Commission. As previously noted, at the time of the effective date of the merger, all of the issued and outstanding common stock of CMP Group will be held by Energy East, and the common stock of CMP Group that is currently registered with the SEC and listed on the New York Stock Exchange will be deregistered and delisted, respectively. At that time, CMP Group will no longer file reports with the SEC. As a publicly held company, Energy East will continue to file SEC reports, which will be publicly available. In addition, for as long as the 6% Preferred Stock of

CMP remains registered with the SEC, CMP will also continue to file periodic reports with the SEC, which will also be publicly available.

14. In the event the SEC, whose approval of the merger is also necessary, does not permit Energy East to maintain CMP Group as an intermediate holding company under provisions of PUHCA, Energy East would hold CMP and other CMP Group subsidiaries directly. This Petition also includes a request for approval of this potential organizational structure under Section 708 of Title 35-A M.R.S.A. This structure would not result in any changes to the management and Advisory Board of CMP previously described. Because Energy East is committed to the core electricity and gas delivery businesses and to excellent customer service, there would be no detriment to CMP ratepayers if this structure became necessary as a result of SEC action.

15. In assessing business needs and appropriate means to pursue business interests at some time after the merger is consummated, Energy East and CMP Group may determine that a merger, consolidation, spin-off or other form of reorganization of one or more existing non-utility subsidiaries or other non-utility affiliates is appropriate. Likewise, to respond effectively to business opportunities that may present themselves and to enhance the ability to develop, market and furnish services, a non-utility subsidiary or other non-utility affiliate of Energy East and CMP Group may explore opportunities for appropriate affiliations with one or more firms providing similar or complementary services in the targeted markets. While such affiliations may be in the nature of contracts or subcontracts, the non-utility subsidiary or affiliate should have the option of entering into one or more joint ventures, general partnerships, limited partnerships, membership interests in limited liability companies, or other affiliations (including without limitation stock ownership in corporations) with one or more

such entities. For these reasons, this Petition also encompasses a request under Section 708 for approval of one or more such forms of reorganization through one or more means.

REGULATORY APPROVALS

16. In addition to the approval sought in this Petition, the merger is subject to the following regulatory approvals:

a. Securities and Exchange Commission ("SEC"). The merger requires the approval of the SEC under Section 9(a)(2) of PUHCA. That Section prohibits the acquisition of five percent or more of the securities of a public utility by any person or entity that already owns at least five percent of the securities of another public utility and also prohibits the acquisition of five percent or more of two public utilities unless the SEC has approved the acquisition. Because Energy East already has at least one public utility subsidiary, SEC approval of its acquisition of CMP and its public utility affiliates (through the acquisition of CMP Group) is required. Energy East acknowledges in the Merger Agreement that it will be required to change its status under PUHCA from that of an "exempt holding company" to a "registered holding company." This will subject Energy East to PUHCA restrictions on its capital structure, affiliate transactions, and business activities. In addition, in seeking approval under PUHCA Section 9(a)(2), Energy East will be required to meet the requirements of Sections 10 and 11 of PUHCA relating to integration of operations under a holding company and corporate simplification. Uncertainty as to the SEC's timetable for acting is a major reason for the provision in Section 8.1(b) of the Merger Agreement allowing up to 18 months for regulatory approvals.

b. Federal Energy Regulatory Commission ("FERC"). The merger must be approved under Section 203 of the Federal Power Act. Section 203 requires approval of the

FERC for the disposition or merger of jurisdictional facilities, which include facilities used in interstate commerce, such as CMP's transmission facilities.

c. Nuclear Regulatory Commission ("NRC"). Under Section 184 of the Atomic Energy Act and 10 C.F.R. § 50.80, the NRC must consent to transfers of control of nuclear assets.

d. Federal Trade Commission ("FTC"). Under the Hart-Scott-Rodino Act, 15 U.S.C. § 18a, the FTC must approve all mergers above certain size thresholds (e.g., acquisitions of assets exceeding $10,000,000 by an entity having assets exceeding $100,000,000), which are easily met in this case.

e. Department of Justice-Antitrust Division ("DOJ"). The same filing that is made with the FTC must also be made with the DOJ's Antitrust Division, which reviews the filing to determine whether there are any anti-competitive effects of the merger.

f. Connecticut Department of Public Utility Control. Connecticut requires approval of the merger because under Connecticut law, CMP is a "public service company" as a result of its 2.5 percent Millstone Unit No. 3 ownership interest.

g. Federal Communications Commission ("FCC"). FCC approval is required due to CMP's ownership of microwave facilities.

SHAREHOLDER APPROVAL

17. The merger is subject to approval by CMP Group shareholders, but not by Energy East shareholders. CMP Group must first obtain SEC clearance for issuance of a proxy statement. Based on the time needed to prepare the proxy materials, the SEC's customary review process, and notice requirements for the special meeting of shareholders,

CMP Group expects to put the matter before its shareholders for a vote in September or October, 1999.

LEGAL STANDARD

18. The Commission's standard for approval under both Sections 707 and 708 is similar: the transaction or reorganization at issue must not be adverse to the public interest. *See* 35-A M.R.S. § 707 (3) (approval requires finding that transaction "not adverse to public interest") and § 708 (2)(A) & (2)(A)(9) (noting that any necessary conditions must ensure, among other things, that "neither ratepayers nor investors are adversely affected").

19. The Commission's primary focus here is on Section 708, which requires determination that the merger is "consistent with the interests of the utility's ratepayers and investors." 35-A M.R.S.A. § 708(2). The Commission has consistently applied this standard by balancing the total benefits that will be achieved by the merger against the potential detriments or risks. *See, e.g., Public Utilities Comm'n*, Investigation of Maine Public Service Co., Docket No. 85-92, Decision at 3 (May 15, 1986) (noting "detriments advanced by merger opponents either are not cause for concern or are outweighed by the benefits"), *rev'd on other grounds sub nom. Maine Pub. Serv. Co. v. Public Utilities Comm'n*, 524 A.2d 1222 (Me. 1987); *Greenville Water Co., Millinocket Water Co. & Skowhegan Water Co.*, Application for Authorization to Sell Utility Property, Docket No. 92-259, Order Approving Stipulation at 2-3 (Dec. 15, 1992) (noting net benefits to customers of merger); *New England Tel. & Tel. Co. and NYNEX Corp.*, Proposed Joint Petition for Reorganization Intended to Effect the Merger with Bell Atlantic Corporation, Docket No. 96-388, Order (Part II) at 10 (Feb. 6, 1997) ("*NYNEX Part II Order*") ("the merger should be approved if the total benefits flowing from the merger are equal to or greater than the detriment or risk caused for both

ratepayers and shareholders"). This is a "no net harm" test – that is, the merger should be approved if, on balance, ratepayers and shareholders will not be harmed. *NYNEX Part II Order* at 11 ("we must determine whether these benefits at least equal the detriments of the merger, *i.e.*, that ratepayers and shareholders will not be harmed").

a. Shareholders. The Commission can satisfy itself that investor interests are being addressed simply by following the outcome of the shareholder vote. *Cf. Northern Utilities, Inc.*, Order Approving Request for Approval of Reorganization – Merger with NIPSCO Stipulation and Merger Industries, Docket No. 98-216 at 1 (June 12, 1998) (noting approval by a majority of common shareholders). In addition, because CMP shareholders are not receiving Energy East stock in exchange for their shares, but are receiving cash, there is no risk associated with ownership in another entity. (Merger Agreement, Article II.)

b. Ratepayers. The Commission's focus with regard to customers is whether the rates and services they will receive will be adversely affected by the merger. *See NYNEX Part II Order* at 10. In the largest merger proceeding before the Commission to date – the NYNEX/ GTE Atlantic merger case – the Commission applied these principles to find that, despite upfront merger costs that would likely exceed merger savings for the first several years and despite allegations concerning the anticompetitive effects of the merger, telephone ratepayers would nonetheless likely receive benefits because: (1) the new corporate structure would position NYNEX to respond to competition with rate reductions; (2) the Commission would be able to examine actual cost savings at the five-year review of NYNEX's alternative rate plan; and (3) the Commission could then impute any savings that did not materialize into

rates, due to its reliance on such claimed savings to approve the merger. *NYNEX Part II Order* at 13. Hence, the Commission approved the merger because the likely benefits from the new corporate structure outweighed the speculative detriments of unrealized savings or anticompetitive effects, and because the Commission would be presented with future opportunities to address the flow-through of any cost impacts to ratepayers.

20. Like Section 708, the Commission's primary consideration under Section 707 is that ratepayers are not harmed by a utility's transactions with affiliates. Indeed, one of the considerations guiding the Commission's approval under Section 708 is the ability of the Commission to review affiliated transactions arising from a reorganization. 35-A M.R.S.A. § 708 (2)(A)(2). In the context of a merger approval, the Commission will focus on the protection of utility ratepayers from potential subsidization of or risks associated with a utility's involvement with a new entity. *Cf. Robert D. Cochrane et. al. v. Bangor Hydro Electric*, Request for Commission Investigation Into Bangor Hydro-Electric Company's Practice of Installing or Monitoring Security Alarm Systems, Order at 4, Docket No. 96-053 (Jan. 28, 1997) ("primary focus of [Section 707] investigation [is] on establishing the proper procedure to ensure that utility ratepayers are insulated from any financial risks"). The Commission has indicated that the "most effective way" to reach the goal of protecting ratepayers under Section 707 is to require utilities to conduct activities with the affiliated interest as a separate subsidiary. *Id.* Here, as described in Paragraph 10 of this Petition, the Commission has already approved the corporate structure of CMP Group in Docket No. 97-930. Section 707's goal of separateness is thus achieved by the very terms of the merger, and

the Commission retains the ability to assure that costs associated with the transaction are properly allocated.

REASONS TO GRANT THE PETITION

21. The proposed merger should be approved under Sections 707 and 708 because the interests of ratepayers and investors will not be adversely affected. To the contrary, the merger ensures the continuation of safe and reliable service by a larger organization well established in the energy business. Furthermore, Energy East's experience with open access and competitive markets will facilitate the implementation of retail access and the expansion of natural gas in the State and will encourage economic development.

22. As in the *NYNEX* case, the Commission will have a future opportunity to explore rate issues arising from the merger in any post-ARP rate proceeding, and thus need not perform that inquiry as part of this proceeding. CMP has committed to a 10% rate reduction for customers as of March 1, 2000, and that commitment remains unchanged by the merger.

23. Other terms of the merger that help ensure continuity of quality management and customer service include: (1) the planned retention of the existing CMP Group holding company entity, with David Flanagan remaining CEO and Arthur Adelberg serving on its Board; (2) retention of the current CMP Board of Directors as an Advisory Board to CMP; (3) inclusion of David Flanagan and two other current CMP Group directors as members of the Energy East Board; (4) the appointment of David Flanagan as President and Arthur Adelberg as Senior Vice President and Chief Financial Officer of Energy East, with both individuals remaining based in Maine; (5) the retention of Sara Burns as President of CMP, reporting to David Flanagan; (6) the retention of CMP's headquarters in Augusta, Maine;

(7) Energy East's commitment to preserve CMP's charitable and community involvement at least at current levels; (8) similarity of Energy East and CMP Group strategi directions and policies, particularly the focus on core energy delivery businesses, and customer service, generation divestiture and retail access matters and (9) the compatibility of Energy East and CMP Group management, demonstrated through CMP Group's association with Energy East as a co-venturer in CMP Natural Gas. Energy East's commitment to Maine is also reflected in its track record of investing (with CMP Group) in development of local gas distribution in Maine and its decision to open a corporate office in Portland upon consummation of the merger.

RELIEF REQUESTED

WHEREFORE, for the above-stated reasons, Petitioners respectfully request that the Commission:

(1) Expedite consideration of the Petition to assure receipt of regulatory approval on or before December 31, 1999;

(2) Approve the proposed reorganizations under 35-A M.R.S.A. §§ 707 and 708, and such other provisions in Title 35-A that might be applicable, consistent with the public interest;

(3) As part of its approval, remove certain conditions established in Docket Nos. 97-930 and 98-077, including royalty payments and restrictions on investment and debt issuances as more particularly described in this Petition; and

(4) Grant such other relief as it deems appropriate.

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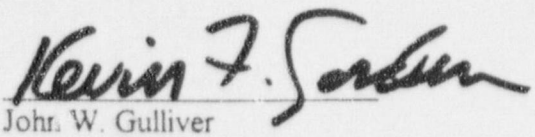

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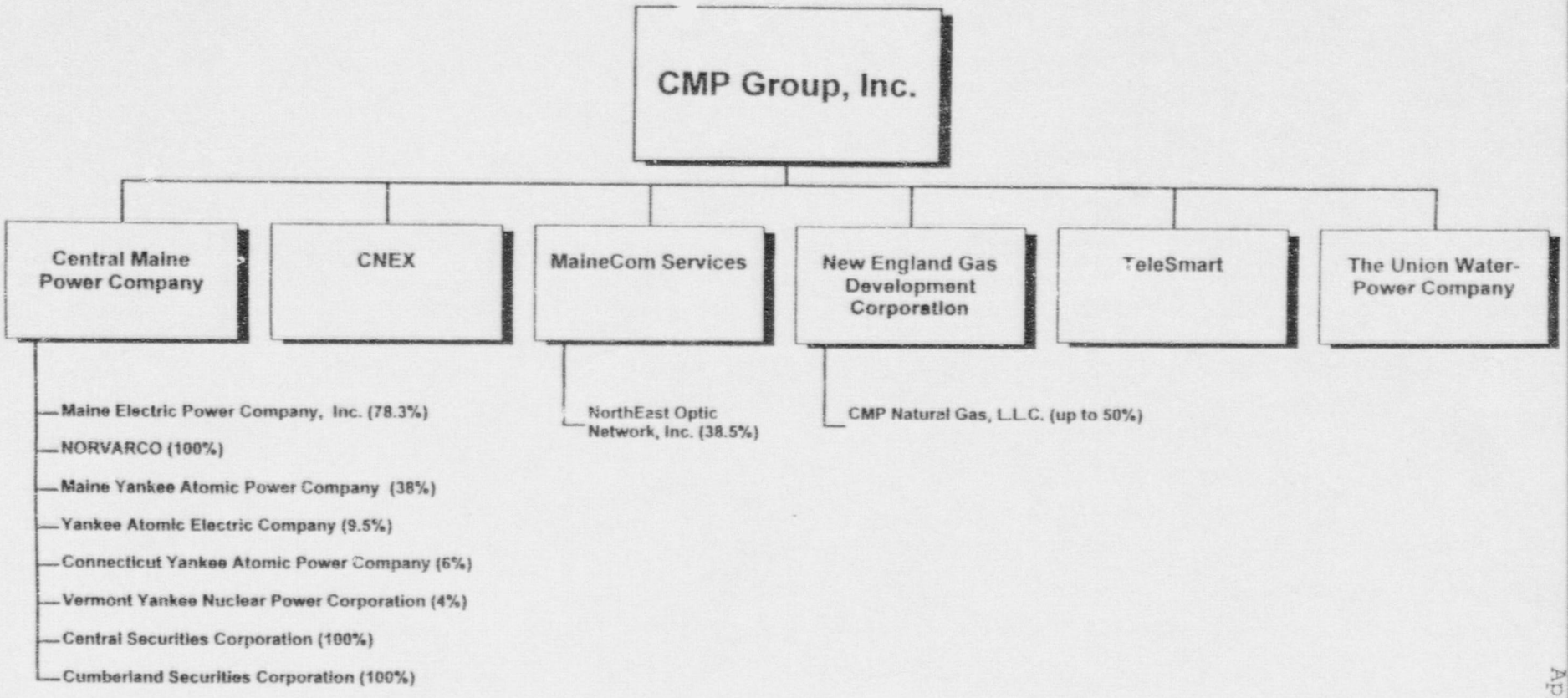
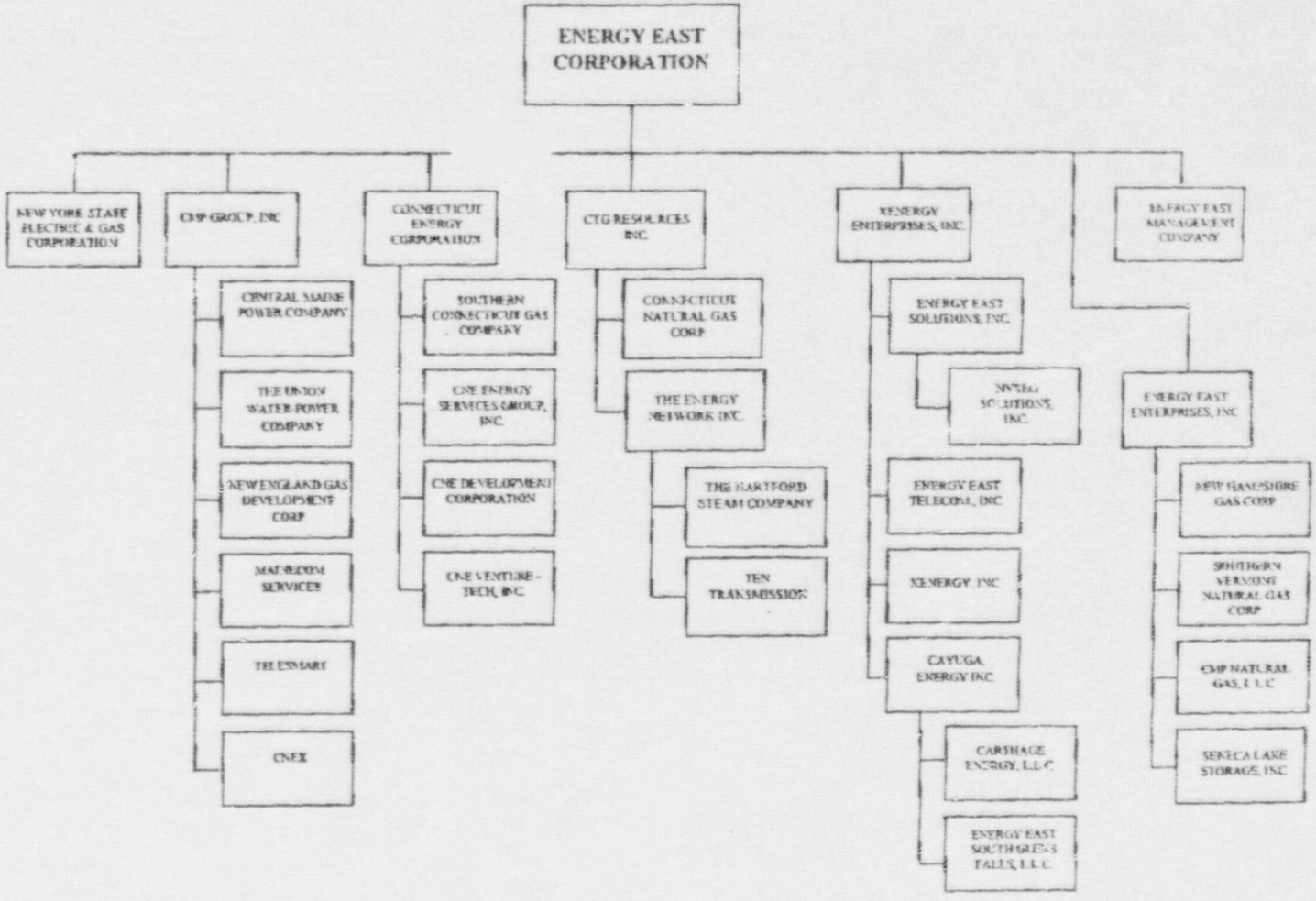
Holding Company Organization

Effective Date: April 7, 1999



Appendix 2

Proposed Energy East Corporate Structure



Petition 7/1/99
Appendix 3

PREFILED DIRECT TESTIMONY OF ARTHUR W. ADELBERG

Q. Please state your name and title.

A. I am Arthur W. Adelberg, Executive Vice President, CMP Group, Inc.

Q. What is your background?

A. I have a BA from Yale University and a JD from the University of North Carolina School of Law. I served four years as a General Attorney in the Office of General Counsel at the U.S. Federal Trade Commission in Washington, D.C., and thereafter was an associate and subsequently a partner at the Washington office of Pepper Hamilton & Scheetz. In 1985, I joined Central Maine Power Company (CMP) as General Counsel, and thereafter was promoted to a variety of senior management positions including, most recently, Executive Vice President. In 1998, I became Executive Vice President of CMP Group, Inc., parent company of CMP, and relinquished my title as an officer of the utility. I also serve as a board member of various other CMP Group subsidiaries.

Q. What are the purposes of your testimony?

A. The purposes of my testimony are: to explain CMP Group's reasons for agreeing to merge with Energy East; to review briefly the terms of the merger; to describe the approvals we believe are necessary to consummate the merger; and to explain why CMP Group believes the merger meets the criteria for approval by this Commission.

A complete copy of the Agreement and Plan of Merger by and among CMP Group, Inc., Energy East Corporation and EE Merger Corp., dated as of June 14, 1999 (the "Merger Agreement"), is attached to the Petition as Appendix 1.

Q. Please summarize your conclusions.

A. First, as reflected in the Merger Agreement, the merger is structured as an outright purchase of stock owned by CMP Group shareholders. Even considering the size of the transaction, this is a relatively simple and straightforward arrangement.

Moreover, the merger will have no anticompetitive effects. The electric utility industry is undergoing an historic transformation, with the introduction of competition and the break-up of vertically integrated monopoly service providers. As explained more fully in the testimony of Dr. Kenneth Gordon, Senior Vice President of National Economic Research Associates, Inc. ("NERA") and former Chairman of the Maine Public Utilities Commission, that transformation has triggered a wave of vertical divestitures and horizontal consolidations, as utilities strive to reconfigure their operations and assets in response to emerging market forces. Regulators are commonly approving (and sometimes even encouraging or requiring) these structural changes. CMP Group's proposed merger is fully in keeping with this trend and should advance the State's interest in seeing that its largest electric utility (as well as a competitive natural gas company – CMP Natural Gas, L.L.C.) is financially sound and able to continue offering reliable service at just and reasonable rates. Several of the terms of the merger are designed to ensure that the utility remains appropriately accountable and

responsive to State policy makers, and that the merger is consistent with the interests of the utilities' ratepayers and investors.

Q. Please describe Energy East Corporation.

A. Based in New York and Connecticut, Energy East is the parent company of New York State Electric & Gas Corporation ("NYSEG"), a combined electric and gas utility serving over one million customers in upstate New York. With total assets of $5.7 billion as of March 31, 1999, Energy East, through a subsidiary, is the co-owner, with a CMP Group subsidiary, of CMP Natural Gas, L.L.C., which received Commission authority to provide retail gas service in portions of Maine last year. Energy East recently announced agreements to acquire Connecticut Energy Corporation, parent of The Southern Connecticut Gas Company, and CTG Resources, Inc., parent of Connecticut Natural Gas Corporation. Energy East also has gas interests in New Hampshire and Vermont, as well as several unregulated subsidiaries. Like CMP Group, Energy East recently completed the divestiture of its fossil generating assets, and announced the sale of its share of the Nine Mile Point 2 nuclear plant. Retail customer choice of electricity and gas suppliers has already begun in its New York service territory. Energy East does not intend to be a competitive electric supplier in Maine.

Because of its involvement in CMP Natural Gas, Energy East is very familiar with Maine and with CMP. Members of its management have appeared before the Maine Legislature and at the Commission.

Q. Why did CMP Group agree to merge with Energy East?

A. CMP Group's Board of Directors has a legal obligation to act in the interests of the corporation and its shareholders, and in so acting may consider the effects of any action on customers, employees and suppliers of the business as well as communities in which the Company has offices or other establishments, and "all other pertinent factors." 13-A M.R.S.A. § 716. For a regulated utility, "pertinent factors" also encompass compliance with the requirements of Title 35-A, including the duty to provide reliable service at just and reasonable rates and otherwise to observe the State's energy policies.

When CMP Group was approached by Energy East earlier this year to discuss a possible merger, the Board determined that consideration of a merger was consistent with those obligations. The Board had been following merger activity in the industry and was concerned about CMP Group's ability to meet the expectations of all of its stakeholders as a stand-alone company. A merger could position CMP Group to regain some of the economies of scale lost with the sale of generating assets, enhance prospects for stable electric rates over the long term, diversify risk for investors, and improve employment opportunities. Familiarity with industry developments also indicated that a merger could be structured to ensure that the State's regulatory and policy interests would be fully addressed. On those bases, the Board directed management to engage in merger discussions with Energy East, and those discussions ultimately led to the merger agreement announced on June 15, 1999.

CMP Group was especially pleased with Energy East's interest in this merger because of Energy East's proven commitment to Maine, as evidenced by its participation in CMP Natural Gas, L.L.C. CMP Group believes that Energy East brings other important attributes to this transaction as well, including a management team that works smoothly with CMP Group management, a record of good regulatory relations in New York, experience in implementing retail access, a commitment to customer service and efficiency, and a willingness to maintain continuity of existing CMP management and corporate headquarters.

Q. Can you provide more detail about the particular attributes of Energy East that will help improve CMP's service to consumers?

A. Customers expect reliable electric and natural gas service, and Energy East (through NYSEG) has a proven reputation for superior customer service. Like CMP, NYSEG's customer satisfaction ratings exceed 90% for both reliability and service, and NYSEG received high marks from its State commission for its response during the 1998 ice storm which also devastated the Adirondack region in New York. NYSEG has an established record of top performance in such areas as call center performance, response to customer complaints, and participation in retail access. NYSEG has also aggressively expanded natural gas service in New York State through the addition of many new gas franchises during the 1990's.

Q. Please describe the principal terms of the proposed merger.

A. Under the Merger Agreement, each of CMP Group's 32,442,552 shares of common stock will be converted into the right to receive $29.50 in cash, for a total price of $957 million, subject to the approval of CMP Group shareholders and receipt of all required regulatory approvals. The transaction will be accounted for as a purchase. Energy East's duty to close is subject to the nonoccurrence prior to closing of a "Company Material Adverse Effect" (Merger Agreement § 7.2(d)), which is defined as "a material adverse effect on the business, properties, condition (financial or otherwise) or results of operations of the Company and its subsidiaries taken as a whole or on the consummation of this Agreement" (Merger Agreement § 4.1), and to regulatory approvals that do not include conditions that would create a material adverse effect.

The Merger Agreement includes representations and warranties by both parties as to the status of their businesses, required regulatory and shareholder approvals, and other matters that are customary in transactions of this nature. It also includes covenants by CMP Group essentially to conduct its operations consistent with past practices "in the ordinary course" in order to avoid actions that could substantially change its value to Energy East prior to closing. CMP Group is prohibited from soliciting or encouraging further merger offers, and is required to provide Energy East notice of, and an opportunity to respond to, any unsolicited offers that may come forward. In the event CMP Group were to accept another offer (after finding it to be superior to the terms of the Merger Agreement), CMP Group would be obligated to

pay Energy East a breakup fee of $33.5 million. There are also provisions for remedies in the event of willful or non-willful breaches of the Merger Agreement.

The parties' intention is that, upon closing, CMP Group will become a direct subsidiary of Energy East, but will otherwise maintain its current corporate structure, i.e., with CMP a direct subsidiary of CMP Group. In the event the Securities and Exchange Commission ("SEC"), whose approval of the merger is also necessary, does not permit Energy East to maintain CMP Group as an intermediate holding company under provisions of the Public Utility Holding Company Act of 1935, as amended ("PUHCA"), Energy East would hold CMP and other CMP Group subsidiaries directly. Energy East will be a registered holding company under PUHCA.

While the Merger Agreement does not require any changes in the organizational structure of CMP Group companies, the Petition also requests approval, under 35-A M.R.S.A. § 708, to reorganize CMP Natural Gas, L.L.C. so that it becomes a wholly owned subsidiary of an existing Energy East subsidiary that holds other natural gas companies.

Energy East will open an office in Portland, where David Flanagan, who will serve as Energy East's President, will have an office, and where I will also be based. CMP's headquarters will remain in Augusta.

Mr. Flanagan and two current outside Board members of CMP Group will be invited to join the Board of Energy East. The current CMP Board will stay on in an advisory capacity to CMP.

As President of Energy East, Mr. Flanagan will report directly to Wesley Von Schack, Chairman and CEO of Energy East. I will become Senior Vice President and Chief Financial Officer of Energy East. Ms. Burns will remain President of CMP.

Energy East and CMP Group intend to minimize the workforce effects of the merger by achieving any staff reductions primarily through attrition and hiring freezes. Over time, Energy East believes that there will be opportunities for synergies through consolidation of business activities in Maine, Connecticut or New York. Energy East also expects there will be opportunities to create new jobs in Maine, both in its regulated and non-regulated activities.

Q. Will the merger affect the structure of any other CMP Group companies?

A. Yes. CMP Group also requests approval, under 35-A M.R.S.A. § 708, for the reorganization of CMP Natural Gas, with CMP Natural Gas becoming a wholly-owned corporate subsidiary of Energy East Enterprises (a wholly owned subsidiary of Energy East Corporation). In addition, although no decisions have yet been made, CMP Group and Energy East may also merge, consolidate or spin-off certain non-regulated businesses if the parties determine that their business interests would be advanced by such consolidation. Finally, to pursue appropriate non-utility business opportunities,

CMP Group seeks approval for the creation of various forms of business organizations, such as joint ventures, limited liability companies, and equity interests in corporations.

Q. As part of the merger, does CMP Group seek any changes in previous Commission approvals?

A. Yes. When the Commission approved the formation of CMP Group as a holding company over CMP, it imposed certain conditions to protect the interests of ratepayers. As a result of the merger, several of those conditions will no longer be necessary to protect ratepayer interests. In particular, certain investment limitations and debt issuance restrictions are no longer required, due, in part, to the larger size and corresponding financial strength of Energy East.

For example, in Docket No. 97-930, the Commission imposed limits on investments by CMP Group in non-utility subsidiaries and other non-utility activities. Similarly, in approving CMP's reorganization to form a natural gas subsidiary in Docket 98-077, the Commission accepted CMP's proposed $10 million investment but directed CMP to seek approval for any increased investment. These limitations will impede the ability of Energy East to invest capital in Maine through CMP Group, which would be the most efficient way to make such investments. Consequently, both of these conditions should be removed, and no investment limit imposed.

No investment limit is justified because ratepayers will remain adequately protected due to Energy East's significantly larger size as compared to CMP Group, both in terms of assets

and revenues. In its Form 10-Q for the quarter ended March 31, 1999, filed with the SEC, Energy East reported total assets of $5.7 billion as compared to total assets of $2.2 billion reported by CMP Group for the first quarter of 1999, and total revenues of $654.4 million as compared to $276.6 million of revenues reported by CMP Group for the same period. In its January 27, 1998 Order approving the holding company restructuring of NYSEG, the New York Public Service Commission did not impose any limitation on investment by Energy East in non-utility or utility businesses or other activities.

Moreover, ratepayers will receive significant protection in the form of Energy East's proven experience in both the electricity and natural gas delivery businesses. Energy East and CMP Group have a proven track record of serving their customers and have pledged continued superior service to all utility customers. The retention of key management personnel after the merger will also assure that Maine's interests remain safeguarded.

Q. Apart from this application, what other approvals do Energy East and CMP Group require to consummate this transaction?

A. To date we have identified the following approvals that are required:

- Approval of the Federal Energy Regulatory Commission under Section 203 of the Federal Power Act;
- SEC approval under Section 9 of PUHCA, which implicates other sections of PUHCA as well;
- NRC consent to the transfer of control of nuclear assets under Section 184 of the Atomic Energy Act and 10 C.F.R. Section 50.80;

- Federal Trade Commission approval under the Hart Scott Rodino Act;

- Connecticut Department of Public Utility Control approval under Section 16-43 of the Connecticut statutes;

- Department of Justice-Antitrust Division review to determine whether there are any anti-competitive effects of the merger;

- Approval of transfer of microwave facilities by the Federal Communications Commission; and

- Approval by shareholders of CMP Group (but not Energy East).

Under the terms of its restructuring agreement with the State of New York, Energy East does not require state approval for this transaction.

Q. Why does CMP Group believe the Commission should approve this merger?

A. As a policy matter, a change in ownership of CMP Group – especially one as straightforward as this -- should not be of concern to the Commission so long as it is not likely to diminish the accountability of CMP to Maine's interests or cause a diminution in customer service. After all, ownership of CMP Group changes continually through transfers of stock ownership in the marketplace, without regulatory implications. In this case, Energy East has agreed to measures to maximize the likelihood that the change in ownership will be 'transparent' to the State and to Maine consumers, i.e., that CMP will continue to be managed as it has in the recent past.

In particular, CMP will remain intact as a corporation, without even a change of name; the basic composition of CMP's management will not change; CMP's existing Board

of Directors will continue to serve as an advisory board to management; CMP will continue to maintain its headquarters on Edison Drive in Augusta; and two of the three CMP Group holding company officers with principal responsibilities for utility policy will continue to be involved with CMP Group and remain based in-state. The third, Mr. Marsh, after 27 years of service, plans to retire when the transaction is consummated. Mr. Gerald Poulin, Vice President of Generation, whose primary responsibilities have related to supervision of generation facilities and activities, also plans to retire prior to or upon completion of the merger.

To the extent the merger offers the potential for another entity (Energy East) to have a say in the business of CMP, the consequences of that development are moderated by the fact that CMP Group CEO David Flanagan will become President of Energy East, and I will become Senior Vice President and CFO of that organization. In addition, two outside CMP Group Board members who will be appointed to the Energy East Board will also be on the CMP advisory board.

It is also noteworthy that Energy East and CMP Group have operated under very similar conditions and with very similar management approaches. Energy East's utility subsidiary, NYSEG, operates in a service territory and serves customers very similar to CMP, and has been subject to regulatory policies much like those in Maine. Both NYSEG and CMP have recently divested generation assets and are in the process of implementing retail choice. Both have a strong customer service commitment, and enjoy strong customer favorability ratings, and both have chosen the delivery business

rather than commodity sales as their core line of business. Energy East has one of the most successful retail choice programs in the country with over 22% participation. CMP customers and energy suppliers will benefit from this experience and Energy East's commitment to a competitive energy market.

Q. Will the merger have an adverse effect on Maine ratepayers?

A. No. The proposed merger does not involve a sale to a third party of assets that have historically been used to provide regulated electric service. Rather, it is only the ownership of CMP Group's stock that is changing. The transfer of stock ownership will not in any way deprive customers of the continued use of CMP facilities, nor threaten to diminish the quality of service they receive. In fact, customers will likely benefit over time from the greater efficiencies and expanded resources, both financial and human, which are likely to come about from the merger. Furthermore, CMP's commitment to a 10% rate reduction as of March 1, 2000, remains unchanged as a result of the merger.

Q. Does this conclude your testimony?

A. Yes.

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DIRECT TESTIMONY OF KENNETH GORDON

Filed on behalf of Central Maine Power Company

Docket No. 99-411

July 1, 1999

I. QUALIFICATIONS, SUMMARY AND CONCLUSIONS

Q1. PLEASE STATE YOUR NAME.

A. My name is Dr. Kenneth Gordon. I am a Senior Vice President of National Economic Research Associates, Inc. ("NERA"), One Main Street, Cambridge, MA 02142.

Q2. PLEASE STATE YOUR QUALIFICATIONS.

A. I am an economist and former Chairman of the Maine Public Utilities Commission ("Maine PUC" or the "Commission") and the Massachusetts Department of Public Utilities ("Mass. DPU").[1]

I have been an economist since 1965 and I have been directly involved with developing and establishing regulatory policy at the federal and state levels since 1980, when I became an industry economist at the Federal Communications Commission ("FCC").

I received my A.B. degree from Dartmouth College in 1960. I received my M.A. degree in 1963 and my Ph.D degree in 1972, both in economics, from the University of Chicago. I have taught applied microeconomics, industrial organization, and regulation (as well as other areas) at Georgetown University, Northwestern University, University of Massachusetts at Amherst, and Smith College.

From 1980 to 1988, I was an industry economist at the FCC's Office of Plans and Policy, where I worked on a full range of regulatory issues, including telecommunications, cable, broadcast, and intellectual property rights. At the FCC, a major focus of my work was on activities aimed at introducing competition into communications markets.

Prior to joining NERA in November, 1995, I chaired the Maine PUC (1988 to December 1992) and then the Mass. DPU (January 1993 to October 1995). During my term as chairman of the Mass. DPU, the DPU investigated and approved a price cap

[1] The Mass. DPU is now known as the Massachusetts Department of Telecommunications and Energy.

incentive regulation plan for NYNEX, and also undertook a proceeding to examine interconnection and other issues related to the development of competition at all levels of telecommunications, including basic local service.

While I was its Chairman, the Mass. DPU issued a series of orders aimed at the reform of electric rate regulation, including revisions to integrated resource management procedures, the introduction of incentive regulation, the treatment of acquisition premiums in mergers and acquisitions, and the design of electric industry restructuring in Massachusetts. I was very heavily involved in developing Massachusetts' plan to introduce competition in retail electric markets in that state, and the concurrent efforts to establish practical policies to address stranded costs and other transitional issues that arise in restructuring the electric utility industry.

While a regulator, I was active in the National Association of Regulatory Utility Commissioners ("NARUC"), serving on its Communications and Executive Committees. In 1992, I served as President of NARUC. I was also Chairman of the BellCore Advisory Committee and the New England Governor's Conference Power Planning Committee. While in Massachusetts, I co-chaired the Governor's task force on electricity competition.

Q3. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to explain why it is in the public interest to approve the acquisition of CMP Group, Inc. ("CMP Group"), the parent company of Central Maine Power Company ("CMP"), by Energy East Corporation ("Energy East"). CMP Group's proposed transaction with Energy East has the potential to provide economies of scale, scope, and learning that can provide benefits to buyers and sellers of electricity over time.

Q4 PLEASE EXPLAIN, MORE CONCRETELY, HOW THIS CONCLUSION APPLIES TO THE CMP GROUP/ENERGY EAST TRANSACTION.

A. CMP (and Energy East as well) is a relatively small energy company by national standards (and, indeed, has become even smaller as a result of its asset sale to Florida Power & Light Company). Compared to similar companies in terms of trailing 12-

month revenues,[2] for example, CMP was the 61st largest energy company while Energy East was the 36th largest (out of 87). When combined Energy East/CMP would be the 31st largest energy company (out of 86) in the country.[3]

The proposed transaction has the potential to create a combined, diversified company that can achieve economies of scale, scope, and learning that may allow it to compete more effectively in the deregulated energy marketplace and become a more viable and efficient provider of energy products and services, which could in turn produce benefits for Energy East consumers in Maine and in the greater Northeastern U.S. The acquisition of CMP Group by Energy East has the potential to create a combined firm that would be a more effective operator of energy delivery services, which are essential to the safe, adequate, and reliable provision of electricity and natural gas to consumers.

There may be economies of scale, scope, and learning that can be achieved by providing energy services over a broader geographic area. The combined size of the new company would tend to: (1) better absorb the costs of competing in a deregulated marketplace by increasing productivity; (2) improve operating efficiency; (3) improve service quality by reciprocal adoption of best practices; and (4) provide greater capital resources to invest in the region. Therefore, I believe that the acquisition of CMP Group by Energy East is likely to provide potential benefits to the public and, at a minimum, will not likely harm consumers. I therefore recommend that this transaction be approved by the Commission.

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[2] This information was developed using the *Value Line for Windows* data base.

[3] These data do not reflect the numerous assets sales and other transactions that are occurring as the electric restructuring process unfolds.

II. REGULATORY POLICIES SHOULD ACCOMMODATE CORPORATE REORGANIZATIONS THAT PROVIDE BENEFITS TO CONSUMERS

Q5. PLEASE DESCRIBE THE RAPIDLY-CHANGING ASPECTS OF THE ELECTRICITY MARKETPLACE AND POLICY ENVIRONMENT.

A. Maine and a number of other states are rapidly introducing competition into the electric generation commodity and retail sale markets. This policy shift will bring the generation and marketing of electricity in Maine in line with the rest of the free market-based American economy. The lessons—and the successes—of introducing competitive forces into the transportation, natural gas, and telecommunications industries have taught us that new and better services will develop, and that they generally will be available at lower prices than would have occurred under continued regulation. Customers have, over time, benefited from being able to exercise choice in each of these industries because competition impels firms to seek out and adopt new and better ways of doing business, and also ensures that the resulting efficiency gains are passed through to customers in the form of lower prices and better service.

Policy makers and regulators are intensively exploring how to restructure the electric industry to accommodate efficient competition in electric commodity and retail sale markets. In addition, although it has received less attention, regulators are continuing to regulate the natural monopoly aspects of the transmission and distribution network and are developing ways to better promote economic efficiency in these areas.

Q6. PLEASE DESCRIBE THE BENEFITS THAT DYNAMIC COMPETITION IN ELECTRICITY MARKETS CAN PROVIDE.

A. It is useful to recognize that dynamic competition in electricity generation and retail sale markets can play an important role in further enhancing consumer welfare and economic progress in an important sector of the American economy. Policy makers and regulators should recognize that if wholesale and retail competition is effective, competition could provide critically important benefits, such as lower prices and better services, for consumers and society generally. An important aspect of this process is

that wholesale and retail electric competition could lead to the development of new organizations as well as new products and processes. Schumpeter called this "dynamic competition" and observed that:

> [I]n capitalist reality, as distinguished from its textbook picture, it is not that kind of competition [static price competition] that counts but the competition that comes from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance)—competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives.[4]

Dynamic changes of these sorts provide the most powerful form of competition. What is needed is real people, making new investments, creating new organizations, and introducing new products and services that efficiently meet the needs of consumers.

Q7. SHOULD REGULATORS SEEK TO FACILITATE DYNAMIC COMPETITION IN ELECTRICITY MARKETS?

A. Yes, they should. Maine policy makers have already decided that competition in generation commodity and retail sale markets can provide efficiency improvements that benefit consumers. This point is crucial because the appropriate test for competition policies is whether or not they lead to benefits (lower prices, better quality, service innovation, etc.) to consumers.

Q8. HAS COMPETITION IN OTHER FORMERLY REGULATED INDUSTRIES LED TO INDUSTRY AND CORPORATE REORGANIZATION?

A. Yes, it has. In the transportation (*e.g.*, trucking, railroad, and airlines), financial services, and other industries that have been subject to "deregulation" of various sorts, companies in these industries have sought to build a strong competitive position in order to succeed in these industries. These efforts have produced efficiencies that have benefited consumers—and mergers have been an important part of this process in the

[4] Joseph A. Schumpeter, *Capitalism, Socialism, And Democracy* (New York: Harper, 1942), at 84-85.

period following an industry's deregulation.[5] Corporate reorganization via mergers, acquisitions and other transactions has been an important means of building a strong competitive position in these industries, while also increasing the efficiency of the industry.[6] There is little reason to believe that the electric utility industry will be any different.

Q9. WILL SOME ASPECTS OF THE ELECTRIC UTILITY SYSTEM RETAIN NATURAL MONOPOLY CHARACTERISTICS?

A. Yes. It is generally believed that the transmission and distribution "wires" network will retain "natural monopoly"[7] characteristics for the foreseeable future. Therefore, regulators will continue to have an important role to play in accommodating dynamic and efficient competition in those segments of the electricity marketplace.

Q10. DOES YOUR ARGUMENT ABOUT DYNAMIC CHANGE APPLY TO THOSE PORTIONS OF THE BUSINESS, SUCH AS CMP'S REGULATED ACTIVITIES, THAT REMAIN REGULATED MONOPOLIES?

A. Yes, it does. There is simply no reason to believe that the existing organization of transmission and distribution wires businesses is optimal. Therefore, there may well be efficiencies that can be gained from further consolidation and reorganization of these businesses. Further, because many aspects of the T&D utility businesses retain natural monopoly aspects, competitive concerns are not raised by corporate reorganization of these T&D utilities.

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[5] See Clifford Winston, "U.S. Industry Adjustment to Economic Deregulation," *Journal of Economic Perspectives*, Summer 1998, pp. 89-110. See also Kenneth W. Costello and Robert J. Graniere, "Lessons Learned from Restructuring of Former Comprehensively Regulated Industries," The National Regulatory Research Institute, Ohio State University, July 1996.

[6] Clifford Winston points out that "[f]ollowing deregulation, the net result of entry, exit, and mergers has generally been that competition in actual markets becomes more intense, although the total number of firms in an industry may either rise or fall." Winston, *supra* note 4, at 95.

[7] According to Baumol, Panzar and Willig, "An industry is a *natural monopoly* for industry output vector y^1 if single-firm production is the least costly way of supplying y^1" and "an industry is said to be a natural monopoly if, over the entire relevant range of outputs, the firms' cost function is subadditive." Baumol et. al further note that a cost function is said to be subadditive at a given level of output when "the cost of producing the whole is (continued...)

Q11. WHAT ARE ECONOMIES OF SCALE, SCOPE, AND LEARNING?

A. Economies of scale, scope, and learning are essentially achieved by spreading fixed costs over a larger volume of input or a broader complement of services. Obtaining economies through acquisitions improves economic welfare because society would then use fewer resources to provide the same or higher levels of output.

The term "economies of scale" refers to reductions in the average cost of a product in the long run, resulting from an expanded level of output. For example, as a firm's output expands, the firm may experience economies of scale resulting from:

- *More efficient technology.* As a firm grows, the firm's size may make it possible to invest in specialized, highly efficient technology and the firm may be able to develop a cadre of highly trained employees to operate that technology.

- *Managerial economies.* As a firm grows, the firm may be able to spread the cost of the firm's management over a larger sales base, thus lowering the unit cost of management.

- *Financial economies.* In many cases, larger firms can raise funds more cheaply than smaller firms (the [illegible]g costs" associated with a $1,000,000 loan and a $10,000,000 loan are, arguably, about the same) and can develop specialized expertise in raising capital.

- *Risk-spreading.* Larger firms are often able to diversify risks. For example, a firm that operates facilities in several states is likely to be less vulnerable to the risk of economic fluctuations than is a firm that operates only in one state.

The term "economies of scope"—economies that result from the expanded range of a firm's operations—refers to cost savings that result from simultaneous production of several different outputs in a single enterprise, as contrasted with their production in isolation, each in a separate specialized firm. If economies of scope are present, different functions of a production process can be provided most efficiently by the same organization.

(...continued)

less than the sum of the costs of producing the parts." William J. Baumol, John C. Panzar, and Robert D. Willig, *Contestable Markets and the Theory Of Industry Structure* (San Diego, CA: Harcourt Brace, 1988), at 8 and 17.

Finally, the term "economies of learning" refers to the cumulative economies of scale that result from learning by doing. For example, there are significant costs associated with implementing and operating in a restructured open-access environment that may be more efficiently accommodated in a larger, more diverse company—because the company can learn from its electric restructuring efforts in one state when implementing electric restructuring in another state.

Q12. WHY IS CORPORATE REORGANIZATION AN IMPORTANT PART OF THE PROCESS OF SUCCEEDING IN A RESTRUCTURED MARKETPLACE?

A. As the electric and natural gas industries continue to evolve in order to accommodate competition in generation commodity and retail sale markets (while the T&D system continues to be regulated), firms that operate in the industry will need to adapt to the changed industry environment. Corporate reorganization, such as mergers and acquisitions, is an important part of the process of reconfiguring the electric utility system to accommodate dynamic and efficient competition in electric commodity and retail sale markets and accommodating the continuing natural monopoly aspects of the T&D "wires" network.

Electric restructuring will require a substantial redeployment of capital. For example:

(1) *Generation assets* are likely to be acquired by larger generation operators that can achieve economies of scale, scope, and learning in the operation of generation facilities (notably including the ability to manage risk through the operation of a diversified portfolio of generation resources);

(2) *Transmission system operators* will likely need to operate on a more regional or perhaps even national scale in the future in order to avoid rate "pancaking" and other problems associated with operating smaller (fragmented) transmission systems and to capture whatever economies of scale and scope may be available;

(3) *Distribution systems*, the specific focus in this proceeding, will benefit from greater horizontal scale as well because increasing the geographic reach of a T&D operator can provide economies of scale, scope, and learning. More

generally, this is another area where consumers will benefit to the extent that all available efficiencies are pursued and/or preserved; and,

(4) *Aggregation and retail sale services*, which have historically been provided as part of the distribution and sale of electricity to end-use customers, will be provided by competitive firms in Maine's restructured electric utility industry. Many of the firms that provide these services are likely to be national or regional firms that provide aggregation and retail sale services in a number of states and that can achieve economies of scale, scope, and learning in doing so. Further, many of the providers of these services are likely to be integrated energy firms that operate at least some generation facilities.

On the competitive side of the business, competitive electricity commodity and retail sale markets would provide strong efficiency incentives that would signal firms to reorganize and re-integrate in ways that provide economies of scale, scope, and learning. For the T&D "wires" businesses, which remain regulated, regulators should develop flexible incentive ratemaking approaches to encourage utilities to achieve operating efficiencies while also continuing to provide safe, adequate, and reliable service to consumers.

Q13. PLEASE DESCRIBE THE EFFICIENCY BENEFITS THAT MERGERS AND ACQUISITIONS CAN PROVIDE TO CONSUMERS.

A. I will briefly describe several efficiency benefits that industry reorganization can provide. These potential efficiency benefits are all variations on the theme that corporate reorganization can provide economies of scale, scope, and learning that benefit consumers.

- *Organizational efficiency.* An aspect of productive efficiency that warrants special mention is "organizational efficiency"—the concept that a firm's essential character is not fixed. The range of activities undertaken by a single firm evolves with opportunities and circumstances, based on an efficiency logic, specific to the firm, that is not always apparent to outside observers. The competitive process gives price and opportunity cost signals, from which management decides which activities to pursue, when to form subsidiaries, when to divest or spin off activities or simply stop doing them, and when to add activities either directly or by acquisition. Having

the flexibility to redefine the firm for the new environment it will be facing is a vital competitive tool. Utilities that are given the flexibility to redefine themselves for competition have a good chance of surviving, benefiting both consumers and owners in the new environment, while those that are artificially limited in their ability to adapt are less likely to succeed.

- *Spreading of fixed costs.* In industries that have high fixed costs, such as the distribution of electricity, natural gas, or water, it is important for firms to be able to spread these fixed costs over a larger revenue base in order to reduce unit costs. Fixed costs arise because the quantities of certain inputs cannot be adjusted as output is varied. By spreading these fixed costs over a larger revenue base, economies of scale and scope can be gained.

- *Economies from specialization.* A larger firm may be able to increase productivity by allowing employees to develop more specialized skills. By allowing employees to focus on specialized tasks, workers can become more productive by repeating a single operation over and over again, rather than performing a wider set of tasks. If this is the case, a firm's labor costs per unit of output can fall as the firm's volume of output increases.

- *Benefits from reduced number of utilities.* Given New England's historic and continued relatively high rates, the potential efficiency benefits of increased integration have been well understood for many years.[8] A reduction in the number of utilities in New England could provide management economies, reduced administrative expenses, and other benefits that could benefit consumers.

- *Improved investment incentives.* Absent a reasonable opportunity to share in post-merger efficiencies and benefits, utilities have a disincentive to pursue mergers and acquisitions, even though these can provide benefits to consumers. By treating a utility's various investment alternatives in a symmetrical way, regulators can eliminate or reduce this disincentive to the benefit of consumers.

No entity—customers, policy makers and regulators, or the firms making the changes—knows for sure what the optimal organizational arrangements are in advance. But the firms that operate in these markets are likely to be in the best position to make these judgments. Also, mergers and acquisition cannot be ordered; therefore, regulators need to pay particular attention to the use of incentive approaches in this area.

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[8] *See* William D. Shipman, *An Inquiry into the High Cost of Electricity in New England* (Middletown, Conn.: Wesleyan Univ. Press, 1962, p. 199-205.

Q14. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

STATE OF MAINE PUBLIC UTILITIES COMMISSION

CMP GROUP, INC.
CENTRAL MAINE POWER COMPANY
MAINECOM SERVICES
MAINE ELECTRIC POWER COMPANY, INC.
NORVARCO
CHESTER SVC PARTNERSHIP
MAINE YANKEE ATOMIC POWER COMPANY
CMP NATURAL GAS, L.L.C.

Petition for Approval of Reorganization and
Affiliated Interest Transactions

DOCKET NO. 99-411

SUPPLEMENTAL PREFILED DIRECT TESTIMONY
OF
ARTHUR W. ADELBERG

July 22, 1999

Attorneys for Central Maine Power Company

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SUPPLEMENTAL PREFILED TESTIMONY OF
ARTHUR W. ADELBERG
DOCKET NO. 99-411

Q. Are you the same Arthur W. Adelberg whose testimony accompanies the Petition initiating this proceeding?

A. Yes.

Q. What is the purpose of your supplemental testimony?

A. The purpose is to respond to Sections III and IV in the Procedural Order issued July 13, 1999, in which the Examiner requested additional testimony and clarification concerning the rate treatment of merger savings and the specific rate plan CMP intends to file.

Q. Please clarify CMP's position regarding savings or benefits associated with regulated operations and the merger.

A. To begin with, the merger is intended to promote increased competition and growth in energy products and services. These are the primary benefits to be derived from the merger. However, there are costs to achieve these and other benefits. Neither Energy East nor CMP has performed a study to determine what regulated activity savings or benefits can be achieved or what operational costs are involved. As I explained in my initial Prefiled Testimony and at the July 7 Technical Conference, based on general industry experience, we expect such benefits to include CMP having access to management skills and experience of other entities in the Energy East family of companies in order to meet the challenges of the deregulated energy marketplace.

These matters were also addressed in the Prefiled Testimony of Dr. Kenneth Gordon of the National Economic Research Associates. The performance-based regulation ("PBR") rate plan we intend to file in early autumn will address how increased CMP costs will be absorbed by CMP and how benefits of growth and competition in the regulated busines can be shared effectively.

There are substantial benefits that consumers will receive as a result of this merger. An obvious example of a benefit is Energy East's experience with retail choice. Energy East has already introduced retail choice for some of its electric customers, and will have a completely open system starting August 1, 1999. Given the enormous complexity of preparing for this change in the fundamental nature of our business, having direct access to a 'sister' company with this experience several months before we open our system to retail access should help ensure that our retail access program starts smoothly and is cost effective.

Q. Please elaborate on your expectations as to how savings will be created.

A. Overall, savings and other benefits may come from regulated and nonregulated activities, economic development, and other sources. With regard to the regulated businesses, in addition to benefiting from Energy East's experience and the sharing of management skills to address new challenges, we anticipate savings from efficiencies as a result of identifying functions common to each of the utility organizations and then developing a program to eliminate overlaps and redundancies. Again, while we have not settled on any particular areas, examples of functions that lend themselves to

this kind of analysis include accounting, finance, law, purchasing, human resources, shareholder services, call centers, billing, government relations, information systems, and internal auditing. We have not yet made even a preliminary determination that these particular functions will be reconfigured or otherwise affected; however, these kinds of functions are not necessarily dependent on location and at least to some extent are common functions of many businesses.

Q. Do you expect to centralize corporate administrative functions in a service company in order to achieve efficiencies?

A. No. Our preference is to attempt to maximize the performance and autonomy of the operating subsidiaries by centralizing functions within individual subsidiaries under best practice management. For example, one utility might become the center for accounting, another for purchasing, and a third for information systems. The 'hosting' utility would then provide services to others under service agreements for which we will seek Commission approval at the appropriate time.

Q. If a function is centered in one utility, does that mean all the employees performing that function would be employed at that utility?

A. Not necessarily. In some cases, the management of the function might be at one utility, but it might be necessary to have 'field' people on site at the other utilities.

Q. Do you have a timetable for achieving savings from this process?

A. No, we are just beginning to prepare such a timetable. Since the holding companies are involved simultaneously, the process of integration planning will require extensive coordination.

Q. How do you plan to treat savings you achieve from CMP's regulated operations?

A. As I stated at the Technical Conference, CMP and Energy East hope that the Commission will continue its policy of support for performance based regulation (PBR). PBR has broad support among parties in CMP's rate case (Docket No. 97-580), many of whom, we believe, favor continuing an alternative rate plan mechanism past the end of 1999, when the current ARP expires.

Energy East itself (through its New York utility subsidiary) endorsed a PBR approach in its restructuring settlement in New York, and has publicly supported performance based regulation for its gas subsidiaries in Connecticut. CMP intends to make a specific PBR proposal in the early fall (i.e., late September or early October). This will take the place of the PBR proposal that the Commission had already expected to consider after March 2000. While we have not developed our specific proposal yet, our goal is to create the greatest possible incentives for management to maximize savings. In concept we would expect that it would include provisions which provide Energy East a fair opportunity to recover its transaction costs while holding rates stable for customers. Energy East would assume the risk associated with recovering those costs. In other words, it would only recover those costs to the extent it achieved

savings in comparable amounts. Energy East will not be asking for any rate increases to recover transaction costs. In addition, Energy East will honor CMP's existing commitment to a reduction in core rates for residential and commercial customers on or about March 1, 2000.

Q. How do expect your PBR proposal to relate to the merger case?

A. To begin with, I should note that it is not our intent to file the proposal as part of this case, contrary to the suggestion in the July 13, 1999 Procedural Order in this docket. We do not interpret the statute governing merger approvals, Section 708 of Title 35-A M.R.S.A., as construed by the Commission in prior cases, to require a specific rate plan as a condition of approval. In fact, a 1989 amendment to the reorganization statute implicitly recognized that ratemaking is not a part of a merger approval. That amendment, which is subsection 2-A of Section 708, states that Commission approval of a reorganization may not limit or restrict the Commission's powers to set rates as provided in Title 35-A.

Thus, we intend to file our PBR proposal in a separate docket. While we are open to working with the parties to resolve issues in the PBR proceeding within the confines of the timetable for processing the merger case, we recognize that the PBR proceeding could take longer than the statutory six month period allowed for a decision in a merger proceeding. Assuming the merger case is concluded before the PBR proceeding, we believe that it will nonetheless still be useful to the Commission and the parties to have before them our PBR proposal while the merger proceeding is

still in progress. That should provide comfort that we can devise a rate plan consistent with the conceptual framework described above, i.e., maintaining stable rates and funding recovery of transaction costs through merger savings.

Q. Does this conclude your supplemental testimony?

A. Yes it does.

ATTACHMENT "B"

"Order Approving the Application Regarding the Proposed
Restructuring of Central Maine Power Company By
Establishment of a Holding Company" with
Staff Safety Evaluation Dated June 2, 1998

UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

June 2, 1998

Mr. Martin L. Bowling, Jr.
Recovery Officer - Technical Services
Northeast Nuclear Energy Company
c/o Ms. Patricia A. Loftus
Director - Regulatory Affairs
P.O. Box 128
Waterford, CT 06385

SUBJECT: ORDER APPROVING THE APPLICATION REGARDING THE PROPOSED RESTRUCTURING OF CENTRAL MAINE POWER COMPANY (TAC NO. MA1236)

Dear Mr. Bowling:

By letter dated March 4, 1998, Central Maine Power Company (CMP), by and through its counsel, Morgan, Lewis, and Bockius, submitted an application for consent pursuant to Section 50.80 of Title 10 of the Code of Federal Regulations regarding the proposed restructuring of CMP, which will result in CMP becoming a subsidiary of a new holding company. The enclosed Order was issued in response to that application. The staff's Safety Evaluation in support of the Order is also enclosed.

The Order has been forwarded to the Office of the Federal Register for publication.

If you have any questions, please contact me at 301-415-1437.

Sincerely,

James W. Andersen, Project Manager
Special Projects Office - Licensing
Office of Nuclear Reactor Regulation

Docket No. 50-423

Enclosures: 1. Order
2. Safety Evaluation

cc w/encls: See next page

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Millstone Nuclear Power Station
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Millstone Nuclear Power Station
Unit 3

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UNITED STATES OF AMERICA

NUCLEAR REGULATORY COMMISSION

In the Matter of	)	
	)	
CENTRAL MAINE POWER COMPANY	)	Docket No. 50-423
	)	
(Millstone Nuclear Power Station, Unit 3)	)	

ORDER APPROVING APPLICATION REGARDING THE RESTRUCTURING
OF CENTRAL MAINE POWER COMPANY
BY ESTABLISHMENT OF A HOLDING COMPANY

I.

Central Maine Power Company (CMP), a 2.5 percent owner of the Millstone Nuclear Power Station, Unit 3 (Millstone Unit 3), one of the 13 other owners of Millstone Unit 3, is a co-holder of Facility Operating License No. NPF-49 issued by the U.S. Nuclear Regulatory Commission (NRC) pursuant to Part 50 of Title 10 of the Code of Federal Regulations (10 CFR Part 50) on January 31, 1986. Under this license, Northeast Nuclear Energy Company (NNECO), has the exclusive authority to operate Millstone Unit 3. Millstone Unit 3 is located in New London County, Connecticut.

II.

By an application dated March 4, 1998, CMP, by and through its counsel, Morgan, Lewis, and Bockius, requested consent pursuant to 10 CFR 50.80 regarding the proposed restructuring of CMP. Under the restructuring, CMP would become a wholly owned subsidiary of a newly created holding company but would continue to hold its 2.5 percent ownership interest in Millstone Unit 3. No direct transfer of the license would occur. NNECO, which is not involved in the proposed transaction, would continue to be the licensed operator for Millstone Unit 3. The

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holders of CMP common stock would automatically become holders of common stock of the new holding company on a share-for-share basis, according to the application.

Notice of this application for consent was published in the FEDERAL REGISTER on April 24, 1998 (63 FR 20434); and an Environmental Assessment and Finding of No Significant Impact was published in the FEDERAL REGISTER on May 4, 1998 (63 FR 24576).

Under 10 CFR 50.80, no license shall be transferred, directly or indirectly, through transfer of control of the license unless the Commission shall give its consent in writing. Upon review of the information submitted in the application dated March 4, 1998, the NRC staff has determined that the proposed restructuring of CMP by creation of a holding company will not affect the qualifications of CMP as a holder of Facility Operating License No. NPF-49, and that the transfer of control of the license, to the extent effected by the proposed restructuring, is otherwise consistent with applicable provisions of law, regulations, and orders issued by the Commission, subject to the conditions set forth herein. These findings are supported by a Safety Evaluation dated June 2, 1998.

III.

Accordingly, pursuant to Sections 161b, 161i, 161o, and 184 of the Atomic Energy Act of 1954, as amended; 42 U.S.C. Subsections 2201(b), 2201(i), 2201(o), and 2234; and 10 CFR 50.80, IT IS HEREBY ORDERED that the Commission approves the application regarding the proposed restructuring of CMP subject to the following: (1) CMP shall provide the Director of the Office of Nuclear Reactor Regulation a copy of any application, at the time it is filed, to transfer (excluding grants of security interests or liens) from CMP to its proposed parent or to any other affiliated company, facilities for the production, transmission, or distribution of electric energy having a depreciated book value exceeding 10 percent (10%) of CMP's consolidated net utility plant, as recorded on CMP's books of account, and (2) should the restructuring of CMP not be

completed by December 31, 1998, this Order shall become null and void, provided, however, on application and for good cause shown, such date may be extended.

This Order is effective upon issuance.

IV.

By July 13th , 1998, any person adversely affected by this Order may file a request for a hearing with respect to issuance of the Order. Any person requesting a hearing shall set forth with particularity how that interest is adversely affected by this Order and shall address the criteria set forth in 10 CFR 2.714(d).

If a hearing is to be held, the Commission will issue an order designating the time and place of such hearing.

The issue to be considered at any such hearing shall be whether this Order should be sustained.

Any request for a hearing must be filed with the Secretary of the Commission, U.S. Nuclear Regulatory Commission, Washington, DC 20555-0001, Attention: Rulemakings and Adjudications Staff, or may be delivered to the Commission's Public Document Room, The Gelman Building, 2120 L Street, NW., Washington, DC by the above date. Copies should be also sent to the Office of the General Counsel and to the Director, Office of Nuclear Reactor Regulation, U.S. Nuclear Regulatory Commission, Washington, DC 20555-0001; Lillian M. Cuoco, Esq., Northeast Utilities Service Company, P.O. Box 270, Hartford, Connecticut, 06106-5127, Senior Nuclear Counsel to NNECO; and to Kevin P. Gallen, Esq., Morgan, Lewis, and Bockius, 1800 M Street, NW., Washington, DC 20036-5869, Counsel for CMP.

For further details with respect to this action, see the application for approval regarding the corporate restructuring dated March 4, 1998, the NRC staff's Safety Evaluation dated 1998, and Environmental Assessment and Finding of No Significant Impact dated April 24, 1998, which are available for public inspection at the Commission's Public Document Room. The

Gelman Building, 2120 L Street, NW., Washington, DC, and at the local public document room located at the Learning Resources Center, Three Rivers Community-Technical College, 574 New London Turnpike, Norwich, Connecticut, and at the Waterford Library, ATTN: Vince Juliano, 49 Rope Ferry Road, Waterford, Connecticut.

Dated at Rockville, Maryland, this 2nd day of June 1998.

FOR THE NUCLEAR REGULATORY COMMISSION

Samuel J. Collins, Director
Office of Nuclear Reactor Regulation

UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

SAFETY EVALUATION BY THE OFFICE OF NUCLEAR REACTOR REGULATION

PROPOSED CORPORATE RESTRUCTURING

OF CENTRAL MAINE POWER COMPANY

DOCKET NO. 50-423

MILLSTONE NUCLEAR POWER STATION, UNIT 3

1.0 INTRODUCTION

By application dated March 4, 1998, Central Maine Power Company (CMP), through its counsel, Mr. Kevin P. Gallen, of Morgan, Lewis and Bockius, informed the U.S. Nuclear Regulatory Commission (NRC) that a corporate restructuring of CMP had been proposed that will result in the creation of a holding company (under the temporary name HoldCo) organized under the laws of the State of Maine. CMP and its existing nonutility subsidiaries will become wholly owned subsidiaries of HoldCo. CMP owns a 2.5 percent interest in the Millstone Nuclear Power Station, Unit 3 (Millstone 3). Under the restructuring, the holders of CMP common stock will become the holders of common stock of the holding company on a share-for-share basis. After the restructuring, CMP will continue to be a public utility providing the same utility services as it did immediately before the reorganization. CMP will continue to be a licensee of Millstone 3, and no direct transfer of the license or interests in the unit will result from the proposed restructuring. Approval for the indirect transfer of control of the license resulting from the restructuring is being sought from the NRC pursuant to Title 10 of the Code of Federal Regulations (10 CFR) Section 50.80.

Pursuant to 10 CFR 50.80, the Commission may approve the transfer of the control of a license, after notice to interested persons. Such action is contingent upon the Commission's determination that the holder of the license following the transfer of control is qualified to hold the license and the transfer is otherwise consistent with applicable provisions of law, regulations, and orders of the Commission.

2.0 FINANCIAL QUALIFICATIONS ANALYSIS

According to CMP's application, following the proposed restructuring, CMP will continue as a 2.5 percent owner of Millstone 3 and will remain an electric utility as defined in 10 CFR 50.2, engaged in the generation, transmission, and distribution of electric energy for wholesale and retail markets. The Federal Energy Regulatory Commission will still regulate CMP's wholesale electric rates, and the Maine Public Utilities Commission (MPUC) will also maintain jurisdiction over the licensee's retail electric rates.

The application states that the proposed restructuring will have no impact on the revenues and expenses of CPM regarding the operation of Millstone 3 and that decommissioning funding will not be affected. As an electric utility, CMP is exempt from further financial qualifications review, pursuant to 10 CFR 50.33(f). However, in view of the NRC's concern that restructuring

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can lead to a diminution of assets necessary for the safe operation and decommissioning of a licensee's nuclear power plant, the NRC's practice has been to condition license transfer approvals upon a requirement that the licensee not transfer significant assets from the licensee to an affiliate without first notifying the NRC. This requirement assists the NRC in assuring that a licensee will continue to maintain adequate resources to contribute to the safe operation and decommissioning of its facility. Thus, the following should be made a condition of the Order approving the application regarding the proposed restructuring:

> CMP shall provide the Director of the Office of Nuclear Reactor Regulation a copy of any application, at the time it is filed, to transfer (excluding grants of security interests or liens) from CMP to its proposed parent, or to any other affiliated company, facilities for the production, transmission, or distribution of electric energy having a depreciated book value exceeding 10 percent (10%) of CMP's consolidated net utility plant, as recorded on CMP's books of accounts.

3.0 TECHNICAL QUALIFICATIONS

Northeast Nuclear Energy Company (NNECO), a co-owner of Millstone 3, has exclusive authority under the license to operate the facility. NNECO is not involved in the proposed restructuring of CMP. CMP confirmed in its application that there will be no change as a result of the proposed restructuring in the operational or management personnel of Millstone 3. Since the proposed rstructuring does not involve any transfer of operational authority under the license to CMP or its proposed holding company, a review of its technical qualifications is not necessary.

4.0 ANTITRUST REVIEW

Section 105 of the Atomic Energy Act of 1954, as amended (the Act), requires the Commission to conduct an antitrust review in connection with an application for a license to construct or operate a facility under Section 103. Although HoldCo may become the holding company of CMP, a licensee for Millstone 3, i.e., may indirectly acquire control of the license (to the extent held by CMP), CMP's application does not indicate that HoldCo will be performing activities for which a license is needed. Since approval of the application would not involve the issuance of a license, the procedures under Section 105 regarding antitrust reviews do not apply, including the making of any "significant changes" determination.

5.0 FOREIGN OWNERSHIP, CONTROL, OR DOMINATION

The licensee indicated in its application that after restructuring is implemented, HoldCo will become the sole holder of CMP outstanding common stock and that the current holders of CMP's common stock will become holders of the common stock of HoldCo on a share-for-share basis. Thus, the previous holders of CMP common stock will own HoldCo common stock in the same proportion as they held CMP common stock. The application also states all of the directors and officers of HoldCo and CMP will be U.S. citizens. According to the application, CMP is not now, and will not be following the proposed restructuring, owned, controlled, or dominated by an alien, foreign corporation, or foreign government. The staff does not know or have reason to believe otherwise.

6.0 CONCLUSIONS

In view of the foregoing, the NRC staff concludes that the proposed restructuring of CMP by creation of a holding company will not adversely affect the financial qualifications of CMP with respect to the operation and decommissioning of Millstone 3. Also, there do not appear to be any problematic antitrust or foreign ownership considerations that would result from the proposed restructuring. Thus, the proposed restructuring will not affect the qualifications of CMP as a holder of the license for Millstone 3, and the transfer of control of the license, to the extent effected by the proposed restructuring, is otherwise consistent with applicable provisions of law, regulations, and orders issued by the Commission pursuant thereto. Accordingly, the NRC should approve the application regarding the proposed restructuring, subject to the condition discussed above concerning significant asset transfers.

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Date: June 2, 1998