

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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### FILER

#### COMMONWEALTH ELECTRIC CO

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549-1004

FORM 10-Q

(Mark One)

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 2-7749

COMMONWEALTH ELECTRIC COMPANY

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of incorporation or organization)

04-1659070

(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	Outstanding at May 1, 1994
Common Stock, \$25 par value	2,043,972 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

COMMONWEALTH 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	\$478 164	\$475 348
Less - Accumulated depreciation	136 718	133 349
	341 446	341 999
Add - Construction work in progress	6 645	5 478
	348 091	347 477
INVESTMENTS		
Equity in nuclear electric power company	612	601
Other	14	14
	626	615
CURRENT ASSETS		
Cash	2 371	2 794
Advances to affiliates	3 085	4 485
Accounts receivable - Affiliated companies	2 589	2 413
Customers	42 045	38 743
Unbilled revenues	9 387	9 332

Prepaid property taxes	1 269	2 538
Inventories and other	6 351	6 787
	67 097	67 092
DEFERRED CHARGES	35 904	34 619
	\$451 718	\$449 803

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COMMONWEALTH 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 and outstanding -		
2,043,972 shares wholly-owned by		
Commonwealth Energy System (Parent)	\$ 51 099	\$ 51 099
Amounts paid in excess of par value	97 112	97 112
Retained earnings	16 759	15 118
	164 970	163 329
Long-term debt, less current sinking fund requirements	157 808	158 858
	322 778	322 187
CURRENT LIABILITIES		
Current sinking fund requirements	1 053	1 053
Accounts payable -		
Affiliated companies	10 713	10 088
Other	21 990	22 044
Accrued taxes -		
Local property and other	2 412	3 017
Income	4 058	2 337
Other	11 749	13 125
	51 975	51 664
DEFERRED CREDITS		
Accumulated deferred income taxes	39 895	39 396
Unamortized investment tax credits	8 320	8 430

Other	28 750	28 126
	76 965	75 952

COMMITMENTS AND CONTINGENCIES

\$451 718	\$449 803
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See accompanying notes.

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COMMONWEALTH 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	\$118 490	\$104 712
OPERATING EXPENSES		
Electricity purchased for resale, transmission and fuel	80 775	68 395
Other operation and maintenance	20 000	23 247
Depreciation	4 014	3 866
Taxes -		
Income	3 010	1 199
Local property	1 284	1 220
Payroll and other	992	1 073
	110 075	99 000
OPERATING INCOME	8 415	5 712
OTHER INCOME	87	1
INCOME BEFORE INTEREST CHARGES	8 502	5 713
INTEREST CHARGES		
Long-term debt	3 546	2 542
Other interest charges	110	861
Allowance for borrowed funds used during construction	(65)	(53)
	3 591	3 350
NET INCOME	4 911	2 363

RETAINED EARNINGS -		
Beginning of period	15 118	14 882
Dividends on common stock	(3 270)	(3 052)
RETAINED EARNINGS -		
End of period	\$ 16 759	\$ 14 193

See accompanying notes.

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COMMONWEALTH 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	\$ 4 911	\$ 2 363
Effects of non-cash items -		
Depreciation and amortization	4 561	4 219
Deferred income taxes and investment tax credits, net	(139)	(88)
Change in working capital, exclusive of cash and advances to affiliates	(1 517)	8 205
All other operating items	(1 238)	(3 233)
Net cash provided by operating activities	6 578	11 466
INVESTING ACTIVITIES		
Additions to property, plant and equipment (exclusive of AFUDC)	(4 016)	(3 101)
Allowance for borrowed funds used during construction	(65)	(53)
Payment from (advances to) affiliates	1 400	(3 840)
Net cash used for investing activities	(2 681)	(6 994)
FINANCING ACTIVITIES		
Long-term debt issues	-	65 000
Sale of common stock	-	35 000
Payment of short-term borrowings	-	(67 275)

Payment to affiliates	-	(11 840)
Long-term debt issues refunded	-	(21 300)
Retirement of long-term debt through sinking funds	(1 050)	-
Payment of dividends	(3 270)	(3 052)
Net cash used for financing activities	(4 320)	(3 467)
Net increase (decrease) in cash	(423)	1 005
Cash at beginning of period	2 794	507
Cash at end of period	\$ 2 371	\$ 1 512

#### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

##### Cash paid during the period for:

Interest (net of capitalized amounts)	\$ 4 862	\$ 3 847
Income taxes	\$ 900	\$ 247

See accompanying notes.

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### COMMONWEALTH ELECTRIC COMPANY

#### NOTES TO CONDENSED FINANCIAL STATEMENTS

##### (1) Accounting Policies

Commonwealth 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 \$8.3 million for unrecovered plant and decommissioning costs for the Yankee Atomic nuclear plant, \$7.3 million in litigation costs associated with a settlement agreement with Boston Edison Company relative to the Pilgrim nuclear power plant, \$4.4 million in abandonment costs for the Cannon Street generating station and \$7.9 million for postretirement benefits costs, including pensions. The principal regulatory liability, reflected in

deferred credits, was \$4 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 and Financing Programs

The Company is engaged in a continuous construction program presently estimated at \$141 million for the five-year period 1994 through 1998. Of that amount, \$24.8 million is estimated for 1994. As of March 31, 1994, the Company's construction expenditures amounted to approximately

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### COMMONWEALTH ELECTRIC COMPANY

\$4.1 million, 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.

The program is subject to periodic review and revision due to 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 Yankee Atomic Nuclear Power Plant

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 2.5% investment in Yankee Atomic is approximately \$612,000. The Company's estimated decommissioning costs include its unrecovered share of all costs associated with the shutdown of the facility, recovery of its plant investment, and



decommissioning and closing the plant to be \$8.3 million. This amount is reflected in the accompanying Balance Sheets as a liability and a corresponding regulatory asset.

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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	\$13 778	13.2%
Operating Expenses -		
Electricity purchased for resale, transmission and fuel	12 380	18.1
Other operation and maintenance	(3 247)	(14.0)
Depreciation	148	3.8
Taxes -		
Federal and state income	1 811	151.0
Local property and other	(17)	(0.7)
	11 075	11.2
Operating Income	2 703	47.3
Other Income	86	-
Income Before Interest Charges	2 789	48.8
Interest Charges	241	7.2
Net Income	\$ 2 548	107.8
Retail Unit Sales MWH Increase	8 707	1.0

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

Three Months Ended	Total	Unit Sales (MWH)	
		Retail	Wholesale
March 31, 1994	1 254 373	865 889	388 484
March 31, 1993	1 090 531	857 182	233 349

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### COMMONWEALTH ELECTRIC COMPANY

#### Operating Revenues, Electricity Purchased for Resale, Transmission and Fuel

Operating revenues for the first three months of 1994 increased by \$13.8 million or 13.2% from the corresponding period in 1993 due to a \$12.4 million increase in the cost of electricity purchased for resale, a 1% increase in retail unit sales due to colder than normal weather conditions and the recovery of \$647,000 in "lost base revenues" related to conservation and load management (C&LM) programs. The recovery of lost base revenues is allowed by the Massachusetts Department of Public Utilities (DPU) to encourage effective implementation of C&LM programs. The KWH savings that are realized as a result of the successful implementation of C&LM programs serve as the basis for determining lost base revenues. The increase in revenues was partially offset by a \$123,000 decrease in C&LM costs. 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.

Also included in revenues were wholesale sales to NEPOOL and to non-associate utilities of \$8.3 million, a \$2.7 million increase from the first quarter last year reflecting the changing capacity needs of non-affiliated utilities and the New England Power Pool. Fluctuations in the level of wholesale electric sales have little, if any, impact on net income.

The per KWH cost of electricity purchased for resale was slightly higher in the current quarter (6.4 cents) than the same period of a year ago (6.3 cents) and reflects the impact of the Company's continuing contractual obligations to purchase higher-cost power procured in the 1980s when the Company's customer base grew dramatically and forecasts predicted continued growth. The contracts, which typically provide for long-term purchases from certain gas-fired independent power producing (IPP) facilities, will continue to drive costs up as additional capacity comes on line. The Company is currently involved in the renegotiation of a number of existing contracts which include price restructuring, buy-outs and/or generating unit shutdowns that could also reduce its cost of power. Also contributing to the increase was the higher cost of oil at affiliate Canal Electric Company which averaged 2.7 cents per KWH for the current three-month period compared to 2.3 cents for the same period in 1993.

The cost of electricity purchased for resale for the three-month periods

ended March 31, 1994 and 1993 also included \$357,000 and \$771,000, respectively, of capacity-related costs associated with certain purchased power contracts that were not recovered in revenues due to the recovery mechanism established by the DPU. The impact of this under-recovery reduced net income by \$216,000 and \$469,000 for the respective quarterly periods. (Refer to the "Power Contracts" section to follow.)

#### Other Operating Expenses

Other operation and maintenance declined by \$3.2 million or 14% in the first quarter of 1994 due, in part, to the cost savings of approximately \$1.1 million that resulted from a second quarter 1993 work force reduction. Other factors contributing to the decrease include lower employee medical benefit costs of \$470,000, lower affiliate services company charges (\$450,000) also

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#### COMMONWEALTH ELECTRIC COMPANY

due to the work force reduction, a decline of \$300,000 in the provision for bad debt expense due to improved collection experience and a decline of \$123,000 in C&LM costs (to \$1 million) which are being recovered currently in revenues.

The change in local property and other taxes reflects higher property tax rates (\$64,000) offset by a reduction in payroll taxes of \$81,000. Income taxes increased during the current period due to the significantly higher level of pretax income and, to a lesser extent, an increase in the federal income tax rate to 35% which was implemented on July 1, 1993.

#### Other Income and Interest Charges

The increase in other income was due to interest on advances to affiliated companies (\$63,000) and a higher level of income from non-utility operations (\$47,000) primarily reflecting the absence in 1994 of a loss (recorded in January 1993) in connection with the Company's equity investment in Yankee Atomic Electric Company.

Total interest charges increased 7.2% for the current three-month period reflecting the issuance of \$65 million in long-term debt in late March 1993 (\$1 million) offset by a \$750,000 decline in short-term interest expense primarily reflecting the absence of short-term bank borrowings this year as compared to an average level of \$52.4 million in the first quarter of 1993.

#### 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 Cambridge Electric Light Company (Cambridge 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 Cambridge Electric agreed to buy 27% (50 MW and 33 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 Cambridge Electric are unable to predict whether or not Eastern will contest their

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#### COMMONWEALTH ELECTRIC COMPANY

termination of these agreements.

#### Rate Stabilization Plan

The Company implemented a Fuel Charge (FC) rate settlement on April 1, 1994 that will stabilize its quarterly FC rate during the years 1994 through 1996 at 6.5 cents per KWH and between 6.5 cents and 6.7 cents per KWH during 1997. This rate stabilization results from the use of a cost deferral mechanism that was sponsored jointly by the Company and the Massachusetts Attorney General and approved by the DPU. The stabilized FC rate could save customers between 1.75% and 5% on their annual electric bills from 1994 through 1997. Deferred costs will be set up as a regulatory asset to be recovered, with carrying charges, over the subsequent six-year period beginning in 1998 under a recovery schedule to be approved by the DPU. The deferred amount, excluding carrying charges, is restricted to a maximum of \$40 million during the settlement period (1994 through 1997) and is further limited to an annual cost deferral of \$16 million which is the amount the Company anticipates will be deferred in 1994.

The rate stabilization mechanism is part of a long-term plan to control the Company's retail rates. This plan will help to eliminate the disincentive for economic development resulting from a volatile and unpredictable FC rate. The stabilized FC rate will enable current and prospective customers to better plan their business and personal finances in a more efficient and effective manner. In addition to the Massachusetts Attorney General, this proposal has

been widely supported by various business and customer groups and other political interests.

The settlement results in the Company billing its customers a significantly lower rate than would have been in effect on April 1, 1994 had the DPU not approved the proposal. The Company's customers would have been billed for increased costs that resulted from certain higher-priced, long-term contract obligations. The Company is currently involved in contract renegotiations, as mentioned previously in this discussion.

#### Environmental Matters

The Company has been named a potentially responsible party for a site used to dispose of PCB-contaminated transformers. A reserve for the estimated cost of site clean-up in the amount of \$50,000 was recorded in Other Operation expense in the first quarter of 1994.

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#### COMMONWEALTH ELECTRIC COMPANY

#### PART II - OTHER INFORMATION

##### Item 1. Legal Proceedings

None.

##### 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.

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#### COMMONWEALTH 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.

COMMONWEALTH 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