**VERMONT YANKEE**
**NUCLEAR POWER CORPORATION**
185 OLD FERRY ROAD, PO BOX 7002, BRATTLEBORO, VT 05302-7002
(802) 257-5271

April 17, 2001
BVY 01-34

U.S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, D.C. 20555

**Subject:** **Vermont Yankee Nuclear Power Station**
**License No. DPR-28 (Docket No. 50-271)**
**Vermont Yankee Nuclear Power Corporation - 2000 Annual Report**

In accordance with 10CFR50.71(b), attached is a copy of Vermont Yankee Nuclear Power Corporation's 2000 annual financial report including certified financial statements.

We trust that the information provided is adequate; however, should you have questions or require additional information, please contact Mr. John J. Boguslawski at (802) 258-4136.

Sincerely,

VERMONT YANKEE NUCLEAR POWER CORPORATION

Gautam Sen

Gautam Sen
Licensing Manager

Attachment
cc: USNRC Region 1 Administrator
USNRC Resident Inspector – VYNPS
USNRC Project Manager – VYNPS
Vermont Department of Public Service

M004

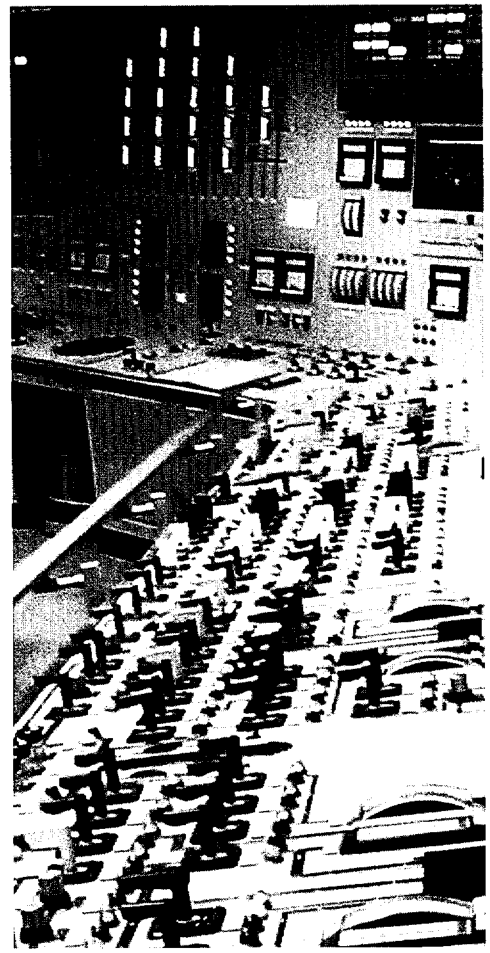
## SUMMARY OF VERMONT YANKEE COMMITMENTS

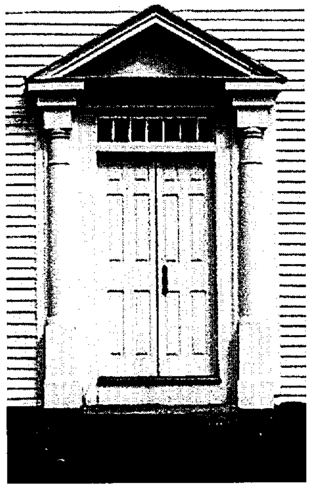
BVY NO.: 01-34

**The following table identifies commitments made in this document by Vermont Yankee. Any other actions discussed in the submittal represent intended or planned actions by Vermont Yankee. They are described to the NRC for the NRC's information and are not regulatory commitments. Please notify the Licensing Manager of any questions regarding this document or any associated commitments.**

| COMMITMENT | COMMITTED DATE OR "OUTAGE" |
|---|---|
| None | N/A |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |



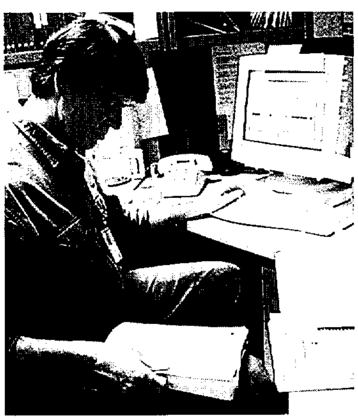
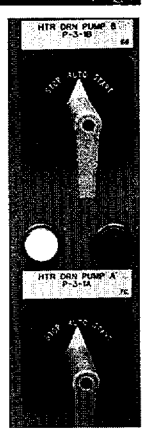


# Vermont Yankee

## Nuclear Power Corporation

# 2000 Annual Report


# Vermont Yankee
# 2000 Annual Report

## Table of Contents




**Vermont Yankee Nuclear Power Corporation**

185 Old Ferry Road
P. O. Box 7002
Brattleboro, Vermont 05302-7002
www.vermontyankee.com

# President's Letter

Vermont Yankee enjoyed another banner year in 2000 – the best ever in the company's 28-year operating history. Despite year-long purchase negotiations between AmerGen Energy Company and Vermont Yankee's owners, VY employees remained focused on the safe, efficient operation of the plant.

As a result, in the year 2000, VY operated at a maximum dependable capacity factor of 101.5% (net), a thermal capacity factor of 98.9%, and generated the most megawatts ever (4,548,065 net) in a calendar year. In addition to these accomplishments, the average personnel radiation exposure was also the lowest in VY's history.

For the third year since Vermont Yankee established a Continuous Process Improvement (CPI) program, employees worked in teams to improve work processes within the company. During 2000, CPI team initiatives resulted in direct cost savings of nearly $5 million.

The rising demand for electricity and increasing prices of oil and natural gas have created a competitive electricity marketplace, one in which nuclear power is rapidly re-emerging as a low-cost leader. In 2000, Vermont Yankee's average cost per megawatt hour was $39.20 – 9.2% below the average ISO New England energy clearing price for the year ($43.18 per megawatt hour). If Vermont Yankee's sponsors had been forced to go into the spot market to replace the power produced by Vermont Yankee in 2000, it would have cost them an additional $18.1 million.

The combined effect of excellent plant operations and a strongly improving market for nuclear power have had a very positive effect on the proposed sale of Vermont Yankee. In March of 2001, following more than a year of negotiations and the emergence of several new potential buyers, the Vermont Public Service Board rejected the AmerGen purchase offer as being too low. The plant's owners have decided to maximize the sale value of Vermont Yankee assets through an auction process.

Ross P Barkhurst

Ross P. Barkhurst

# Description of Business

Vermont Yankee Nuclear Power Corporation ("the Company") was incorporated under the laws of the State of Vermont on August 4, 1966. The Company was formed by a group of New England utilities to construct and operate a nuclear-powered generating plant ("the Plant").

The Plant commenced commercial operation on November 30, 1972, and except during maintenance and refueling outages, has been in full operation since that time. The Plant is licensed by the Nuclear Regulatory Commission to operate until 2012.

Located on the west bank of the Connecticut River in Vernon, Vermont, the facility has a gross maximum dependable capacity of approximately 535 megawatts. The common stock of Vermont Yankee is owned by twelve utilities, eight of which are the Sponsoring utilities that are entitled and obligated to purchase the output of the Plant.

Under the terms of the Company's Power Contracts, each Sponsor is obligated to pay Vermont Yankee monthly, regardless of the Plant's operating level, or whether or not it is operating, an amount equal to its entitlement percentage of Vermont Yankee's total fuel costs, operating expenses, decommissioning costs and an allowed return on equity. Also, under the terms of the Capital Funds Agreements, the Sponsors are committed to make funds available for changes or replacements needed to maintain or restore operation of the Plant or to obtain or maintain licenses necessary for its operation. The names of the Sponsors and their respective entitlement percentages of Vermont Yankee's capacity and output are as follows:

| Sponsor | Entitlement Percentage |
|---|---|
| Central Vermont Public Service Corporation | 35.0% |
| New England Power Company* | 22.5 |
| Green Mountain Power Corporation | 20.0 |
| The Connecticut Light and Power Company | 9.5 |
| Central Maine Power Company | 4.0 |
| Public Service Company of New Hampshire | 4.0 |
| Cambridge Electric Light Company | 2.5 |
| Western Massachusetts Electric Company | 2.5 |
| | 100.0% |

* On May 1, 2000, Montaup Electric Company, with a 2.5% entitlement percentage under the Power Contracts, was merged into New England Power Company, which prior to the merger had a 20% entitlement percentage under the Power Contracts. Following the merger, New England Power Company's entitlement percentage is 22.5%.

See Note 1 to the Financial Statements for discussion on the possible sale of the Plant and related assets and liabilities.

# Comparative Highlights

| | 2000 | 1999 | % Change |
|---|---|---|---|
| **Financial** (Dollars in millions): | | | |
| Operating revenues | **$178.3** | $208.8 | (14.6) |
| Net income | **6.6** | 6.5 | 1.7 |
| Total assets | **707.0** | 685.3 | 3.2 |
| Average number of shares of common stock outstanding (thousands) | **392.5** | 392.5 | 0.0 |
| **Per Share of Common Stock:** | | | |
| Basic earnings per common share | **$16.77** | $16.49 | 1.7 |
| Dividends paid per common share | **15.77** | 18.31 | (13.9) |
| Book value per common share (year-end) | **138.40** | 137.40 | 0.7 |
| **Operating:** | | | |
| Kilowatt-hour sales (billions) | **4.55** | 4.06 | 12.1 |
| Cost per kilowatt-hour (cents) | **3.92** | 5.14 | (23.7) |

# Common Stock Ownership

| Stock Owner | Percentage Owned | Shares Owned |
|---|---|---|
| Central Vermont Public Service Corporation | 31.3% | 122,653 |
| New England Power Company* | 22.5 | 88,203 |
| Green Mountain Power Corporation | 17.9 | 70,088 |
| The Connecticut Light and Power Company | 9.5 | 37,242 |
| Central Maine Power Company | 4.0 | 15,681 |
| Public Service Company of New Hampshire | 4.0 | 15,681 |
| Burlington Electric Department | 3.6 | 14,301 |
| Cambridge Electric Light Company | 2.5 | 9,801 |
| Western Massachusetts Electric Company | 2.5 | 9,800 |
| Vermont Electric Cooperative, Inc. | 1.0 | 4,213 |
| Washington Electric Cooperative, Inc. | 0.6 | 2,431 |
| Village of Lyndonville Electric Department | 0.6 | 2,387 |
| | 100.0% | 392,481 |

* On May 1, 2000, Montaup Electric Company, holding a 2.5% ownership interest in Vermont Yankee, was merged into New England Power Company, which prior to the merger held a 20% ownership interest in Vermont Yankee. Following the merger, New England Power Company's ownership interest in Vermont Yankee is 22.5%.

# Financial Review

Operating revenues of the Company are billed and received from its Sponsors based on the terms of its Power Contracts. Under those contracts, the Sponsors are severally required to pay the Company an amount equal to their respective entitlement share of the Company's total fuel and operating expenses, return on net unit investment and an amount designated to meet anticipated decommissioning costs at the end of the nuclear electric generating plant's useful life.

2000 was another record setting year for plant operations. The plant produced a record 4,548,065 net megawatt hours of electricity during the year. That corresponds to a record capacity factor of 101.5% (net maximum design capability) for the year.

The Company also had a successful year financially, finishing well under budget and with total costs significantly less than the prior year. Operating revenues decreased in 2000 from 1999 by $30.5 million, or 14.6%, primarily due to lower maintenance and other operating expense, as there was no refueling and maintenance shutdown in 2000. The plant operates on refueling cycles of approximately 18 months with the last scheduled refueling completed in December 1999. Another factor leading to reduced other operating expense in 2000 was the completion of all year 2000 readiness activities during 1999.

Nuclear fuel expense increased by $2.1 million in 2000 from 1999 as a result of the increased generation in 2000, a record setting year without a refueling outage. Decommissioning expense increased by $3.7 million, consistent with the current FERC approved collection schedule which increases every 5 years. Depreciation expense decreased by $1.6 million in 2000 from the 1999 level as a result of having fully reserved for depreciation on certain short life property.

Other income, net of associated income tax, increased by $0.9 million in 2000 from 1999 due to higher after-tax earnings on the fixed income investments in the Spent Fuel Disposal Fee Defeasance Trust. Total interest expense increased by $2.0 million in 2000 from 1999 as a result of the increasing spent fuel disposal fee obligation balance and higher prevailing interest rates in 2000.

Net income, computed in accordance with the Company's formula rate approved by the Federal Energy Regulatory Commission ("FERC"), increased by $0.1 million in 2000 from 1999 and income tax expense increased by $0.1 million primarily as a consequence of the higher net income.

# Report of Independent Public Accountants

## The Stockholders and Board of Directors of Vermont Yankee Nuclear Power Corporation:

We have audited the accompanying balance sheets of Vermont Yankee Nuclear Power Corporation as of December 31, 2000 and 1999, and the related statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Yankee Nuclear Power Corporation as of December 31, 2000 and 1999, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2000, in conformity with generally accepted accounting principles in the United States.

Arthur Andersen L.L.P.

Boston, Massachusetts
February 14, 2001

# Statements of Income and Retained Earnings

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| | **Years ended December 31,** | | |
| | **(In thousands except per share data)** | | |
| **Operating revenues** | $178,294 | $208,812 | $195,249 |
| **Operating expenses:** | | | |
| Nuclear fuel expense (NOTES 4 and 8) | **20,907** | 18,834 | 15,902 |
| Other operating expense | **79,565** | 94,694 | 89,441 |
| Maintenance expense | **19,724** | 40,232 | 34,494 |
| Depreciation and amortization expense | **14,349** | 15,973 | 17,059 |
| Decommissioning expense (NOTE 3) | **16,245** | 12,559 | 12,625 |
| Taxes on income (NOTE 9) | **2,031** | 1,903 | 2,223 |
| Property and other taxes | **9,329** | 9,685 | 8,223 |
| Total operating expenses | **162,150** | 193,880 | 179,967 |
| Operating income | **16,144** | 14,932 | 15,282 |
| **Other income (expense):** | | | |
| Net earnings on decommissioning trust (NOTES 3 and 5) | **11,271** | 8,864 | 7,969 |
| Decommissioning expense (NOTE 3) | **(11,271)** | (8,864) | (7,969) |
| Earnings on spent fuel disposal defeasance trust (NOTE 5) | **6,255** | 4,748 | 5,341 |
| Taxes on other income (NOTE 9) | **(2,257)** | (1,669) | (1,911) |
| Other, net | **(169)** | (116) | (190) |
| Total other income | **3,829** | 2,963 | 3,240 |
| Income before interest expense | **19,973** | 17,895 | 18,522 |
| **Interest expense:** | | | |
| Interest on long-term debt | **6,835** | 6,736 | 6,423 |
| Interest on spent fuel disposal fee obligation (NOTE 8) | **6,577** | 4,953 | 5,104 |
| Allowance for borrowed funds used during construction | **(22)** | (265) | (130) |
| Total interest expense | **13,390** | 11,424 | 11,397 |
| **Net income:** | **6,583** | 6,471 | 7,125 |
| Retained earnings at beginning of year | **830** | 1,546 | 1,191 |
| | **7,413** | 8,017 | 8,316 |
| Dividends declared | **6,189** | 7,187 | 6,770 |
| Retained earnings at end of year | **$1,224** | $830 | $1,546 |
| Average number of shares outstanding | **392** | 392 | 392 |
| Net income per share of common stock outstanding | **$16.77** | $16.49 | $18.15 |
| Dividends per share of common stock outstanding | **$15.77** | $18.31 | $17.25 |

*See accompanying notes to financial statements.*

# Balance Sheets

## Assets

| | December 31, 2000 | December 31, 1999 |
|---|---|---|
| | (Dollars in thousands) | |
| **Utility plant:** | | |
| Electric plant, at cost (NOTE 6): | $420,640 | $418,955 |
| Less accumulated depreciation | 295,773 | 282,893 |
| | 124,867 | 136,062 |
| Construction work in progress | 8,121 | 4,530 |
| Net electric plant | 132,988 | 140,592 |
| Nuclear fuel, at cost: | | |
| Assemblies in reactor | 69,016 | 69,016 |
| Assemblies in process | 12,914 | - |
| Spent fuel | 372,101 | 372,101 |
| | 454,031 | 441,117 |
| Less accumulated amortization of burned nuclear fuel | 414,532 | 399,962 |
| | 39,499 | 41,155 |
| Less accumulated amortization of final core nuclear fuel | 11,888 | 11,035 |
| Net nuclear fuel | 27,611 | 30,120 |
| Net utility plant | 160,599 | 170,712 |
| **Long-term investments, at fair market value:** | | |
| Decommissioning trust (NOTES 3, 5, 7 and 14) | 281,704 | 247,044 |
| Spent fuel disposal fee defeasance trust (NOTES 5, 7 and 8) | 109,239 | 101,526 |
| Total long-term investments | 390,943 | 348,570 |
| **Current assets:** | | |
| Cash and cash equivalents | 775 | 7,970 |
| Accounts receivable from sponsors | 16,074 | 15,587 |
| Other accounts receivable | 1,729 | 2,366 |
| Materials and supplies, net of amortization | 15,762 | 16,743 |
| Prepaid expenses | 2,847 | 3,158 |
| Total current assets | 37,187 | 45,824 |
| **Deferred charges:** | | |
| Deferred decommissioning costs (NOTE 3 and 14) | 25,407 | 30,698 |
| Deferred low-level waste facility expenses (NOTES 4 and 13) | 25,830 | 26,040 |
| Accumulated deferred income taxes (NOTE 9) | 37,012 | 31,498 |
| Deferred design basis documentation costs (NOTE 4) | 17,807 | 15,776 |
| Deferred DOE enrichment site decontamination and decommissioning fee (NOTE 4) | 8,473 | 9,404 |
| Net unamortized loss on reacquired debt | 1,606 | 1,788 |
| Other deferred charges (NOTES 4 and 5) | 2,120 | 4,982 |
| Total deferred charges | 118,255 | 120,186 |
| | $706,984 | $685,292 |

*See accompanying notes to financial statements.*

# Balance Sheets
# Capitalization and Liabilities

| | December 31, 2000 | 1999 |
|---|---|---|
| | (Dollars in thousands) | |
| **Capitalization:** | | |
| Common stock equity: | | |
| Common stock, $100 par value; authorized 400,100 shares; issued 400,014 shares of which 7,533 are held in Treasury | $40,001 | $40,001 |
| Additional paid-in capital | 14,226 | 14,226 |
| Treasury stock (7,533 shares at cost) | (1,130) | (1,130) |
| Retained earnings | 1,224 | 830 |
| Total common stock equity | 54,321 | 53,927 |
| Long-term obligations, net (NOTES 6 and 7) | 59,591 | 97,350 |
| Total capitalization | 113,912 | 151,277 |
| Commitments and contingencies (NOTES 3, 12 and 13) | | |
| Spent fuel disposal fee and accrued interest (NOTES 7 and 8) | 115,351 | 108,774 |
| **Current liabilities:** | | |
| Accounts payable | 3,185 | 1,083 |
| Accrued expenses (Note 2) | 13,403 | 28,568 |
| Accrued low-level waste expenses (NOTE 13) | 4,858 | 4,490 |
| Accrued taxes | 2,360 | 1,590 |
| Accrued interest | 2,218 | 1,585 |
| Current maturities of long-term debt (NOTE 6) | 36,393 | - |
| Other current liabilities | 9,739 | 9,571 |
| Total current liabilities | 72,156 | 46,887 |
| **Deferred credits and other liabilities:** | | |
| Accrued decommissioning costs (NOTE 3) | 321,409 | 289,970 |
| Accumulated deferred income taxes (NOTE 9) | 36,561 | 39,175 |
| Accrued low-level waste facility expenses (NOTES 4 and 13) | 23,226 | 23,436 |
| Accrued DOE enrichment site decontamination and decommissioning fee (NOTE 4) | 6,280 | 7,284 |
| Accrued employee benefits (NOTE 11) | 10,885 | 10,055 |
| Net regulatory tax liability (NOTE 9) | 3,982 | 4,546 |
| Accumulated deferred investment tax credits | 3,222 | 3,888 |
| Total deferred credits and other liabilities | 405,565 | 378,354 |
| | $706,984 | $685,292 |

*See accompanying notes to financial statements.*

# Statements of Cash Flows

| | Years ended December 31, 2000 | 1999 | 1998 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| **Cash flows from operating activities:** | | | |
| Net income | **$ 6,583** | $ 6,471 | $ 7,125 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization of nuclear fuel | **15,423** | 13,845 | 11,590 |
| Depreciation and amortization | **14,349** | 15,973 | 17,059 |
| Decommissioning expense | **16,245** | 12,559 | 12,625 |
| Deferred tax expense | **(8,692)** | (6,424) | (8,524) |
| Amortization of deferred investment tax credits | **(666)** | (545) | (543) |
| Nuclear fuel disposal fee interest accrual | **6,577** | 4,953 | 5,104 |
| Interest and dividends on disposal fee defeasance trust | **(7,714)** | (3,383) | (5,133) |
| (Increase) decrease in accounts receivable | **150** | (1,090) | 943 |
| (Increase) decrease in prepaid expense | **311** | 683 | 529 |
| (Increase) decrease in materials and supplies inventory | **981** | (593) | 646 |
| Increase (decrease) in accounts payable and accrued liabilities | **(12,526)** | 15,347 | (2,114) |
| Increase (decrease) in interest and taxes payable | **1,403** | (710) | 225 |
| Other | **2,596** | (1,728) | (3,057) |
| Total adjustments | **28,437** | 48,887 | 29,350 |
| Net cash provided by operating activities | **35,020** | 55,358 | 36,475 |
| **Cash flows from investing activities:** | | | |
| Electric plant additions and retirements | **(5,292)** | (10,686) | (19,113) |
| Nuclear fuel additions | **(12,914)** | (20,785) | (748) |
| Payments to decommissioning trust | **(16,454)** | (12,898) | (12,403) |
| Payments to spent fuel disposal fee defeasance trust | **-** | - | (1,000) |
| Net cash used for investing activities | **(34,660)** | (44,369) | (33,264) |
| **Cash flows from financing activities:** | | | |
| Dividend payments | **(6,189)** | (7,187) | (6,770) |
| Series I Bonds Sinking Fund Payments | **(5,418)** | (5,418) | - |
| Payments of long-term obligations | **(323,050)** | (328,000) | (236,751) |
| Borrowings under long-term agreements | **327,102** | 337,493 | 236,268 |
| Net cash used for financing activities | **(7,555)** | (3,112) | (7,253) |
| Net increase (decrease) in cash and cash equivalents | **(7,195)** | 7,877 | (4,042) |
| Cash and cash equivalents at beginning of year | **7,970** | 93 | 4,135 |
| Cash and cash equivalents at end of year | **$775** | $7,970 | $93 |

*See accompanying notes to financial statements.*

# Notes to Financial Statements

## NOTE 1. Nature of Business and Possible Sale of Assets

Vermont Yankee Nuclear Power Corporation ("the Company") was incorporated under the laws of the State of Vermont on August 4, 1966. The Company was formed by a group of New England utilities for the purpose of constructing and operating a nuclear-powered electric generating plant ("the Plant"). The Company's common stock is owned by twelve utilities, eight of which are the Sponsoring utilities that are entitled and obligated to purchase the output of the Plant. Under the terms of the Company's Power Contracts each Sponsor is obligated to pay Vermont Yankee monthly, regardless of the Plant's operating level, or whether or not it is operating, an amount equal to its entitlement percentage of Vermont Yankee's total fuel costs, operating expenses, decommissioning costs and an allowed return on equity. Also, under the terms of the Capital Funds Agreements, the Sponsors are committed to make funds available for changes or replacements needed to maintain or restore operation of the Plant or to obtain or maintain licenses necessary for its operation.

The names of the sponsoring utilities and their respective entitlement percentages of Vermont Yankee's capacity and output are as follows: Central Vermont Public Service Corporation with 35.0%, New England Power Company with 22.5%, Green Mountain Power Corporation with 20.0%, The Connecticut Light and Power Company with 9.5%, Central Maine Power Company with 4.0%, Public Service Company of New Hampshire with 4.0%, Cambridge Electric Light Company with 2.5%, and Western Massachusetts Electric Company with 2.5% ("the Sponsors").

The Plant commenced commercial operation on November 30, 1972, and except during maintenance and refueling outages, has been in full operation since that time. The Plant has a gross maximum dependable capacity of approximately 535 megawatts and is licensed by the Nuclear Regulatory Commission to operate until 2012, though there is no assurance that it will do so. Other nuclear plants, including some in the Northeast with similar ownership structures, have been shut down prior to the end of their license life for economic reasons. The Federal Energy Regulatory Commission, which regulates the rates charged by the Company under the Power Contracts, has allowed plants that are shut down prematurely for economic reasons to recover the as yet unrecovered costs at the time of the shutdown, if it is determined that the decision to shut down was prudent. These unrecovered costs include undepreciated plant and unfunded nuclear decommissioning costs. The Company prepares periodic economic studies. Study results to date have determined that it is economical to continue to operate the plant.

The Company had executed an agreement to sell the Plant and related assets and liabilities, including the liability to decommission the Plant, to AmerGen Energy Company, LLC (AmerGen) in November 1999. The agreement was subject to several conditions including approvals or specific rulings by various federal and state regulatory and tax authorities.

On June 22, 2000, a group of municipal utilities that purchase power produced by the Plant from certain of the Sponsors filed a complaint at the FERC, seeking refunds of amounts they had paid in the past for decommissioning and challenging the Company's immediate recovery of costs associated with negotiating and documenting the proposed sale to AmerGen, claiming that those costs should be absorbed by the Company or deferred for recovery through amortization. The FERC set the claims raised in the complaint for hearing without addressing the merits. At this time, the Company, which intends to vigorously contest the complaint, cannot predict the outcome of that proceeding.

On February 14, 2001, the Vermont Public Service Board (PSB) ruled against the sale to AmerGen. The ruling to dismiss the petition stated that the dismissal would benefit ratepayers and promote the general good of the state and that the proposed sale was of less value than is otherwise available on the

market today. The decision was based in part on the fact that, during PSB proceedings, three other parties expressed interest in buying the plant. One of the three submitted a bid to the PSB, backed by a bond, with terms that were better than those of the AmerGen agreement and the other two asked to participate in an auction of the plant.

The Company is reviewing a variety of choices including a sale of the Plant by auction or other means. If the Company pursues a sale, there is no assurance that a sale will occur as any agreement to sell the Plant would be subject to several conditions including approvals or specific rulings by the Nuclear Regulatory Commission, the Federal Energy Regulatory Commission, the PSB and the Internal Revenue Service.

Except for a possible loss in connection with the complaint discussed above, no loss is expected to be incurred as a result of a sale of the Company's assets and related liabilities. The Company expects that any difference between the book values of the assets and liabilities transferred and the net sale proceeds will be a regulatory asset collectable from the Sponsors over the current remaining license life of the plant under the Power Contracts as amended.

## NOTE 2. Summary of Significant Accounting Policies

### (a) Regulations and Operations

The Company is subject to regulations prescribed by the Federal Energy Regulatory Commission ("FERC"), and the Public Service Board of the State of Vermont with respect to accounting and other matters. The Company is also subject to regulation by the Nuclear Regulatory Commission ("NRC") for nuclear plant licensing and safety, and by federal and state agencies for environmental matters such as air quality, water quality and land use.

The Company recognizes revenue pursuant to the terms of the Power Contracts and Additional Power Contracts filed with the FERC. The Sponsors, a group of eight New England utilities, are severally obligated to pay the Company each month their entitlement percentage of amounts equal to the Company's total fuel costs and operating expenses, plus an allowed return on equity (11.0% since August 1, 1994). Such contracts also obligate the Sponsors to make decommissioning payments through the end of the Plant's service life and completion of the decommissioning of the Plant. All Sponsors are committed to such payments regardless of the Plant's operating level or whether the Plant is out of service during the period.

Under the terms of the Capital Funds Agreements, the Sponsors are committed, subject to obtaining necessary regulatory authorizations, to make funds available to obtain or maintain licenses necessary to keep the Plant in operation.

### (b) Depreciation and Maintenance

Electric plant is being depreciated on the straight-line method at rates designed to fully depreciate all depreciable properties over the lesser of estimated useful lives or the Plant's remaining NRC license life, which extends to March, 2012. Depreciation expense was equivalent to overall effective rates of 3.08%, 3.59% and 4.06% for the years 2000, 1999 and 1998, respectively.

The cost of additions, including replacements and betterments of units of property, is charged to electric plant. Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property are charged to maintenance expense. The cost of property retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation.

### (c) Amortization of Nuclear Fuel

The cost of nuclear fuel is amortized to expense based on the rate of burn-up of the individual assemblies comprising the total core. The Company also provides for the costs of disposing of spent nuclear fuel at rates specified by the United States Department of Energy ("DOE") under a contract for disposal between the Company and DOE.

In conformity with rates authorized by the FERC, the Company amortizes to expense on a straight-line basis the estimated costs of the final unspent nuclear fuel core, which is expected to be in place at the expiration of the Plant's operating license.

### (d) Amortization of Materials and Supplies

The Company amortizes to expense a formula amount designed to fully amortize the cost of the material and supplies inventory that is expected to be on hand at the expiration of the Plant's operating license.

### (e) Long-term Funds

The Company accounts for its investments in long-term funds at fair value as required by Statement of Financial Accounting Standards No. 115. See NOTE 5 for further discussion of this accounting method.

### (f) Amortization of Loss on Reacquired Debt

The difference between the amount paid upon reacquisition of any debt security and the face value thereof, adjusted for any unamortized premium or discount, related unamortized debt expense and reacquisition costs, applicable to the reacquired debt, is deferred by the Company and amortized to expense on a straight-line basis over the remaining life of the new debt issuance consistent with the rate treatment authorized by the FERC.

### (g) Allowance for Funds Used During Construction

Allowance for funds used during construction ("AFUDC") is the estimated cost of funds used to finance the Company's construction work in progress and nuclear fuel in-process which is not recovered from the Sponsors through current revenues. The allowance is not realized in cash currently, but under the Power Contracts, the allowance is recovered in cash over the Plant's service life or as nuclear fuel is used through higher revenues associated with higher depreciation and amortization expense.

AFUDC was capitalized at overall effective rates of 6.29%, 6.29% and 5.96%, for 2000, 1999 and 1998, respectively, using the gross rate method.

### (h) Decommissioning

The Company is accruing the estimated costs of decommissioning its Plant over the Plant's remaining NRC license life. Any amendments to these estimated costs are accounted for prospectively. See NOTE 3 for further detail.

### (i) Taxes on Income

The Company accounts for taxes on income under the liability method. See NOTE 9 for a further discussion of the accounting for taxes on other income.

Investment tax credits have been deferred and are being amortized to income over the lives of the related assets.

### (j) Cash Equivalents

For purposes of the Statements of Cash Flows, the Company considers all highly liquid short-term investments with an original maturity of three months or less to be cash equivalents.

### (k) Accrued Expenses

Accrued Expenses represents the Company's best estimate of costs incurred for which no invoice has been received by the Balance Sheet date. The amount shown for 2000 includes $1.9 million in capital project costs and $11.5 million in operating and maintenance costs. The comparable amounts for 1999 were $5.7 million and $22.9 million, respectively. Both of those amounts were higher because of the refueling and maintenance outage which ended in December 1999.

### (l) Reclassifications

The Company makes reclassifications of information presented in prior period financial statements to conform with the current period when considered significant.

### (m) Earnings per Common Share

Basic earnings per common share have been computed by dividing earnings available to common stock by the weighted average number of shares outstanding during the year. Diluted earnings per common share have not been disclosed as they do not differ from basic earnings per share.

### (n) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company 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.

## NOTE 3. Decommissioning

The Company accrues estimated decommissioning costs for its nuclear plant over its remaining NRC licensed life. The accrual is currently based on a 1994 site study by an independent engineering firm and a settlement agreement approved by the FERC for rates effective January 1, 1995. The study assumes decommissioning will be accomplished by the prompt removal and dismantling method (DECON) which requires that radioactive materials be removed from the plant site and all buildings and facilities be dismantled immediately after shutdown. The study estimates that approximately seven years would be required to dismantle the Plant at shutdown, remove non-fuel wastes and restore the site, and that spent fuel would be stored on-site in a dry fuel storage facility until 2025. The FERC approved settlement agreement allowed $312.7 million, in 1993 dollars, as the estimated decommissioning cost. This allowed amount is used to compute the Company's liability and billings to the Sponsors. Based on the study's assumed cost escalation rate of 5.4% per annum and an expiration of the Plant's operating license in the year 2012, the estimated current cost of decommissioning is $451.9 million and, at the end of 2012, is approximately $816.6 million. The present value of the pro rata portion of decommissioning costs recorded to date is $321.4 million.

Under the FERC approved settlement agreement for rates effective January 1, 1995, the Company was required to file a revised schedule of decommissioning collections with the FERC based on an updated site study by April 1, 1999. On May 13, 1999, in light of the ongoing discussions involving the possible sale of the Company's nuclear plant, the Company reached an agreement with the parties to the settlement that established the 1995 rates deferring the required filing, which agreement was filed with and accepted by the FERC. The agreement restricts the effective date of any revised schedule of decommissioning collections to no earlier than 120 days after the filing.

Following the Public Service Board order of February 14, 2001, the Company is reviewing a variety of choices including a sale of the Plant by auction or other means. A sale of the plant, if pursued, would likely result in the transfer of responsibility for decommissioning the plant to the new owner and make a revised schedule of decommissioning collections unnecessary. See NOTE 1 for further discussion.

Billings to Sponsors for estimated decommissioning costs commenced during 1983, at which time the Company recorded a deferred charge for the present value of decommissioning costs applicable to operations of the Plant for prior periods. Current period decommissioning costs not funded through billings to Sponsors or earnings on decommissioning trust assets are also deferred. These deferred costs will be amortized to expense as they are funded over the remaining life of the Company's operating license.

Cash received from Sponsors for plant decommissioning costs is deposited directly into the Vermont Yankee Decommissioning Trust in either the Qualified Fund (i.e., amounts currently deductible pursuant to the IRS regulations) or the Nonqualified Fund (i.e., collections pursuant to FERC authorization which are not currently deductible). Earnings on the Decommissioning Trust assets are recorded in other income, with an equal and offsetting amount representing the current period decommissioning cost funded by such earnings reflected as decommissioning expense. On December 31, 2000, the fair market value of the Decommissioning Trust was $281.7 million including pre-tax unrealized appreciation of $46.6 million, and funds held by the Trust were primarily invested in corporate bonds, government securities and equities. See NOTE 5 for further detail.

The staff of the Securities and Exchange Commission has questioned certain current accounting practices of the electric utility industry regarding the recognition, measurement and classification of decommissioning costs for nuclear generating stations in financial statements of electric utilities. In response to these questions, the Financial Accounting Standards Board ("FASB") has a project on its agenda to review the accounting for obligations associated with the retirement of long-lived assets, including decommissioning of nuclear power plants. If the proposed guidance is adopted, the principal impact on the Company's financial statements would be an increase in the accrued decommissioning costs to the present value of the total obligation, with a corresponding increase in electric plant. The Company does not believe the changes proposed would have an adverse effect on the results of operations due to its current and future ability to recover costs from the Sponsors.

## NOTE 4. Deferred Charges, Credits and Other Liabilities

In October 1992, Congress passed the Energy Policy Act of 1992. The Act requires, among other things, that certain utilities help pay for the cleanup of DOE's enrichment facilities over a fifteen year period. The Company's annual fee is based on its historical share of enrichment services provided by DOE and is indexed to inflation. The fees are not adjusted for subsequent business as DOE's cost of sales now includes a decontamination and decommissioning component. The Act stipulates that the annual fee shall be fully recoverable in rates in the same manner as other fuel costs.

In 2000, the Company paid the ninth of the fifteen annual charges. As of December 31, 2000, the Company had recognized a current accrued liability of $1.3 million for the fee payment expected to be made in 2001, a non-current liability of $6.3 million for the expected five annual fee payments that are due subsequent to 2001, and a corresponding regulatory asset of $8.5 million which represents the total amount includible in future billings to the Sponsors under the Power Contracts.

In 1994, the states of Vermont, Maine and Texas each ratified legislation to join a low-level radioactive waste disposal compact for the purpose of disposing of low-level radioactive waste in the state of Texas. The Company has recorded a non-current liability of $23.2 million to recognize the $27.5 million compact fund requirements less amounts on deposit with the State of Vermont and a corresponding deferred debit of $25.8 million which represents the total amount to be included in future billings to the Sponsors under the Power Contracts. The Compact was ratified by the U.S. Congress in 1998, however to date, no site has been licensed. See NOTE 13 for further detail.

During 1996, Vermont Yankee initiated a Design Basis Documentation project expected to be completed by December 31, 2001. This project was undertaken to incorporate all design documentation into a

centralized system. The objective is to ensure that Vermont Yankee maintains its safety margins in connection with any plant modifications. The Design Basis Documentation project creates a set of design basis documents which will support more efficient systematic problem solving, maintenance, and system overview. This effort supports the safe, cost effective, long term operation of the Plant. The Company received FERC approval in 1996 to recognize deferred charges for these unrecovered study costs and amortize the costs through billings to Sponsors over the remaining license life of the Plant. As of December 31, 2000, the Company had recorded deferred charges of $17.8 million, net of amortization related to this initiative.

## NOTE 5. Long-term Investments

The Company accounts for its investments in certain debt or equity securities by classifying each such security as either trading, available-for-sale or held-to-maturity. Both trading and available-for-sale securities must be reflected on the balance sheet at their aggregate fair values. Held-to-maturity securities are reflected on the balance sheet at amortized cost.

The Company classifies securities in the Decommissioning Trust as available-for-sale. As of December 31, 2000, the Decommissioning Trust had a net unrealized gain of $46.6 million which reduces deferred decommissioning costs because the Company will not realize this gain, rather, the gain will be used to reduce future billings to Sponsors.

The Company also classifies securities held in the Spent Fuel Disposal Fee Defeasance Trust as available-for-sale. As of December 31, 2000, the reported Trust balance includes net unrealized gains of $1.0 million with a corresponding adjustment reflected in Other Deferred Charges.

The cost and estimated market value of long-term investments at December 31, are as follows (Dollars in thousands):

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Cost** | **Market Value** | Cost | Market Value |
| **Decommissioning Trust:** | | | | |
| US Treasury obligations | **$108,400** | **$113,753** | $82,568 | $80,623 |
| Municipal obligations | **36,068** | **37,044** | 45,190 | 44,222 |
| Corporate bonds | **31,139** | **31,208** | 28,176 | 27,377 |
| Stocks | **40,639** | **80,870** | 40,556 | 81,682 |
| Accrued interest and money market funds | **18,829** | **18,829** | 13,140 | 13,140 |
| | **235,075** | **281,704** | 209,630 | 247,044 |
| **Spent Fuel Disposal Fee Defeasance Trust:** | | | | |
| US Treasury obligations | **81,827** | **82,517** | 79,219 | 78,715 |
| Municipal obligations | **8,911** | **8,994** | 9,087 | 9,063 |
| Corporate bonds | **14,245** | **14,496** | 10,561 | 10,373 |
| Accrued interest and money market funds | **3,232** | **3,232** | 3,375 | 3,375 |
| | **108,215** | **109,239** | 102,242 | 101,526 |
| Total long-term investments | **$343,290** | **$390,943** | $311,872 | $348,570 |

Pursuant to the Company's arrangements with its Sponsors, the difference between market value and cost of the Decommissioning Trust has been recorded as a decrease to deferred decommissioning costs. The Company's contracts with its Sponsors provide for full recovery of decommissioning costs and any excess or shortage in the fund, including those resulting from investment performance, will be refunded to or collected from Sponsors.

The securities included in the Spent Fuel Disposal Trust represent funds invested by the Company for which the earnings and principal will be used to pay the DOE fee for spent fuel discharged prior to April 7, 1983. See NOTE 8 for further details. Although the Company collected this fee from its Sponsors in rates, it has elected to defer payment as permitted by the contract with DOE. Since any realized gains (losses) have the effect of reducing (increasing) billing to customers, the Company has included the difference between cost and market value of the Spent Fuel Disposal Trust as a decrease to Other Deferred Charges.

At December 31, gross unrealized gains and losses pertaining to the long-term investment securities in the Decommissioning Trust and the Spent Fuel Disposal Fee Defeasance Trust were as follows (Dollars in thousands):

| | **2000** | **1999** |
|---|---|---|
| Unrealized gains on US Treasury obligations | **$6,209** | $ 248 |
| Unrealized losses on US Treasury obligations | **(166)** | (2,697) |
| Unrealized gains on municipal obligations | **1,221** | 113 |
| Unrealized losses on municipal obligations | **(162)** | (1,105) |
| Unrealized gains on corporate bonds and notes | **469** | 3 |
| Unrealized losses on corporate bonds and notes | **(149)** | (990) |
| Unrealized gains on stocks | **40,575** | 41,271 |
| Unrealized losses on stocks | **(344)** | (145) |
| | **$47,653** | $36,698 |

For the years ended December 31, gross realized gains and losses pertaining to the long-term investment securities were as follows (Dollars in thousands):

| | **2000** | **2000** | | 1999 | 1999 | |
|---|---|---|---|---|---|---|
| | **Total Sale Proceeds** | **Gross Realized** | | Total Sale Proceeds | Gross Realized | |
| | | **Gain** | **Loss** | | Gain | Loss |
| Decommissioning | **$202,879** | **$4,555** | **$(3,702)** | $180,245 | $2,485 | $(2,909) |
| Spent fuel disposal fee defeasance* | **$188,061** | **$591** | **$(409)** | $157,279 | $662 | $(740) |

*Includes maturity of short-term Commercial Paper

Maturities of short-term obligations, bonds and notes (face amount) at December 31, are as follows (Dollars in thousands):

| | **2000** | **2000** | 1999 | 1999 |
|---|---|---|---|---|
| | **Decommissioning Trust** | **Disposal Fee Defeasance Trust** | Decommissioning Trust | Disposal Fee Defeasance Trust |
| Within one year | **$ -** | **$37,255** | $ 1,640 | $20,675 |
| One to five years | **36,963** | **52,631** | 31,470 | 64,476 |
| Five to ten years | **49,443** | **4,346** | 64,608 | 2,671 |
| Over ten years | **85,850** | **15,908** | 56,442 | 4,800 |
| | **$172,256** | **$110,140** | $154,160 | $92,622 |

## NOTE 6. Debt Obligations

A summary of debt obligations at December 31, is as follows (Dollars in thousands):

| | 2000 | 1999 |
|---|---|---|
| Current maturities of long-term debt: | | |
| First mortgage bonds: Series I sinking fund requirement | **$ 5,418** | $ - |
| Commercial Paper - Eurodollar Credit Agreement | **30,975** | - |
| Total debt maturing within one year | **$36,393** | $ - |
| Long-term obligations (excluding current maturities): | | |
| First mortgage bonds: Series I - 6.48% due 2009 | **$59,591** | $70,427 |
| Commercial Paper - Eurodollar Credit Agreement | **-** | 26,923 |
| Total long-term obligations | **$59,591** | $97,350 |

The first mortgage bonds are issued under, have the terms and provisions set forth in, and are secured by an Indenture of Mortgage dated as of October 1, 1970 between the Company and the Trustee, as modified and supplemented by thirteen supplemental indentures. All bonds are secured by a first lien on utility plant, exclusive of nuclear fuel, and a pledge of the Power Contracts and the Additional Power Contracts (except for fuel payments) and the Capital Funds Agreements with Sponsors.

In November 1993, the Company issued $75.8 million of Series I, first mortgage bonds stated to mature on November 1, 2009. The Company applied the proceeds of the bond issuance principally to retire the remaining Series D, Series E, Series F, Series G and Series H first mortgage bonds including call premiums totaling $3.7 million. Annual cash sinking fund requirements for the Series I first mortgage bonds of $5.4 million began in November 1999. The Company has classified the sinking fund requirements of November 2001 as a current liability at December 31, 2000.

The Company's $75.0 million Eurodollar Credit Agreement extends through July 19, 2001 subject to three optional one-year extensions. The Company expects that either the current agreement will be extended or another credit agreement will be put in place by the expiration date. Since neither has occurred by the issuance of these financial statements, the Company has classified this debt as a current liability at December 31, 2000. The Company issued commercial paper under this agreement with weighted average interest rates of 6.39% for 2000 and 5.35% for 1999. Payment of the commercial paper is supported by the Eurodollar Credit Agreement, which is secured by a second mortgage on the Company's generating facility. Borrowings under this agreement were $31.0 million at December 31, 2000 and $26.9 million at December 31, 1999.

The Company also had available lines of credit which totaled $3.0 million at December 31, 2000 and $6.3 million at December 31, 1999. The maximum amount of short-term borrowings outstanding at any month-end was approximately $3.0 million for 2000 and $0.7 million for 1999. The average daily amount of short-term borrowings outstanding was approximately $0.3 million for 2000 and $0.2 million for 1999 with weighted average interest rates of 7.93% in 2000 and 7.30% in 1999. There were no amounts outstanding under these lines of credit as of December 31, 2000 and 1999.

## NOTE 7. Disclosures About the Fair Value of Financial Instruments

The carrying amounts for cash and temporary investments, trade receivables, accounts receivable from Sponsors, accounts payable, accrued liabilities and debt maturing within one year approximate their fair values because of the short maturity of these instruments. Long term funds are carried at fair market value which are estimated based on quoted market prices for these or similar investments. The fair values of each of the Company's long-term debt instruments are estimated based on the quoted market prices for

the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities.

The estimated fair value of the Company's financial instruments as of December 31, are summarized as follows (Dollars in thousands):

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Cost Amount** | **Estimated Fair Value** | Cost Amount | Estimated Fair Value |
| Decommissioning Trust | **$235,075** | **$281,704** | $209,630 | $247,044 |
| Spent Fuel Disposal Fee Defeasance Trust | **108,215** | **109,239** | 102,242 | 101,526 |
| Long-term debt | **59,591** | **57,261** | 97,350 | 88,875 |
| Spent fuel disposal fee and accrued interest | **115,351** | **115,351** | 108,774 | 108,774 |

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## NOTE 8. Spent Fuel Disposal

Under the Nuclear Waste Policy Act of 1982, DOE is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste. The Company, as required by that Act, has signed a contract with DOE to provide for the disposal of spent nuclear fuel and high-level radioactive waste from its nuclear generation station beginning no later than January 31, 1998. This delivery schedule has not been met and is expected to be delayed significantly. It is not certain when DOE will accept spent nuclear fuel and high-level radioactive waste from the Company and other owners of nuclear power plants. These delays by DOE have caused the Company to consider other costly alternatives for storing high-level waste.

The DOE contract obligates the Company to pay a one-time fee of approximately $39.3 million for disposal costs for all spent fuel discharged through April 6, 1983, and a fee payable quarterly equal to one mill per kilowatt-hour of nuclear generated and sold electricity after April 6, 1983. Although the $39.3 million for the one-time fee has been collected from the Sponsors in rates, the Company has elected to defer payment to DOE as permitted by the DOE contract. The fee plus accrued interest must be paid no later than the first delivery of spent fuel to the DOE repository. Interest accrues on the unpaid obligation based on the thirteen-week Treasury Bill rate and is compounded quarterly. Through 2000, the Company has accumulated $109.2 million in an irrevocable trust to be used exclusively for meeting this obligation ($115.4 million including accrued interest) at some future date, provided DOE complies with the terms of the aforementioned contract.

The Company has primary responsibility for the interim storage of its spent nuclear fuel. The plant is currently able to operate with the ability to discharge the entire reactor core to the spent fuel storage pool through the year 2008 refueling outage. The Company is also investigating other options for additional storage capacity beyond the year 2008.

Various legal proceedings have been filed by the owners and operators of nuclear power plants and by states and state regulatory agencies against DOE and the federal government to enforce the DOE's obligation to dispose of spent nuclear fuel and seeking damages resulting from DOE's breach of those obligations. In addition, legislation has been introduced in Congress over the past several years to assure that DOE carries out its obligations and to protect the funds paid to the government by utilities and their customers that were intended to pay for the disposal of utilities spent nuclear fuel.

In July, 1996, the U.S. Court of Appeals for the District of Columbia Circuit ruled that DOE had an unconditional obligation to begin disposing of the utilities' spent nuclear fuel by January 31, 1998, and that the absence of an interim storage facility did not excuse DOE from that obligation. In November, 1997, the same Court in ruling on a petition brought by thirty-six utilities, including the Company, reaffirmed the 1996 ruling but declined to order DOE to accept spent nuclear fuel, saying that the utilities had another potentially adequate remedy under the DOE contract.

After the January 1998 deadline passed without compliance by DOE with its contractual and statutory obligation, forty-one utilities, including the Company, and sixty states and state regulatory commissions, petitioned the same Court to compel DOE to act. In orders issued in May 1998 and July 1998, the Court declined to order DOE to act and again directed the utilities to pursue relief in accordance with their DOE contracts. In November 1998, the U.S. Supreme Court denied petitions by the Government and by the states and state agencies to review the lower Court's decisions.

Beginning in February 1998, a series of lawsuits have been filed with the U.S. Court of Federal Claims seeking damages from the Government for DOE's breach of its obligation to begin disposing of the utilities' spent fuel by the 1998 deadline. In October and November 1998, the Court granted summary judgment in favor of Yankee Atomic Electric Company, Connecticut Yankee Power Company and Maine Yankee Atomic Power Company (collectively "Yankee") as to DOE's liability for its breach of the 1998 obligation. The Court rejected the Government's argument that the utilities must first bring claims for damages to the DOE Contracting Officer. In April 1999, another judge of the U.S. Court of Federal Claims, in a case brought by Northern States Power Company, reached the opposite conclusion, ruling that the utility could not sue for breach of contract damages in the Court but must rather submit a claim for equitable adjustment with the DOE Contracting Officer.

On August 31, 2000, the U.S. Court of Appeals for the Federal Circuit decided appeals from both Yankee and Northern States cases, ruling that the utilities were entitled to sue in the U.S. Court of Federal Claims for breach of contract damages and need not first submit equitable adjustment claims to the DOE Contracting Officer.

In a series of filings to the Chief Judge of the U.S. Court of Federal Claims and the ten judges who have been assigned the fourteen spent fuel damages cases brought in that Court, the Government on January 8, 2001, moved to have all the cases reassigned to a single judge. The government stated that, once the cases were reassigned, it expected to seek consolidation of all the cases in order to determine in a consolidated proceeding an annual spent fuel acceptance and priority schedule binding on all Standard Contract holders. Once all cases are so reassigned the Government suggested that it might seek to bind those utilities who have not yet initiated spent fuel damages cases, including the Company, to the outcome for the consolidated proceeding.

On July 19, 2000, DOE entered into a settlement agreement with PECO Energy Company ("PECO") allowing PECO to take credits against payments into the Nuclear Waste Fund to offset certain spent fuel storage costs which PECO had incurred because of DOE's failure to meet its 1998 obligation. Alabama Power Company and a number of other utilities have initiated a challenge in the U.S. Court of Appeals for the Eleventh Circuit to DOE's attempt to use Nuclear Waste Fund credits to offset potential spent fuel damages claims.

## NOTE 9. Taxes on Income

The Company uses the liability method of accounting for income taxes. The liability method accounts for deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities ("temporary differences").

For certain items, the Company's allowed rates have recognized income tax expense on a different method. As a result, the Company has recognized net liabilities to Sponsors of $4.0 million as of December 31, 2000 and $4.5 million as of December 31, 1999 representing taxes collected from them in excess of amounts that would have been recorded under the liability method. These amounts will be systematically returned to Sponsors by reducing future power bills.

The components of income tax expense for the years ended December 31, are as follows (Dollars in thousands):

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| **Taxes on operating income:** | | | |
| Current federal income tax | **$8,740** | $6,841 | $8,648 |
| Deferred federal income tax | **(8,099)** | (5,494) | (6,995) |
| Current state income tax | **2,649** | 2,031 | 2,642 |
| Deferred state income tax | **(593)** | (930) | (1,529) |
| Investment tax credit adjustment | **(666)** | (545) | (543) |
| | **2,031** | 1,903 | 2,223 |
| **Taxes on other income:** | | | |
| Current federal income tax | **2,104** | 1,606 | 1,762 |
| Current state income tax | **153** | 63 | 149 |
| | **2,257** | 1,669 | 1,911 |
| Total income taxes | **$4,288** | $3,572 | $4,134 |

The Company's effective income tax rates differed from the federal statutory rate of 35% for the years ended December 31, as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Federal statutory rate | **35.0%** | 35.0% | 35.0% |
| State income taxes, net of federal income tax benefit | **13.2** | 7.5 | 7.3 |
| Investment credit | **(6.1)** | (5.4) | (4.7) |
| Book depreciation in excess of tax basis | **1.3** | 2.1 | 2.6 |
| Flowback of excess deferred taxes | **(2.1)** | (2.6) | (3.2) |
| Other | **(1.9)** | (1.0) | (0.3) |
| | **39.4%** | 35.6% | 36.7% |

The significant components of deferred tax expense for the years ended December 31, are as follows (Dollars in thousands):

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Decommissioning expense not currently deductible | **$(3,233)** | $(1,844) | $(1,509) |
| Tax depreciation (under) over financial statement depreciation | **(2,157)** | (3,226) | (4,359) |
| Tax fuel amortization (under) over financial statement amortization | **(936)** | 1,038 | (404) |
| Tax loss on reacquisition of debt (under) over financial statement expense | **(75)** | (75) | (75) |
| Pension expense deduction (under) over financial statement expense | **(252)** | (627) | (450) |
| Postemployment benefits deduction (under) over financial statement expense | **23** | 99 | (555) |
| Materials and supplies deduction over (under) financial statement expense | **(227)** | (124) | 43 |
| Low-level waste deduction (under) over financial statement expense | **(156)** | 327 | (661) |
| Flowback and other change in excess deferred taxes | **(223)** | (264) | (356) |
| Other, net | **(1,456)** | (1,728) | (198) |
| | **$(8,692)** | $(6,424) | $(8,524) |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, are presented below (Dollars in thousands):

| | 2000 | 1999 |
|---|---|---|
| Deferred tax assets: | | |
| Accumulated amortization of final nuclear core | **$ 4,914** | $ 4,561 |
| Nuclear decommissioning liability | **16,944** | 13,126 |
| Regulatory liabilities | **2,830** | 3,181 |
| Accumulated deferred investment credit | **1,332** | 1,607 |
| Accumulated amortization of materials and supplies | **3,127** | 2,859 |
| Pension and retiree benefit liabilities | **5,326** | 5,097 |
| Accrued low-level waste disposal costs | **2,012** | 1,856 |
| Other | **4,755** | 2,361 |
| Total gross deferred tax assets | **41,240** | 34,648 |
| Less valuation allowance | **(4,228)** | (3,150) |
| Net deferred tax assets | **37,012** | 31,498 |
| Deferred tax liabilities: | | |
| Plant and equipment | **(33,507)** | (35,622) |
| Other | **(3,054)** | (3,553) |
| Total gross deferred tax liabilities | **(36,561)** | (39,175) |
| Net deferred tax asset (liability) | **$451** | $(7,677) |

The valuation allowance is the result of a provision in Vermont tax law which limits refunds resulting from carrybacks of net operating losses.

# NOTE 10. Supplemental Cash Flow Information

The following information supplements the cash flow information provided in the Statements of Cash Flows (Dollars in thousands):

| Cash paid during the year for: | 2000 | 1999 | 1998 |
|---|---|---|---|
| Interest (net of amount capitalized) | **$6,362** | $6,350 | $5,978 |
| Income taxes | **$14,627** | $13,174 | $14,815 |

# NOTE 11. Pension, Post Retirement and Other Benefit Plans

The Company has two qualified defined benefit pension plans which together cover substantially all of its employees. The benefits provided under these plans are based on final average earnings, integrated with Social Security benefits. The Company also has a supplemental unfunded nonqualified pension plan for certain employees providing benefits based on final earnings. In addition, the Company has two postretirement welfare benefit plans providing healthcare and life insurance benefits to retired employees and their covered spouses.

The Company has two severance plans which together provide substantially all of its employees with continuing income and other benefits for a period of time in the event of a layoff. The individual benefits provided under these plans are based on the employee's final base salary and years of service with the Company. Since the benefits provided under these plans are event driven and no such event has occurred, the plans have had no impact on the results of operations or financial position of the Company.

The following tables reconcile the beginning and ending benefit obligation balances for the plans:

| Pension plan benefits (aggregated) | 2000 | 1999 |
|---|---|---|
| Beginning of year benefit obligation | **$30,143** | $31,253 |
| Service cost | **1,639** | 1,855 |
| Interest cost | **2,350** | 2,224 |
| Actuarial loss (gain) | **2,885** | (4,456) |
| Disbursements | **(848)** | (737) |
| Plan Amendments | **-** | 4 |
| End of year benefit obligation | **$36,169** | $30,143 |

| Postretirement welfare plan benefits (aggregated) | 2000 | 1999 |
|---|---|---|
| Beginning of year benefit obligation | **$10,661** | $11,716 |
| Service cost | **902** | 1,046 |
| Interest cost | **833** | 768 |
| Participant contributions | **11** | 8 |
| Actuarial loss (gain) | **2,279** | (2,240) |
| Disbursements | **(328)** | (233) |
| Plan Amendments | **-** | (404) |
| End of year benefit obligation | **$14,358** | $10,661 |

The following tables reconcile the beginning and ending fair value of assets for the plans:

| Pension plan assets (aggregated) | 2000 | 1999 |
|---|---|---|
| Beginning of year fair value of assets | **$34,554** | $33,724 |
| Actual return on assets | **(17)** | 1,469 |
| Company contributions | **74** | 98 |
| Disbursements | **(848)** | (737) |
| End of year fair value of assets | **$33,763** | $34,554 |

| Postretirement welfare plan assets (aggregated) | 2000 | 1999 |
|---|---|---|
| Beginning of year fair value of assets | **$12,721** | $12,249 |
| Actual return on assets | **843** | 301 |
| Company contributions | **420** | 396 |
| Disbursements (net) | **(316)** | (225) |
| End of year fair value of assets | **$13,668** | $12,721 |

Plan assets consist primarily of cash equivalent funds, fixed income securities and equity securities.

The following tables reconcile the funded status of the plans as of December 31:

| Pension plans (aggregated) | 2000 | 1999 |
|---|---|---|
| Projected benefit obligation (PBO) | **$(36,169)** | $(30,143) |
| Fair value of assets (FVA) | **33,763** | 34,554 |
| PBO (in excess of) less than FVA | **(2,406)** | 4,411 |
| Unrecognized prior service cost | **968** | 1,067 |
| Unrecognized net transition obligation | **584** | 648 |
| Unrecognized actuarial loss (gain) | **(9,112)** | (15,408) |
| Net amount recognized | **$(9,966)** | $(9,282) |
| Amounts recognized in the balance sheets: | | |
| Accrued benefit liability | **$(9,966)** | $(9,282) |
| Additional minimum liability | **(155)** | (191) |
| Intangible asset | **155** | 191 |
| Net amount recognized | **$(9,966)** | $(9,282) |

| Postretirement welfare plans (aggregated) | 2000 | 1999 |
|---|---|---|
| Accumulated postretirement benefit obligation (APBO) | **$(14,358)** | $(10,661) |
| Fair value of assets (FVA) | **13,668** | 12,721 |
| APBO less than (in excess of) FVA | **(690)** | 2,060 |
| Unrecognized net transition obligation | **5,953** | 6,494 |
| Unrecognized actuarial loss (gain) | **(5,316)** | (8,353) |
| Net amount recognized | **$(53)** | $ 201 |
| Amounts recognized in the balance sheets: | | |
| Prepaid benefit cost | **$1,555** | $1,485 |
| Accrued benefit liability | **(1,608)** | (1,284) |
| Net amount recognized | **$(53)** | $ 201 |

Net periodic benefit costs recognized for the periods ended December 31 are as follows:

| Pension benefits (aggregated) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Service cost | **$1,639** | $1,856 | $1,588 |
| Interest cost | **2,350** | 2,224 | 1,979 |
| Expected return on assets | **(2,782)** | (2,463) | (2,170) |
| Net amortization: | | | |
| Prior service cost | **100** | 100 | 100 |
| Net actuarial loss (gain) | **(602)** | (253) | (269) |
| Net transition obligation | **63** | 63 | 63 |
| Total amortization | **(439)** | (90) | (106) |
| Loss (gain) recognized due to settlement/curtailment | **-** | - | (106) |
| Net periodic benefit cost | **$768** | $1,527 | $1,185 |

| Postretirement welfare benefits (aggregated) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Service cost | **$902** | $1,046 | $1,010 |
| Interest cost | **833** | 768 | 801 |
| Expected return on assets | **(948)** | (914) | (756) |
| Net amortization: | | | |
| Net actuarial loss (gain) | **(664)** | (580) | (448) |
| Net transition obligation | **541** | 541 | 572 |
| Total amortization | **(123)** | (39) | 124 |
| Net periodic benefit cost | **$664** | $861 | $1,179 |

The following weighted average assumptions were used as of December 31:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Discount rate | 7.25% | 7.50% | 6.75% |
| Compensation scale | 4.50% | 4.00% | 4.00% |
| Expected return on assets: | | | |
| Management VEBA (post-tax) | 6.00% | 6.00% | 6.00% |
| All other plan assets | 8.50% | 8.50% | 8.50% |

For measurement purposes, an 8.5% percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to decrease to 7.5% percent for 2002, 6.5% for 2003, 5.5% for 2004 and remain at that level thereafter. A one percentage point change in assumed health care cost trend rates would have the following effects on the information for the postretirement welfare plans:

| | 1% Increase | 1% Decrease |
|---|---|---|
| Effect on total service and interest cost components | $328 | $(265) |
| Effect on accumulated postretirement benefit obligation | $2,427 | $(1,976) |

## NOTE 12. Lease Commitments

The Company leases equipment and systems under noncancelable operating leases. Charges against income for leases were approximately $5.2 million in 2000, $7.2 million in 1999 and $7.3 million in 1998.

Minimum future lease payments as of December 31, 2000 are as follows (Dollars in thousands):

| Fiscal years ended | Annual Leases |
|---|---|
| 2001 | $ 5,194 |
| 2002 | 4,618 |
| 2003 | 4,618 |
| 2004 | 4,618 |
| 2005 | 4,618 |
| Thereafter | 2,309 |

Included in the above lease payments is the cost of low pressure turbines constructed by General Electric Corporation valued at approximately $30.8 million including installation costs when installed in 1995. Under the lease agreement which commenced on July 1, 1995, the Company will make 120 monthly payments of $384,834.

## NOTE 13. Commitments and Contingencies

### (a) Low-level Waste

In 1998, the U.S. Congress approved the tri-state compact between Vermont, Texas and Maine to site a facility in Texas for the disposal of low-level radioactive waste. Also in 1998, the proposed Texas low-level waste disposal site in Hudspeth County was rejected because of geological and socioeconomic concerns. Various parties have proposed alternative sites in Texas. Because of delays in the ratification and siting processes, the Company cannot predict when a facility in Texas will be licensed and built. However, it is unlikely that waste disposal under the compact will begin prior to 2003. The Company

has been disposing of low-level waste at other active sites and currently has the capacity to store all of its low-level waste on site until the year 2006. If the Texas facility is not available by that date, other options will continue to be pursued. The accompanying financial statements include a $3.1 million cost estimate to dispose of waste currently stored on site. The actual cost of disposal could differ from these estimates. Any difference in costs would likely be collected from or refunded to the Sponsors and would not have a material impact on the Company.

Under the proposed compact, Vermont will pay Texas up to $27.5 million to site, license and construct the disposal facility. The Governors of the three States participating in the compact have agreed that any required payment under the compact will be deferred until a site is selected and a facility is licensed. The Company has received approval from FERC to recover the cost of this compact from Sponsors over the remaining license life of the Plant, commencing with the first payment to Texas.

The Company has recorded a non-current liability of $23.2 million to recognize the $27.5 million compact fund requirements less the remaining fund balance from the State of Vermont, and a corresponding deferred debit of $25.8 million which represents the total amount to be included in future billings to Sponsors under the Power Contracts. The deferred debit and deferred credit amounts have both decreased by $0.2 million from the amounts reflected in 1999 as a result of earnings on the State of Vermont fund balance.

### (b) Nuclear Fuel

The Company has several "requirements based" contracts for the four components (uranium, conversion, enrichment and fabrication) used to produce nuclear fuel. These contracts are executed only if the need or requirement for fuel arises. Under these contracts, any disruption of operating activity would allow the Company to cancel or postpone deliveries until actually required. The contracts extend through various time periods and contain clauses to allow the Company the option to extend the agreements. Negotiation of new contracts and renegotiation of existing contracts routinely occurs, often focusing on one of the four components at a time. The cost of the 1999 reload was approximately $21 million and the cost of the 2001 reload is estimated to be approximately $16 million. Future reload costs will depend on market and contract prices.

### (c) Insurance

The Price-Anderson Act currently sets the statutory limit of liability from a single incident at a nuclear power plant to $9.5 billion. Any damages beyond $9.5 billion are provided for under the Price-Andersen Act, but subject to Congressional approval. The first $200 million of liability coverage is the maximum provided by private insurance. The Secondary Financial Protection program is a retrospective insurance plan providing additional coverage up to $9.3 billion per incident by assessing each of the 106 reactor units that are currently subject to the Program in the United States a retrospective premium of up to $88.1 million per unit per incident, limited to a maximum assessment of $10 million per incident per nuclear unit in any one year. The maximum assessment is adjusted at least every five years to reflect inflationary changes.

The above insurance now covers all workers employed at nuclear facilities for bodily injury claims. The Company had previously purchased a Master Worker insurance policy with limits of $200 million with one automatic reinstatement of policy limits to cover workers employed on or after January 1, 1988. Vermont Yankee no longer participates in this retrospectively based worker policy and has replaced this policy with the guaranteed cost coverage mentioned above. The Company does however retain a potential obligation for retrospective adjustments due to past operations of several smaller facilities that did not join the new program. These exposures will cease to exist no later than December 31, 2007. Vermont Yankee's maximum retrospective obligation remains at $3.1 million. The Secondary Financial Protection layer, as referenced above, would be in excess of the Master Worker policy.

Insurance has been purchased from Nuclear Electric Insurance Limited ("NEIL") to cover the costs of property damage, decontamination or premature decommissioning resulting from an incident. All companies insured with NEIL are subject to retroactive assessments if so determined by the Board of NEIL due to losses. The maximum potential assessment against the Company with respect to NEIL losses arising during the current policy year is $8.1 million. The Company's liability for the retrospective premium adjustment for any policy year ceases six years after the end of that policy year unless prior demand has been made.

### (d) Industry Restructuring and Other Regulatory Developments

The electric utility industry is in a period of potential transition which may result in a shift away from cost of service and return on equity based rates to market based rates. Most states in which the Company's Sponsors operate, including Vermont, are exploring or, in some cases, have implemented plans to bring greater competition, customer choice, and market influence to the industry while retaining the benefits associated with the current regulatory system.

The Company cannot predict what effect these restructuring plans will have on the Company or its Sponsors. It is possible, however, that these restructuring orders or other regulatory actions could have a material adverse effect on the Sponsors, which could, in turn, have a material adverse effect on the Company.

### (e) Collective Bargaining Agreement

The Company's collective bargaining agreement, covering approximately 25 percent of the workforce, will expire on August 20, 2001. New bargaining agreement negotiations have not yet begun. Management believes it is likely that prior to the expiration date, either the parties will reach agreement on a new contract or the parties will agree to extend the present contract. Because a work stoppage is possible, management has developed contingency plans allowing operations to continue in that event. It is unlikely that a work stoppage would have a material effect on operating income because of the terms of the Power Contracts.

## NOTE 14. New Accounting Principles

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, amended by Statement No. 137, Deferral of the Effective Date of FASB Statement No. 133 and Statement No. 138, Accounting for Certain Hedging Activities (hereinafter referred to as FAS 133). FAS 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. FAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement. FAS 133 is effective on January 1, 2001 for calendar year companies.

The Company has entered into certain derivative contracts to hedge the total return on its nuclear decommissioning trust fund. These derivative instruments are currently recorded at fair value on the balance sheet with any change in the value recorded as an increase or decrease to deferred decommissioning costs, consistent with the treatment of all gains and losses on the decommissioning trust fund. Upon adoption of FAS 133, the Company will continue to account for its investments in this manner. As such, the Company does not expect the adoption of FAS 133 to have an impact on the financial statements.

# Board of Directors

**CYNTHIA A. ARCATE**
Former Vice President of Generation Investments
New England Power Company
Westborough, MA (1)

**ROSS P. BARKHURST**
President and Chief Executive Officer
Vermont Yankee Nuclear Power Corporation
Brattleboro, VT

**NANCY R. BROCK**
Chief Financial Officer
Green Mountain Power Corporation
Colchester, VT (2)

**KENT R. BROWN**
Senior Vice President, Engineering & Operations
Central Vermont Public Service Corporation
Rutland, VT

**CHRISTOPHER L. DUTTON**
President and Chief Executive Officer
Green Mountain Power Corporation
Colchester, VT

**TED C. FEIGENBAUM**
Exec. Vice President and Chief Nuclear Officer
North Atlantic Energy Service Corporation
Seabrook, NH

**FREDERIC E. GREENMAN**
Former Vice President and General Counsel
New England Power Company
Westborough, MA

**RICHARD B. HIEBER**
Former Vice President and Chief Operating Officer
Green Mountain Power Corporation
Colchester, VT (3)

**JAMES J. KEANE**
Former Vice President, Energy Supply & Engineering Services
COM Electric Company
Wareham, MA

**JOHN B. KEANE**
Vice President of Administration
Northeast Utilities
Hartford, CT

**KEVIN A. KIRBY**
Former Vice President of Power Supply
Eastern Utilities Associates
W. Bridgewater, MA (4)

**MARY ALICE McKENZIE**
President
Fresh Connections
Burlington, VT
Director
Central Vermont Public Service Corporation
Rutland, VT

**GERALD C. POULIN**
Former Chief Operating Officer for Energy Services
Central Maine Power Company
Augusta, ME

**ROBERT G. POWDERLY**
Vice President
National Grid USA
Westborough, MA (5)

**JAMES S. ROBINSON**
Former Vice President of Generation Investments
New England Power Company
Westborough, MA (6)

**TERRY L. SCHWENNESEN**
Vice President of Generation Investments
New England Power Company
Westborough, MA (7)

**ROBERT H. YOUNG**
Chairman
Vermont Yankee Nuclear Power Corporation
Brattleboro, VT
President and Chief Executive Officer
Central Vermont Public Service Corporation
Rutland, VT

(1) Elected February 23, 2000; Resigned May 24, 2000
(2) Elected February 23, 2000
(3) Resigned February 23, 2000
(4) Resigned May 1, 2000
(5) Elected May 24, 2000
(6) Resigned February 23, 2000
(7) Elected July 5, 2000

# Officers

**ROBERT H. YOUNG**
Chairman

**ROSS P. BARKHURST**
President and Chief Executive Officer

**SAMUEL L. NEWTON**
Vice President, Operations (1)

**MICHAEL A. BALDUZZI**
Vice President, Operations (2)

**DON M. LEACH**
Vice President, Engineering

**BRUCE W. WIGGETT**
Vice President, Finance and Treasurer

**JOHN J. BOGUSLAWSKI**
Controller and Secretary

**JOHN A. RITSHER, Esq.**
Assistant Secretary (3)

**NANCY S. MALMQUIST, Esq.**
Assistant Secretary (4)

---

(1) Resigned August 31, 2000
(2) Elected August 31, 2000
(3) Resigned February 23, 2000
(4) Elected February 23, 2000

**Vermont Yankee Nuclear Power Corporation**
185 Old Ferry Road
P. O. Box 7002
Brattleboro, Vermont 05302-7002