

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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CAMBRIDGE ELECTRIC LIGHT CO

CIK: **16573** | IRS No.: **041144610** | State of Incorp.: **MA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **002-07909** | Film No.: **94528185**
SIC: **4911** Electric services

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549-1004

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 March 31, 1994

OR

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 2-7909

CAMBRIDGE ELECTRIC LIGHT COMPANY

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of incorporation or organization)

04-1144610

(I.R.S. Employer Identification No.)

One Main Street, Cambridge, Massachusetts
(Address of principal executive offices)

02142-9150
(Zip Code)

(617) 225-4000

(Registrant's telephone number, including area code)

(Former name, address and 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

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

Outstanding at

The Company meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-K as a wholly-owned subsidiary and is therefore filing this Form with the reduced disclosure format.

PAGE 2

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CAMBRIDGE ELECTRIC LIGHT COMPANY

CONDENSED BALANCE SHEETS

MARCH 31, 1994 AND DECEMBER 31, 1993

ASSETS

(Unaudited)

	March 31, 1994	December 31, 1993
	(Dollars in Thousands)	
PROPERTY, PLANT AND EQUIPMENT, at original cost	\$145 636	\$145 324
Less - Accumulated depreciation	53 418	52 382
	92 218	92 942
Add - Construction work in progress	756	1 013
	92 974	93 955
INVESTMENTS		
Equity in nuclear electric power companies	9 259	9 059
Other	5	5
	9 264	9 064
CURRENT ASSETS		
Cash	497	1 624
Advances to affiliates	850	-
Accounts receivable		
Affiliate companies	1 102	1 036
Customers	10 742	10 178
Unbilled revenues	3 279	3 835
Prepaid taxes -		
Property	800	1 600
Income	-	423

Inventories and other	1 990	2 289
	19 260	20 985
DEFERRED CHARGES		
Yankee Atomic purchased power contract	6 633	6 900
Other	4 013	3 084
	10 646	9 984
	\$132 144	\$133 988

PAGE 3

CAMBRIDGE ELECTRIC LIGHT COMPANY

CONDENSED BALANCE SHEETS

MARCH 31, 1994 AND DECEMBER 31, 1993

CAPITALIZATION AND LIABILITIES

(Unaudited)

	March 31, 1994	December 31, 1993
	(Dollars in Thousands)	
CAPITALIZATION		
Common Equity -		
Common stock, \$25 par value -		
Authorized and outstanding -		
346,600 shares in 1994 and 1993,		
wholly-owned by Commonwealth		
Energy System (Parent)	\$ 8 665	\$ 8 665
Amounts paid in excess of par value	27 953	27 953
Retained earnings	7 712	7 056
	44 330	43 674
Long-term debt, including premiums, less		
current sinking fund requirements	42 189	42 189
	86 519	85 863
CURRENT LIABILITIES		
Interim Financing -		
Notes payable to banks	-	2 000
Advances from affiliates	-	1 305
	-	3 305
Other Current Liabilities -		
Current sinking fund requirements	160	160
Accounts payable		
Affiliate companies	4 427	4 972
Other	5 661	5 187
Accrued taxes -		
Local property and other	1 653	1 611

Income	396	97
Accrued interest	1 300	1 003
Other	2 335	2 776
	15 932	15 806
	15 932	19 111
DEFERRED CREDITS		
Accumulated deferred income taxes	12 397	12 189
Unamortized investment tax credits	2 106	2 130
Yankee Atomic purchased power contract	6 633	6 900
Other	8 557	7 795
	29 693	29 014
COMMITMENTS AND CONTINGENCIES		
	\$132 144	\$133 988

See accompanying notes.

PAGE 4

CAMBRIDGE ELECTRIC LIGHT COMPANY

CONDENSED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE THREE MONTHS ENDED MARCH 31, 1994 AND 1993

(Unaudited)

	1994	1993
	(Dollars in Thousands)	
ELECTRIC OPERATING REVENUES	\$33 221	\$27 611
OPERATING EXPENSES		
Fuel, transmission and purchased power	22 182	18 671
Other operation and maintenance	5 936	5 917
Depreciation	1 017	990
Taxes -		
Income	825	51
Local property	725	630
Payroll and other	242	267
	30 927	26 526
OPERATING INCOME	2 294	1 085
OTHER INCOME	330	219
INCOME BEFORE INTEREST CHARGES	2 624	1 304
INTEREST CHARGES		
Long-term debt	949	950
Other interest charges	113	25

Allowance for borrowed funds used during construction	8 1 070	(1) 974
NET INCOME	1 554	330
RETAINED EARNINGS - Beginning of period	7 056	6 156
Dividends on common stock	(898)	-
RETAINED EARNINGS - End of period	\$ 7 712	\$ 6 486

See accompanying notes.

PAGE 5

CAMBRIDGE ELECTRIC LIGHT COMPANY

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 1994 AND 1993

(Unaudited)

	1994	1993
	(Dollars in Thousands)	
OPERATING ACTIVITIES		
Net income	\$ 1 554	\$ 330
Effects of non-cash items -		
Depreciation and amortization	1 091	1 002
Deferred income taxes and investment tax credits, net	150	123
Earnings from corporate joint ventures	(262)	(276)
Change in working capital, exclusive of cash, advances to affiliates and interim financing	1 574	830
All other operating items	237	(2 043)
Net cash provided by (used for) operating activities	4 344	(34)

INVESTING ACTIVITIES

Additions to property, plant and equipment (exclusive of AFUDC)	(488)	(290)
Allowance for borrowed funds used during construction	8	(1)
Dividends from corporate joint ventures	62	84
Advances to affiliates	(850)	-
Net cash used for investing activities	(1 268)	(207)

FINANCING ACTIVITIES

Payment of dividends	(898)	-
Proceeds from (payment of) short-term borrowings	(2 000)	325
Payments to affiliates	(1 305)	-
Net cash provided by (used for) financing activities	(4 203)	325
Net increase (decrease) in cash	(1 127)	84
Cash at beginning of period	1 624	2
Cash at end of period	\$ 497	\$ 86

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid (received) during the period for		
Interest, net of capitalized amounts	\$ 639	\$ 639
Income taxes	\$ (67)	\$ (432)

See accompanying notes.

PAGE 6

CAMBRIDGE ELECTRIC LIGHT COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS

(1) Accounting Policies

Cambridge Electric Light Company (the Company) is a wholly-owned subsidiary of Commonwealth Energy System. The parent company is referred to in this report as the "System" and together with its subsidiaries is collectively referred to as "the system."

The Company's significant accounting policies are described in Note 1 of Notes to Financial Statements included in its 1993 Annual Report on Form 10-K filed with the Securities and Exchange Commission. For interim reporting purposes, the Company follows these same basic accounting policies but considers each interim period as an integral part of an annual period and makes allocations of certain expenses to interim periods based upon estimates of such expenses for the year.

The Company has established various regulatory assets in cases where the Massachusetts Department of Public Utilities (DPU) and/or the Federal Energy Regulatory Commission have permitted, or are expected to permit, recovery of specific costs over time. At March 31, 1994, principal regulatory assets, included in deferred charges, were \$6.6 million for unrecovered plant and decommissioning costs for the Yankee Atomic nuclear plant and \$1.6 million for postretirement benefit costs including pensions. The principal regulatory liability, reflected in deferred credits, was \$3.9 million related to income taxes.

Generally, expenses which relate to more than one interim period are allocated to other periods to more appropriately match revenues and expenses. Income tax expense is recorded using the statutory rates in effect applied to book income subject to tax recorded in the interim period.

The unaudited financial statements for the periods ended March 31, 1994 and 1993 reflect, in the opinion of the Company, all adjustments (consisting of only normal recurring accruals) necessary to summarize fairly the results for such periods. In addition, certain prior period amounts are reclassified from time to time to conform with the presentation used in the current period's financial statements.

The results for interim periods are not necessarily indicative of results for the entire year because of seasonal variations in the consumption of energy.

(2) Commitments and Contingencies

(a) Construction Program

The Company is engaged in a continuous construction program presently estimated at \$33.1 million for the five-year period 1994 through 1998. Of that amount, \$10.3 million is estimated for 1994. As of March 31, 1994 the Company's actual construction expenditures amounted to \$480,000, including an allowance for funds used during construction. The Company expects to finance these expenditures on an interim basis with internally generated funds and short-term borrowings which are ultimately expected to be repaid with the proceeds from sales of long-term debt and equity securities.

PAGE 7

CAMBRIDGE ELECTRIC LIGHT COMPANY

The program is subject to periodic review and revision because of factors such as changes in business conditions, rates of customer growth, effects of inflation, maintenance of reliable and safe service, equipment delivery schedules, licensing delays, availability and cost of capital and environmental regulations.

(b) Decommissioning of Nuclear Power Plants

The Company has equity ownership interests in four nuclear generating

facilities in New England and is obligated to pay its proportionate share of the capacity and energy costs associated with these units, which include depreciation, operations and maintenance, a return on invested capital and the estimated cost of decommissioning the nuclear plants at the end of their estimated service lives. Pertinent information with respect to projected decommissioning costs, in 1993 dollars, resulting from life-of-the-unit contracts from these units is as follows:

	Connecticut Yankee	Maine Yankee	Vermont Yankee	Yankee Atomic*
	(dollars in millions)			
Equity ownership	4.50%	4.00%	2.50%	2.00%
Plant entitlement	4.50%	3.59%	2.25%	2.00%
Plant capability (MW)	560.0	870.0	496.0	-
Company entitlement (MW)	25.2	31.2	11.2	-
Contract expiration date	1998	2008	2012	-
Decommissioning cost estimate (100%)	\$325.0	\$316.6	\$253.0	\$331.7
Company's decommissioning cost	\$ 14.6	\$ 11.4	\$ 5.7	\$ 6.6

* On February 26, 1992, the Board of Directors of Yankee Atomic Electric Company agreed to permanently discontinue power operation of its plant and decommission the facility. The Company's estimated decommissioning costs include their unrecovered share of all costs associated with the shutdown of the facility, recovery of its plant investment, and decommissioning and closing the plant. This amount is reflected in the accompanying Balance Sheets as a liability and a corresponding regulatory asset.

PAGE 8

CAMBRIDGE ELECTRIC LIGHT COMPANY

Item 2. Management's Discussion and Analysis of Results of Operations

The following is a discussion of certain significant factors which have affected operating revenues, expenses and net income during the periods included in the accompanying condensed statements of income. This discussion should be read in conjunction with the Notes to Condensed Financial Statements appearing elsewhere in this report.

A summary of the period to period changes in the principal items included in the condensed statements of income for the three months ended March 31, 1994 and 1993 is shown below:

	Three Months Ended March 31, 1994 and 1993 Increase (Decrease) (Dollars in Thousands)	
Electric Operating Revenues	\$5 610	20.3%

Operating Expenses -		
Fuel, transmission and purchased power	3 511	18.8
Other operation and maintenance	19	0.3
Depreciation	27	2.7
Taxes -		
Federal and state income	774	1 517.6
Local property and other	70	7.8
	4 401	16.6
Operating Income	1 209	111.4
Other Income	111	50.7
Income Before Interest Charges	1 320	101.2
Interest Charges	96	9.9
Net Income	\$1 224	370.9
Retail Unit Sales MWH Increase	53	-

The following is a summary of unit sales for the periods indicated:

Three Months Ended	Total	Unit Sales (MWH)	
		Retail	Wholesale
March 31, 1994	453 550	331 753	121 797
March 31, 1993	394 705	331 700	63 005

PAGE 9

CAMBRIDGE ELECTRIC LIGHT COMPANY

Operating Revenues

Operating revenues increased approximately \$5.6 million or 20.3% in the first three months of 1994 due to primarily to a \$3.5 million increase in fuel, transmission and purchased power costs. Also contributing to the increase were new base rates that became effective June 1, 1993.

The Company has received approval from the DPU to recover in revenues current costs associated with C&LM programs through the operation of a Conservation Charge decimal on a dollar-for-dollar basis. To the extent that these expenses increase or decrease from period to period based on customer participation, a corresponding change will occur in revenues.

Retail unit sales increased slightly during the current three-month period compared to the same period in 1993. The increase was due primarily to an increase in residential and commercial sales reflecting more extreme weather conditions offset, in part, by a decrease in sales to municipal and industrial

customers. The increase in wholesale sales reflects the changing capacity needs of non-affiliated utilities and the New England Power Pool. Fluctuations in the level of wholesale sales have little, if any, impact on earnings.

Fuel, Transmission and Purchased Power

The cost of fuel, transmission and purchased power averaged 4.9 cents per KWH in the current quarter compared to 4.7 cents per KWH for the same period last year. The average cost during the period primarily reflects the higher cost of fuel oil at affiliate Canal Electric Company, a major source of power for the Company. The cost of oil at Canal averaged 2.7 cents per KWH and 2.3 cents per KWH for the three-month periods ended March 31, 1994 and 1993, respectively.

The cost of electricity purchased for resale for the three-month period ended March 31, 1994 reflects a \$1 million overcollection, due to the recovery mechanism established by the DPU, of capacity-related costs associated with certain purchased power contracts. For the same period in 1993, approximately \$170,000 of these costs were not recovered in revenues. The impact of this recovery mechanism affected net income by \$633,000 and (\$112,000), respectively, for the quarterly periods ended March 31, 1994 and 1993 and was a significant factor in the overall improvement in net income in the current period. (Refer to the "Power Contracts" section to follow in this discussion.)

Other Operating Expenses

Other operation and maintenance expense was virtually unchanged in the current three-month period reflecting increased other operation expense (\$109,000) offset, in part, by a \$90,000 decrease in maintenance expense. The slight increase in other operation was due to higher insurance and benefit costs (\$114,000), a higher level of C&LM costs (\$61,000) offset, in part, by lower affiliated services company charges (\$114,000) that reflect the impact of a second quarter work force reduction and a decrease in the provision for bad debts (\$35,000) due to improved payment experience. In addition, other operation expense for the current period includes a \$110,000 reserve recorded for the Company's anticipated share of site clean-up costs associated with certain hazardous waste sites. (Refer to the "Environmental" section to follow in this discussion.)

PAGE 10

CAMBRIDGE ELECTRIC LIGHT COMPANY

Depreciation and Taxes

Depreciation expense increased due to a higher level of depreciable property, plant and equipment. Federal and state income taxes increased due to a greater level of pretax income and, to a lesser extent, an increase in the federal tax rate to 35%. The increase in local property and other taxes was due to higher tax rates, offset, in part, by lower assessments in the City of Cambridge.

Other Income and Interest Charges

Other income increased by approximately \$111,000 in the first quarter of 1994 compared to 1993 due primarily to interest income (\$79,000) recorded in the current period related to a Massachusetts sales tax abatement and a higher level of income from non-utility operations primarily reflecting the absence in 1994 of a loss recorded in January 1993 (\$33,000) in connection with the Company's equity investment in Yankee Atomic Electric Company.

The increase in interest charges in the current three-month period of 1994 compared to 1993 primarily reflects the interest to be refunded to the Company's customers in connection with the aforementioned sales tax abatement.

Power Contracts

The Company has long-term contracts for the purchase of electricity from various sources. Generally, these contracts are for fixed periods and require that the Company pay a demand charge for its capacity entitlement in each unit and an energy charge to cover the cost of fuel. The Company collects a portion of its capacity-related purchased power costs associated with certain long-term power arrangements through its base rates. The recovery mechanism for these costs uses a per KWH factor which is calculated using historical (test-period) capacity costs and unit sales. This factor is then applied to current monthly KWH sales. When current period capacity costs and/or unit sales vary from test-period levels, the Company experiences a revenue excess or shortfall. All other capacity and energy-related purchased power costs are recovered through the Company's Fuel Charge.

Power Agreement Cancelled

On May 2, 1994, the Company and its affiliate Commonwealth Electric Company (Commonwealth Electric) gave notice of termination of power purchase agreements with Eastern Energy Corp. (Eastern), the developer of a proposed 300 MW coal-fired plant in New Bedford, Massachusetts. In June 1989, in order to meet rising energy requirements, the Company and Commonwealth Electric agreed to buy 27% (33 MW and 50 MW, respectively) of the power to be produced by the proposed plant, originally scheduled to begin operation in January 1992. That date and later revised scheduled operating dates have not been achieved, and the proposed plant has still not received the necessary permits. Efforts to reshape the Eastern power purchase agreements to provide a satisfactory arrangement were unsuccessful. The companies' actions are based on Eastern's failure to meet its contractual obligations. The Company and Commonwealth Electric are unable to predict whether or not Eastern will contest their termination of these agreements.

PAGE 11

CAMBRIDGE ELECTRIC LIGHT COMPANY

Environmental Matters

The Company is subject to laws and regulations administered by federal,

state and local authorities relating to the quality of the environment. These laws and regulations affect, among other things, the siting and operation of generating facilities, and will continue to impact future operations, capital costs and construction schedules. Air emission regulations require the use of more costly lower-sulphur content fuels (0.5% maximum in the case of the Company's facilities, which are located in a populated urban area) in electric generating facilities. The amendments to the federal Clean Air Act enacted in 1990 will impose restrictions on air emissions, and have a particular impact on the cost of electric generating operations. Regulations enacted by the state of Massachusetts will require a reduction in sulphur dioxide emission rates effective December 31, 1994. A plan to meet this target date was developed and submitted to the state in compliance with applicable regulations. These regulations may also result in an increase in the cost of power purchased from others. The Company recovers its cost of fuel and purchased power through its Fuel Charge or base rates.

The Company has been named a potentially responsible party for a site used to dispose of PCB-contaminated transformers. In addition, the Company has been sued regarding the clean-up of a former waste oil burning and recycling center. The Company denies liability and is disputing this claim. A reserve for the estimated cost of site clean-up in the amount of \$110,000 was recorded in Other Operation expense in the first quarter of 1994.

PAGE 12

CAMBRIDGE ELECTRIC LIGHT COMPANY

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to any pending material legal proceeding.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended March 31, 1994.

PAGE 13

CAMBRIDGE ELECTRIC LIGHT COMPANY

SIGNATURES

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.

CAMBRIDGE ELECTRIC LIGHT COMPANY
(Registrant)

Principal Financial Officer:

JAMES D. RAPPOLI
James D. Rappoli,
Financial Vice President
and Treasurer

Principal Accounting Officer:

JOHN A. WHALEN
John A. Whalen,
Comptroller

Date: May 13, 1994