

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

**CANAL ELECTRIC CO**

CIK: **16906** | IRS No.: **041733577** | State of Incorp.: **MA** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **002-30057** | Film No.: **94528106**  
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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 2-30057

CANAL ELECTRIC COMPANY

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of incorporation or organization)

04-1733577

(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.

Class of Common Stock  
Common Stock, \$25 par value

Outstanding at  
May 1, 1994  
1,523,200 shares

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CANAL ELECTRIC 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	\$404 822	\$404 768
Less - Accumulated depreciation and amortization	141 761	137 720
	263 061	267 048
Add - Construction work in progress	2 999	2 501
Nuclear fuel in process	1 611	1 641
	267 671	271 190
LEASED PROPERTY, net	14 006	14 150
INVESTMENTS		
Equity in corporate joint venture	3 988	3 861
CURRENT ASSETS		
Cash	13	12
Accounts receivable		
Affiliated companies	11 527	12 215
Other	8 887	9 549
Electric production fuel oil	782	663
Prepaid taxes -		
Property	445	891

Income	-	720
Other	2 895	3 602
	24 549	27 652

DEFERRED CHARGES

Seabrook 1	8 662	9 002
Seabrook 2	6 454	6 937
Other	12 799	11 509
	27 915	27 448

	\$338 129	\$344 301
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CANAL ELECTRIC 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 - 2,328,200 shares		
Outstanding - 1,523,200 shares, wholly-owned by Commonwealth Energy System (Parent)	\$ 38 080	\$ 38 080
Amounts paid in excess of par value	8 321	8 321
Retained earnings	51 941	48 151
	98 342	94 552
Long-term debt, including premiums, less current sinking fund requirements	88 263	88 446
	186 605	182 998
CAPITAL LEASE OBLIGATIONS	13 432	13 575
CURRENT LIABILITIES		
Interim Financing -		
Notes payable to banks	11 750	28 000
Advances from affiliates	12 625	8 310
	24 375	36 310
Other Current Liabilities -		
Current sinking fund requirements	1 110	1 110
Accounts payable - Affiliated companies	1 288	1 829

Other	14 586	15 244
Accrued taxes -		
Income	2 309	460
Local property and other	749	923
Capital lease obligations	574	575
Accrued interest and other	4 144	3 547
	24 760	23 688
	49 135	59 998
DEFERRED CREDITS		
Accumulated deferred income taxes	71 041	70 854
Unamortized investment tax credits and other	17 916	16 876
	88 957	87 730
COMMITMENTS AND CONTINGENCIES		
	\$338 129	\$344 301

See accompanying notes.

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CANAL ELECTRIC 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		
Sales to affiliated companies	\$33 054	\$33 460
Sales to non-affiliated companies	20 843	21 540
	53 897	55 000
OPERATING EXPENSES		
Fuel used in production	24 231	22 493
Electricity purchased for resale	7 682	7 185
Other operation and maintenance	9 255	11 112
Depreciation	3 412	4 255
Taxes -		
Income	2 395	2 497
Local property	689	857
Payroll and other	219	225
	47 883	48 624
OPERATING INCOME	6 014	6 376
OTHER INCOME	89	251
INCOME BEFORE INTEREST CHARGES	6 103	6 627

INTEREST CHARGES		
Long-term debt	2 076	2 341
Other interest charges	274	228
Allowance for borrowed funds used during construction	(37)	(13)
	2 313	2 556
NET INCOME	3 790	4 071
RETAINED EARNINGS -		
Beginning of period	48 151	64 498
Dividends on common stock	-	(6 626)
RETAINED EARNINGS -		
End of period	\$51 941	\$61 943

See accompanying notes.

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CANAL ELECTRIC 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	\$ 3 790	\$ 4 071
Effects of non-cash items -		
Depreciation and amortization	4 963	5 984
Deferred income taxes and investment tax credits, net	2	(378)
Earnings from corporate joint venture	(127)	(168)
Change in working capital, exclusive of cash and interim financing	4 176	1 787
All other operating items	(162)	(165)
Net cash provided by operating activities	12 642	11 131
INVESTING ACTIVITIES		
Additions to property, plant and equipment (exclusive of AFUDC)	(486)	(577)
Allowance for borrowed funds used during construction	(37)	(13)
Net cash used for investing activities	(523)	(590)

FINANCING ACTIVITIES

Payment of short-term borrowings	(16 250)	(1 000)
Payment of dividends	-	(6 626)
Advances from (payments to) affiliates	4 315	(3 175)
Sinking fund payments	(183)	(185)
Net cash used for financing activities	(12 118)	(10 986)
Net increase (decrease) in cash	1	(445)
Cash at beginning of period	12	446
Cash at end of period	\$ 13	\$ 1

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid (received) during the period for:

Interest (net of capitalized amounts)	\$ 1 770	\$ 1 629
Income taxes	\$ (100)	\$ 1 366

See accompanying notes.

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CANAL ELECTRIC COMPANY

NOTES TO CONDENSED FINANCIAL STATEMENTS

(1) Accounting Policies

Canal Electric 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 (FERC) 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 \$14.7 million for abandonment and nonconstruction costs related to the Seabrook project and \$7.3 million related to deferred income taxes.

Generally, expenses which benefit 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 Company is a wholesale power company and operates its two generating units under life-of-the-unit power contracts on file with the FERC. The price of power under the power contracts is based on a two-part rate consisting of a demand charge and an energy charge. The demand charge covers all expenses except fuel costs and includes the recovery of the original investment. It also provides for any adjustments to that investment over the economic lives of the units. The energy charge is based on the cost of fuel and is billed to each purchaser in proportion to its purchase of power. Purchasers are billed monthly.

The Company also procures bulk electric power at the request of and for its affiliates thereby securing cost savings for their respective customers by planning for a power supply on a single system basis.

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CANAL ELECTRIC COMPANY

(2) Commitments and Contingencies

Construction

The Company is engaged in a continuous construction program presently estimated at \$64.8 million for the five-year period 1994 through 1998. Of that amount, \$13.2 million is estimated for 1994. As of March 31, 1994, construction expenditures, including an allowance for funds used during construction, amounted to \$523,000. The Company's program is subject to periodic review and revision.

(3) Decommissioning of Seabrook

The Company and the other joint owners of Seabrook have established a Seabrook Nuclear Decommissioning Financing Fund to cover post operational decommissioning costs. The estimated cost to decommission the plant is \$370 million, in 1994 dollars, through March 31, 1994. The Company's share, less its share of the market value of the decommissioning trust, would amount to approximately \$12.1 million.



## CANAL ELECTRIC 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	\$ (1 103)	(2.0)%
Operating Expenses -		
Fuel used in production	1 738	7.7
Electricity purchased for resale	497	6.9
Other operation and maintenance	(1 857)	(16.7)
Depreciation	(843)	(19.8)
Taxes -		
Federal and state income	(102)	(4.1)
Local property and other	(174)	(16.1)
	(741)	(1.5)
Operating Income	(362)	(5.7)
Other Income	(162)	(64.5)
Income Before Interest Charges	(524)	(7.9)
Interest Charges	(243)	(9.5)
Net Income	\$ (281)	(6.9)
Unit Sales (MWH) Decrease	(8 545)	(0.7)

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

Three Months	Unit Sales (MWH) Purchased
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Ended	Unit 1	Unit 2	For Resale	Seabrook 1	Total
March 31, 1994	712 225	370 126	138 971	64 380	1 285 702
March 31, 1993	882 843	183 162	148 663	79 579	1 294 247

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CANAL ELECTRIC COMPANY

Revenue, Fuel and Purchased Power

Operating revenues for the first three months of 1994 decreased approximately \$1.1 million or 2%, despite increases in fuel used in production and purchased power, due primarily to the decrease in unit sales and the absence in the current period of an overbilling to the Company during the first quarter of 1993 (approximately \$1.4 million) which was in turn billed to customers.

Purchased power and transmission costs are included in operating expenses and result from the Company's role as wholesale agent to generate and produce bulk electric power for affiliated retail distribution companies.

The 0.7% decrease in unit sales during the period reflects the decreased availability of Unit 1 offset by the timing of scheduled maintenance on Unit 2 which occurred during the first quarter of 1993. Also affecting unit sales were decreases in the level of purchases made by the Company acting as an agent on behalf of affiliated retail distribution companies and in power available from Seabrook 1 due to unscheduled maintenance. The decline in sales also reflects the impact of the excess capacity situation in New England.

The 7.7% increase in fuel used in production reflects the increased cost of oil. Average oil prices per barrel for the three-month periods ended March 31, 1994 and 1993 were \$14.19 and \$13.77, respectively. In conformance with restrictions on air emissions, the Commonwealth of Massachusetts mandated a reduction in sulphur dioxide emissions requiring the periodic use of more expensive lower-sulphur (1%) content oil. Fuel, purchased power and transmission costs represented approximately 61% and 56% of operating revenues in the first three months of 1994 and 1993, respectively, and averaged 2.5 cents per KWH in the current period as compared to 2.4 cents per KWH for the same period a year ago.

Other Operating Expenses

The 16.7% decrease in other operation and maintenance expense was due to the absence of the aforementioned overbilling to the Company which occurred during the first quarter of 1993 (approximately \$1.4 million). This overbilling was refunded to the Company during the second quarter of 1993 and, in turn, was refunded to the Company's customers. Also contributing to the reduction was a decrease in maintenance expense related to Unit 2 (\$695,000) due to the timing of scheduled maintenance.

Depreciation expense decreased 19.8%, approximately \$840,000 due to an adjustment to the accrual rate in the second quarter of 1993 to reflect the extension of the depreciation recovery period from 1996 to 2002. Federal and state income taxes decreased due to a lower level of pretax income, offset somewhat by an increase in the federal tax rate to 35%. The decrease in local property and other taxes reflects lower rates associated with the nuclear station tax assessed by the state of New Hampshire to the joint-owners of Seabrook.

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#### CANAL ELECTRIC COMPANY

##### Other Income and Interest Charges

The significant decrease in other income during the current three month period was primarily due to a higher level of other income deductions reflecting postretirement benefit reserves (\$177,000).

Total interest charges decreased 9.5% during the period reflecting lower long-term interest (\$265,000) due primarily to the early redemption of the Company's Series D, 11.125% First Mortgage Bonds due December 1, 2007 totaling \$9.3 million, on December 1, 1993. Somewhat offsetting the decrease during the period, was an increase in other interest charges (\$46,000) caused by a higher level of short-term borrowings.

##### 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.

The federal Clean Air Act, as amended, and certain state laws and regulations impose restrictions on air emissions. Some of these restrictions will become effective in 1995, and others by the year 2000. These laws and regulations have a particular impact on the cost of electric generating operations. As part of its emission reduction program, the Company has been burning more lower-sulphur content fuel oil at this plant. In addition, in October 1993, the Company and Montaup Electric Company (joint owner of Unit 2) reached an agreement with Algonquin Gas Transmission Company to build a natural gas pipeline that will serve Unit 2, subject to regulatory approvals. Unit 2 will be modified to burn gas in addition to oil. The project will improve air quality on Cape Cod, and will also strengthen the Company's bargaining position as it seeks to secure the lowest-cost fuel for its customers. Plant conversion and pipeline construction are expected to be completed in 1996.

Following the issuance of an environmental consent order in May 1993, the plant was subject to an intensive 26 week review by the Massachusetts

CANAL ELECTRIC COMPANY

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 10. Material Contracts

None

(b) Reports on Form 8-K

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

CANAL ELECTRIC 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.

CANAL ELECTRIC 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