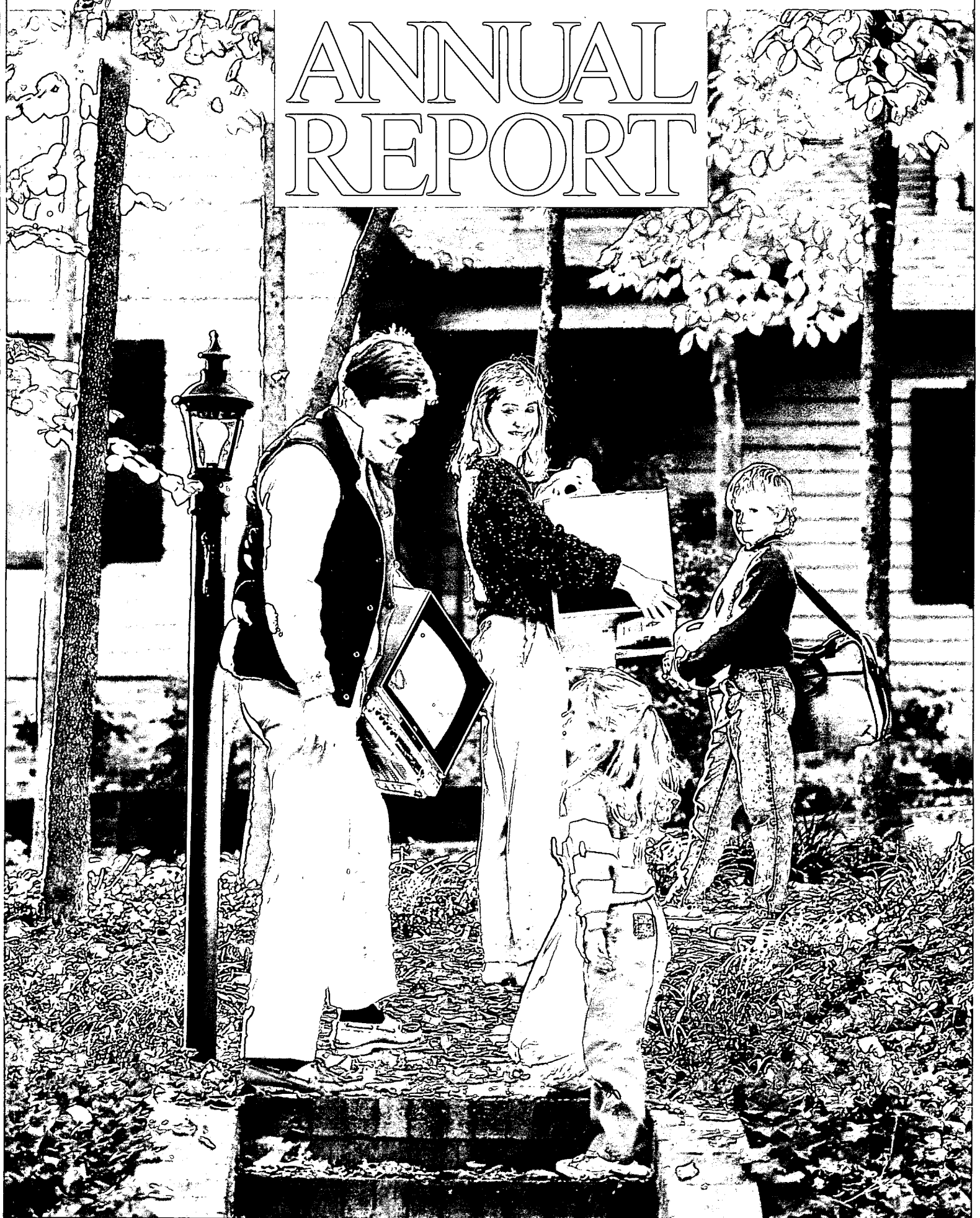


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D U K E • P O W E R • C O M P A N Y

ANNUAL REPORT



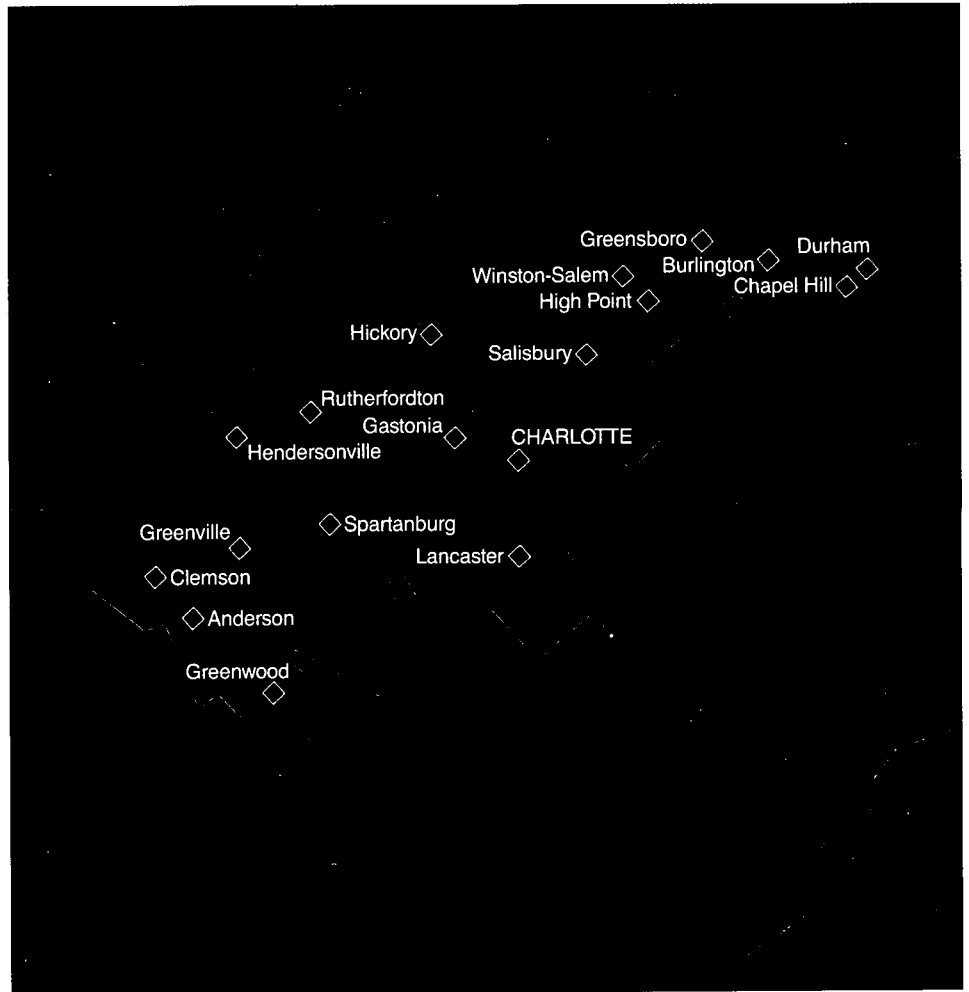
1987 Annual Report Duke Power Company

About the Cover

Nearly 200,000 new customers have joined the Duke Power system over the last five years. Many were new to the area, drawn by a vibrant Sun Belt economy. Market growth has been, and will continue to be, key to our success. To capitalize on that growth, Duke Power in 1987 renewed its focus on customers with a comprehensive new marketing program. ■

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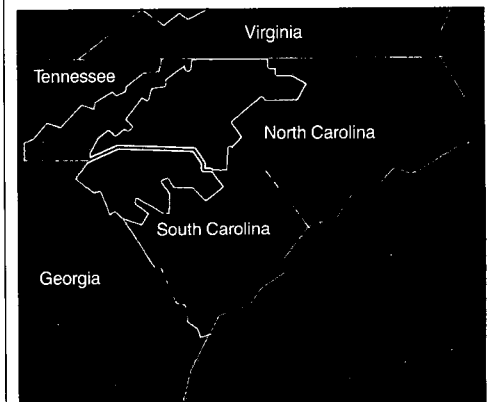
About Duke Power Company

Duke Power is the nation's seventh-largest investor-owned electric utility. Headquartered in Charlotte, N.C., the Company serves a 20,000-square-mile service area in North Carolina and South Carolina with a population of 4.5 million. Duke Power supplies electricity to more than 1.5 million residential, commercial and industrial customers in that area.

The Company's three nuclear generating stations, eight coal-fired stations and 26 hydroelectric stations produced 69.9 billion kilowatt-hours of electricity in 1987. Electric revenues totaled \$3.7 billion. About 70 percent of sales were in North Carolina and 30 percent were in South Carolina.

Duke Power serves retail customers

through 100 customer service offices throughout its service area. The Company also makes wholesale, bulk power and contractual sales. ■



Financial Highlights

	1987	1986	Percent increase (decrease)
Kilowatt-hour sales*	64,751,060,000	60,513,229,000	7.0
Electric revenues	\$3,705,784,000	\$3,400,933,000	9.0
Earnings for common stock	\$ 445,934,000	\$ 409,067,000	9.0
Common Stock Data			
Average shares outstanding	101,250,000	101,220,000	—
Earnings per share	\$4.40	\$4.04	8.9
Dividends per share	\$2.74	\$2.64	3.8
Book value per share (year-end)	\$31.96	\$30.34	5.3
Return on average common equity	14.2%	13.7%	3.6
Plant construction costs	\$ 790,203,000	\$ 690,352,000	14.5
Total electric plant, net	\$6,917,245,000	\$6,638,751,000	4.2
Peak load (kw)			
Summer	12,691,000	12,471,000	1.8
Winter	11,451,000	12,586,000	(9.0)

*Excludes a portion of the energy sold to the other joint owners of the Catawba Nuclear Station.

Marketing Is Back, With An Aggressive New Style

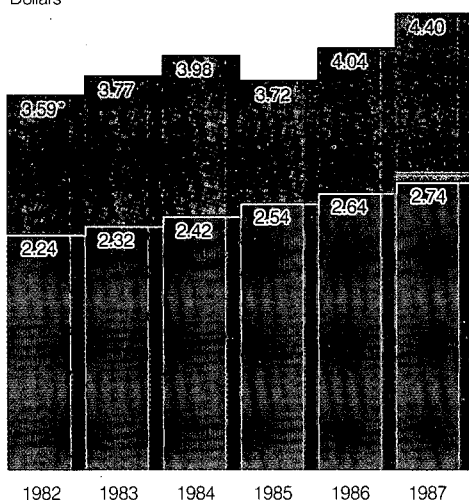
Duke Power moved in 1987 to become a more aggressive competitor in the energy market, determined to increase its profitability for shareholders by increasing sales while holding the line on prices.

This strategy was not feasible in the past decade when growth in peak demand threatened to outstrip capacity. During that time Duke discouraged on-peak use of electricity and focused on financing and building power plants to meet growing demand.

Today, an aggressive style is not only feasible, it is mandatory as competition in the energy market intensifies. Duke Power has an ambitious new strategy to gain market share of energy sales while controlling peak demand and to increase earnings for the balance of the 1980s and into the '90s. A special report about the Five-Year Marketing Plan begins on page 14. ■

Earnings per share

Dollars

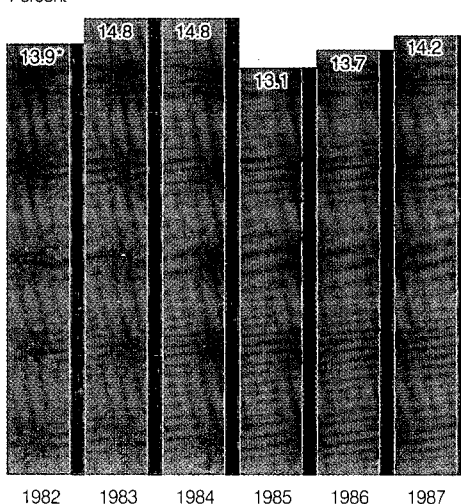


■ Earnings per share
 ■ Indicated rate \$2.80
 ■ Dividends per share

*Paced by earnings growth,
dividends have increased annually.*

Return on average common equity

Percent



Average Allowed Return (NC Jurisdiction)
 16.3% 15.4% 15.3% 15.1% 14.6% 13.4%

*Excluding extraordinary item (gain on retirement of bonds) and provision for loss.

*Sales growth helped produce
an excellent return for shareholders.*

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To Our Shareholders:

We are moving vigorously to fulfill our pledge to you

In 1987 Duke Power took major steps to carry out the strategy we outlined a year ago to meet the challenges arising from greater competition in our industry.

To that end, your Company:

- Set in motion a new marketing plan that will shape retail electricity use, increasing kilowatt-hour sales while restraining growth in the peak load;

- Concluded a strategic contract to sell bulk power to Carolina Power & Light Company, a neighboring utility;

- Agreed to purchase Nantahala Power & Light Company, another neighboring electric utility;

- Reduced costs through debt and preferred stock refundings and new fuel contracts; and

- Cut electricity rates to all customers to reflect our income tax savings from the 1986 Tax Reform Act.

Through these and other actions we are moving vigorously to fulfill our pledge to you to increase earnings through greater sales, controlled costs and growth in diversified earnings.

Earnings Up To \$4.40 Per Share

Earnings per share in 1987 rose 8.9 percent to \$4.40 from the \$4.04 earned in 1986. Total earnings for common stock were \$445.9 million, up 9 percent from \$409.1 million in 1986.

Return on average common equity increased to 14.2 percent from 13.7 percent in 1986.

The strength of the Carolinas' economy in 1987 was a major factor in the earnings increase. This strength was reflected in a 7.6 percent increase in industrial use of electricity.

Weather, particularly summer heat, also contributed to increased electricity use. That, combined with continued population growth and a boom in housing construction, drove residential energy sales 6 percent higher.

Our auditors, Deloitte Haskins & Sells, have again qualified their opinion on our financial statements because of uncertainty about recovery of certain costs re-



William S. Lee

Douglas W. Booth

lated to plant abandonments.

Rates Reduced, Appeal Continues

On January 1, 1988, we reduced electric rates by 3 percent to reflect lower federal income tax

rates. This was in addition to the 2.3 percent reduction on January 1, 1987.

Intervenors appealed our two most recent rate increases in North Carolina. One of those has been settled, but the

most recent is still pending before the North Carolina Supreme Court.

In July 1987 the Court affirmed the North Carolina Utilities Commission's 1985 order allowing us \$157.7 million in additional revenues. The Court has not yet ruled on issues appealed in the Commission's 1986 order allowing us a \$133.1 million increase in revenues.

Shaping the Future

Increasing retail electric sales is an important component of our long-term business strategy. We want to supply a larger share of the energy needs in the Piedmont Carolinas. So do other utilities: natural gas suppliers, neighboring electric companies, municipal electric systems and rural electric cooperatives.

To successfully meet this competition we have developed a new Five-Year Marketing Plan aimed at increasing our share of energy markets. In 1987, for the first time in more than a decade, we began aggressively promoting our product through new services and programs. With our tradition of customer service and our ability to remain a low-cost producer, we are confident we will beat the competition.

We remain mindful, though, of the lessons of the late 1960s and early 1970s, when growth in peak energy demand threatened to outstrip our ability to meet it. Our new marketing plan therefore emphasizes off-peak sales that will not create a need for additional power plants.

Increasing off-peak sales will enhance shareholder value by increasing revenues while minimizing new investment in generating plants. Off-peak sales benefit customers by allowing us to spread fixed costs over greater sales, holding prices down.

For a closer look at the Five-Year Marketing Plan and early results, please read the special report beginning on page 14.

Strategic Bulk Sales Sought

In keeping with our long-term business strategy, we pursued increased bulk power sales in 1987. In the first

quarter we negotiated a contract to supply Carolina Power & Light Company (CP&L) of Raleigh, N.C., with 400,000 kilowatts of generating capacity for six years beginning in 1992. This contract, which requires regulatory approval, will make efficient use of our baseload capacity. We are seeking additional temporary bulk power sales to other Southeast utilities.

We followed the CP&L contract with an agreement in the fourth quarter to acquire Nantahala Power & Light Company (NP&L), headquartered in Franklin, N.C. The agreement opens a market for bulk power sales in western North Carolina and possibly beyond.

If regulators approve the acquisition, we expect that NP&L will become a wholly owned subsidiary of Duke Power. The Company will in turn supply bulk power to supplement NP&L's hydroelectric generating system. To deliver that power, Duke will build a transmission line to the NP&L system and gain a direct link for the first time with the Tennessee Valley Authority, which serves more than 3.1 million customers in seven states. That link will create the opportunity for other bulk power sales to the west.

More Effort on Non-Utility Activities Ahead

While we made progress in our strategy to expand diversified operations, total non-utility earnings were down in 1987. We will focus on increasing non-utility operating earnings in 1988.

Most of the earnings decline was due to losses related to the stock market crash of the fourth quarter and a reduced level of investment. We have responded to increased market volatility by reviewing our investment practices and making appropriate changes. In the years ahead non-utility earnings will be less affected by the performance of the stock market as our temporary financial investments are redeployed in electric facilities.

Our plan for increasing total earnings

and dividends over the next several years requires growth in diversified earnings. To achieve that our operating subsidiaries must take full advantage of their market potential in real estate, electrical and electronic equipment sales and engineering services. In 1988 we will be working hard toward this objective.

Building on Strengths

A key to the success of our competitive strategy is avoiding rate increases, so cost control is a major component of our plan. We began 1988 in a strong competitive position. Refinancings completed in 1987 saved more than \$8.3 million for the year. Renegotiation of several major fuel contracts reduced costs further.

Our 20,000 employees are committed to a market-driven philosophy that will enable us to meet the competition. They are diligently seeking ways to do our business more efficiently. We are continually enhancing our strategic business plan to capitalize on our strengths, and we remain alert to business opportunities that will improve customer service and increase shareholder value.

We have confidence in the strength of the economy of the Piedmont Carolinas. We recognize the importance of economic growth to our own growth, and we are prepared to weather fluctuations in the economic cycle. With your support, we look forward to an exciting future. ■

William S. Lee

William S. Lee

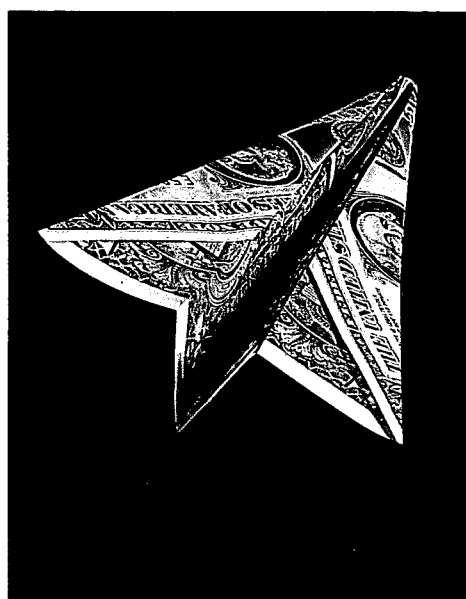
*Chairman of the Board and
Chief Executive Officer*

Douglas W. Booth

Douglas W. Booth

*President and
Chief Operating Officer*

February 12, 1988



Higher Sales Drive Higher Earnings

Shareholders get 12th consecutive dividend increase

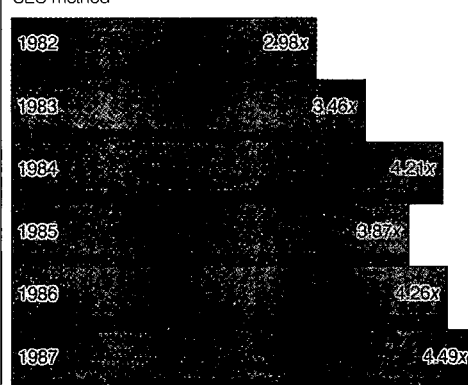
More customers used more electricity in Duke Power's service area in 1987, pushing sales and earnings to new highs. Electric revenues grew to \$3.7 billion and Duke Power common stock earned \$4.40 a share in 1987, up 8.9 percent from \$4.04 in 1986. Total earnings for common stock were \$445.9 million, up from \$409.1 million.

Many Carolinas cities enjoyed building booms to accommodate the population growth that continues to characterize the Sun Belt. Residential use of electricity rose 6 percent.

Another unusually hot summer baked the Piedmont in 1987, prompting customers to turn to their air conditioners for relief. August produced a new monthly sales record, 9.1 percent higher than August 1986. That record followed

Earnings coverage of fixed charges

SEC method



Earnings in 1987 again met the Company's goal of 4 times fixed charges.

hard on July 23's peak demand of 12,691,000 kilowatts, up from the previous all-time peak of 12,687,000 kilowatts set on January 21, 1985. A subsequent peak demand of 12,728,000 kilowatts was set on January 27, 1988.

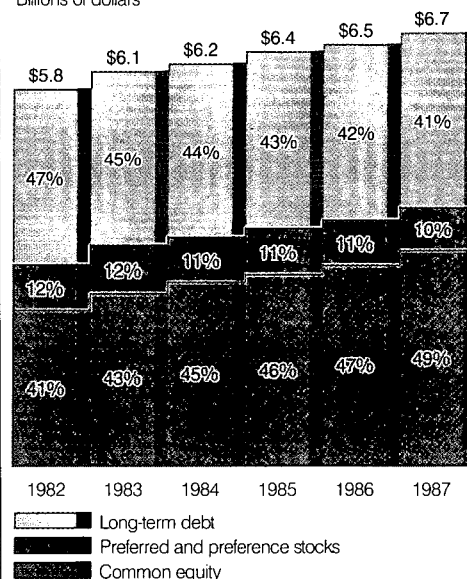
The thriving North Carolina and South Carolina economies stayed strong throughout 1987. Industrial electricity use rose 7.6 percent.

Duke Power's directors in July voted a 12th consecutive dividend increase, to 70 cents a share per quarter from 67 cents. The increase, effective in the third quarter, raised the indicated annual dividend to \$2.80 from \$2.68. Over the long term, Duke Power intends regular dividend increases to maintain a payout ratio of 60 to 65 percent of earnings for common stock.

The Company had no new common stock issues during the year and anticipates no need for one in the foreseeable future. The Company issued \$325 million worth of new bonds and preferred stock during the year to refund older,

Capital structure (Excludes current maturities)

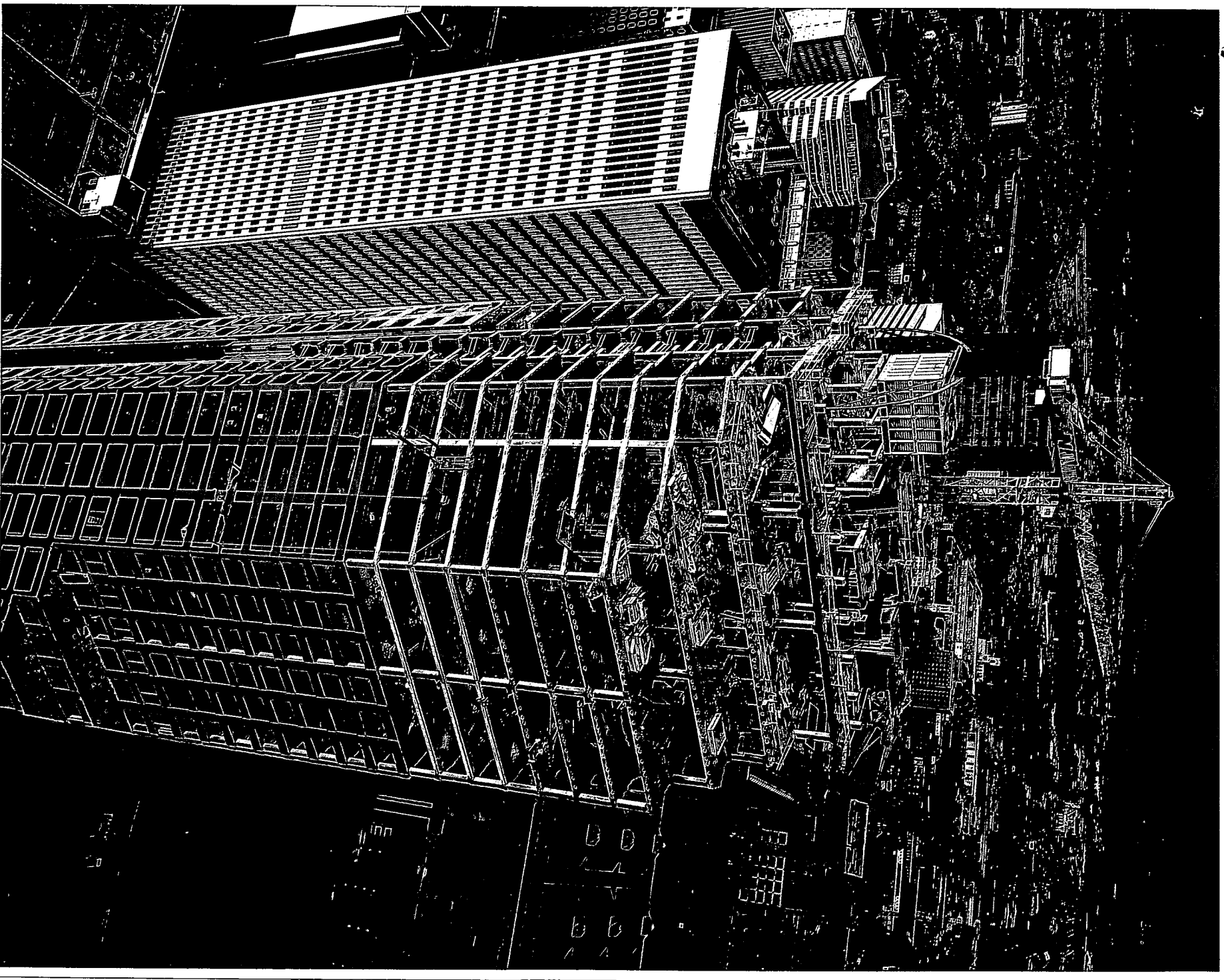
Billions of dollars



Common equity as a percentage of total capital continues to rise.

Financial Snapshot

Duke Power Company	1987	1986	
Common stock earnings (millions)	\$445.9	\$409.1	+ 9.0%
Earnings per share	\$4.40	\$4.04	+ 8.9%
Dividends per share	\$2.74	\$2.64	+ 3.8%
Return on average equity	14.2%	13.7%	+ 3.6%
Coverage of fixed charges (goal 4.0X)	4.49X	4.26X	
Internal cash generation (goal 50%)	67%	56%	



The Piedmont Carolinas' expanding economy changed the landscape throughout Duke Power's service area. The 42-story One First Union Center, under construction near Duke's headquarters in Charlotte, is heated and cooled electrically.

higher-cost issues. These refinancings saved more than \$8.3 million in 1987 alone.

Duke's stronger financial position was recognized in 1987 by Fitch Investors Service, Inc. The New York-based rating service upgraded its rating of Duke Power preferred stock to AA from AA-.

Rates Reduced For All Customers

Base electric rates went down in 1987 for the first time in more than 20 years. The Company reduced rates to all customers

1987 Sales Gains – KWH

Residential	+ 6.0%
General service	+ 5.8%
Textile	+ 6.1%
Non-textile industrial	+ 8.9%
Total industrial	+ 7.6%
All other	+ 8.7%
Total	+ 7.0%

by 2.3 percent on January 1 to reflect expected 1987 income tax savings resulting from the Tax Reform Act of 1986. With 1988 corporate tax rates even lower, customers received an additional 3 percent rate reduction on January 1, 1988.

Prior rate matters continued to capture attention during 1987. Two North Carolina Utilities Commission orders, made in 1985 and 1986, were under appeal to the North Carolina Supreme Court. The Court upheld the Commission's 1985



Duke Power has upgraded distribution lines in Durham, N.C., near Research Triangle Park to accommodate rapid residential growth.

order granting \$157.7 million in additional revenues. It also unanimously upheld the Commission's 1985 approval of the contract terms governing sales of portions of the Catawba Nuclear Station. An appeal of a \$133.1 million 1986 rate order is still pending, however.

The Federal Energy Regulatory Commission ruled in 1987 that costs associated with canceled nuclear plants must be excluded from the supplemental power rates charged to other co-owners of Catawba Nuclear Station. The Company is appealing the ruling to the courts. ■



Home construction took off in the mid-1980s as a healthy economy drew thousands of newcomers to the Piedmont Carolinas.

New Customers Boost Energy Sales

More than 37,000 new customers joined the Duke Power system in 1987 as thousands of new jobs were created by robust growth and a healthy economy in the service area.

At year-end the Company served more than 1.5 million customers, up 2.5 percent from 1986.

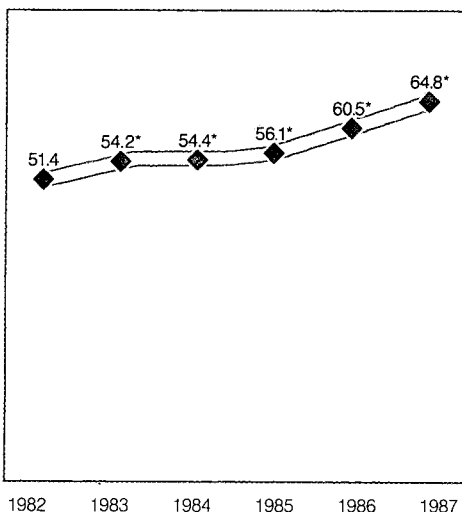
Over the last five years Duke Power's customer base has grown by nearly 200,000.

Economic development has been especially strong in the metropolitan areas. Cities — particularly Charlotte, Durham and Chapel Hill, N.C. — have experienced vigorous building activity that has added thousands of new homes. This building boom has created a marketing opportunity for Duke Power, which the Company is seizing by promoting a new all-electric Maximum Value Home. ■

(See a special report on the Max, page 21.)

Total kilowatt-hour sales

Billions of KWH

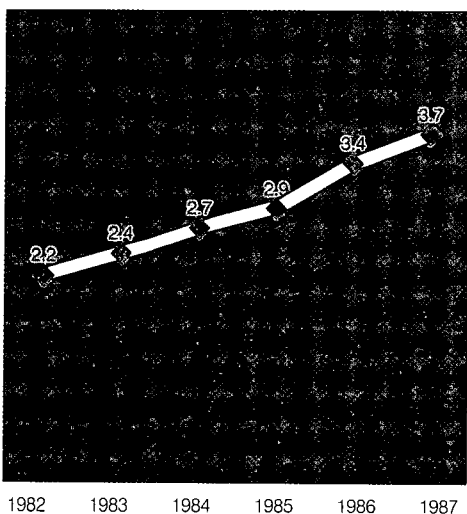


* Excludes a portion of the energy sold to the other joint owners of the Catawba Nuclear Station.

The trend in electricity sales in 1987 continued upward.

Electric revenues

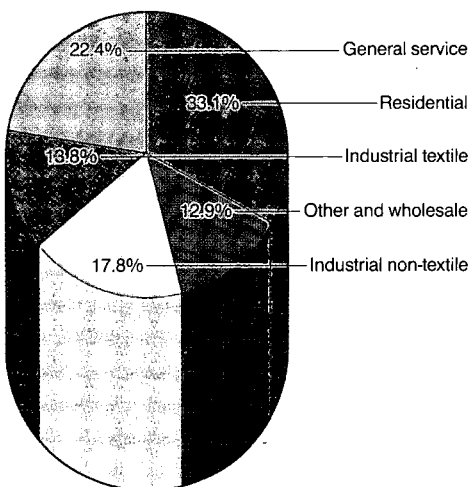
Billions of dollars



Revenues have grown with expansion in Duke Power's market.

1987 Electric revenues

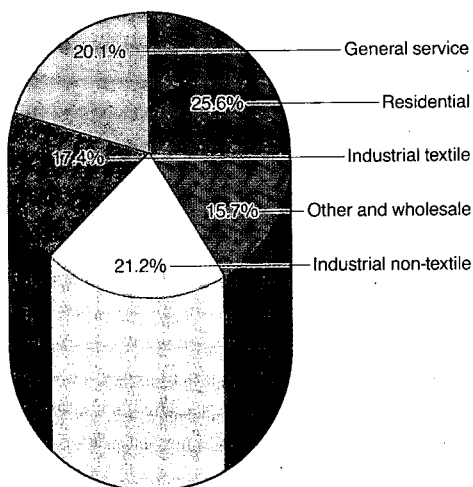
By customer class as a percent of total



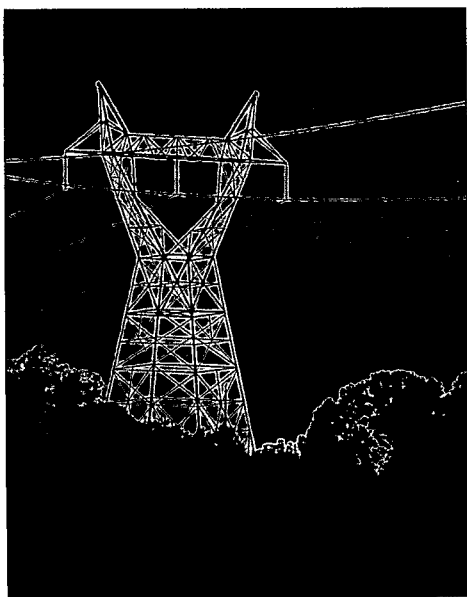
Revenues come from every economic sector.

1987 Kilowatt-hour sales

By customer class as a percent of total



Duke's sales mix reflects the diversity of the Carolinas' economy.



Concrete Solutions

Generating system continues pace-setting performance

Duke Power's generating system had one of its best years ever in 1987. Nuclear power shouldered an increasing load while the coal-fired system continued to set records.

With the addition of Catawba Unit 2 in late 1986, Duke now operates seven nuclear units which produced 64 percent of total power generated in 1987.

Duke's nuclear plants performed superbly, operating at 71 percent of capacity. This is well above a national average of 58 percent and above the system's 61 percent capacity factor in 1986. According to information compiled by the Nuclear Regulatory Commission (NRC) on the efficiency of multi-unit nuclear plants, McGuire, Catawba and Oconee nuclear stations were first, second and fourth in the nation in 1986, the latest year for which statistics are available. McGuire Unit 2 was the country's most efficient single reactor in 1986.

In 1987 Duke Power paid three fines to the NRC totaling \$125,000. These fines were incurred despite overall safe and efficient performance. Both the NRC and the Institute of Nuclear Power Operations

— a self-policing industry association that promotes excellence through training, certification and sharing of information — have independently found Duke's nuclear plants to be superior.

Nevertheless, the plants occasionally have been out of compliance with regulations because tens of thousands of functions must be performed within narrow limits each month. Duke will continue to emphasize performance improvement and measure year-to-year progress in important quality indicators.

The large contribution of nuclear power to Duke's generating needs saved \$440 million in fuel expense in 1987, compared to producing the same amount of power at the Company's most efficient coal-fired plant. The cost of nuclear fuel is about one-third that of coal.

Duke Power continues to get the most from every fuel dollar. The Company in 1986 operated the most efficient fossil generating system among the country's investor-owned utilities for the 13th straight year, according to **Electric Light & Power (EL&P)** magazine. **EL&P** annually surveys 100 investor-owned utilities.

More than 2,000 fossil-fuel generating units across the country compete in the efficiency ranking. In **EL&P**'s 1986 ranking, Duke Power's Belevs Creek Unit 2, Marshall Unit 3, Marshall Unit 4 and Belevs Creek Unit 1, respectively, were the top four performers in the country. The slightly smaller and older Marshall Units 1 and 2 finished 10th and 11th, respectively.

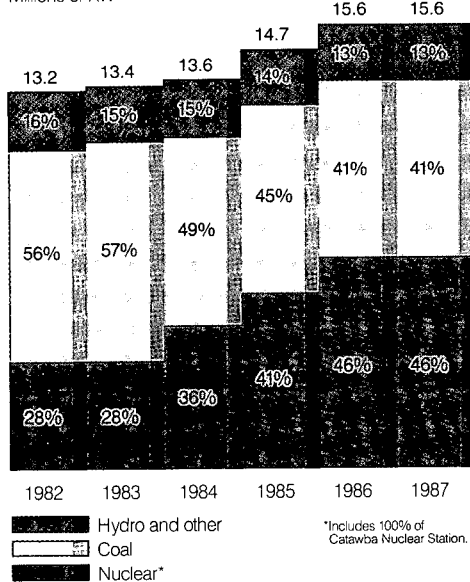
Had the fossil system performed only as well as the nation's second-ranked system, Duke would have needed an additional \$23.7 million worth of coal in 1986.

Baseload Capacity In Place

With a large, stable nuclear system and the country's most efficient coal system, Duke Power has enough baseload capacity to meet customer needs until early in the 21st Century. Effective energy management programs (see box) and a Plant Modernization Program have postponed

Generating capacity

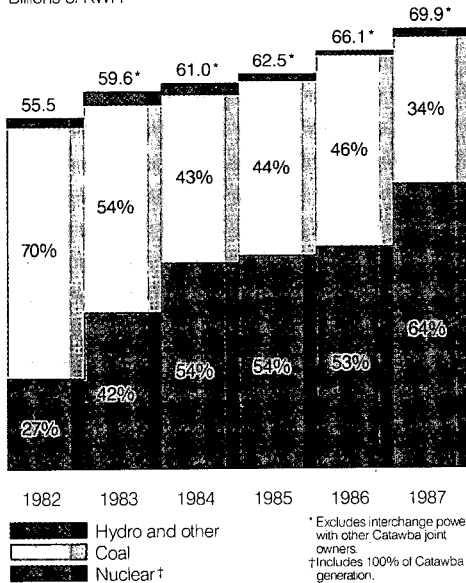
Millions of KW



With the completion of a 20-year construction program, nuclear comprises 46 percent of capacity.

Net generation

Billions of KWH



Nuclear power produced a record 64 percent of Duke Power's electricity in 1987.

the need for additional baseload capacity.

The Plant Modernization Program will extend the lives of 15 older coal units by at least 20 years per unit at a cost of about \$200 a kilowatt, a fraction of the cost of building new plants. About 1.4 million kilowatts of capacity are involved.

The only new plant under construction is the Bad Creek Hydroelectric Station, a 1 million-kilowatt pumped-storage facility at the Keowee-Toxaway Project in South Carolina. Bad Creek was 29 percent complete as of December 31. The station's four units are scheduled for operation in 1991 and 1992.

A pumped-storage station uses electricity during off-peak periods at night and on weekends to pump water from a lower

reservoir to a higher one. The water is released to drive turbines to generate electricity during periods of peak demand.

The Company announced in 1987 that it is considering building another pumped-storage hydroelectric station at

Putting a lid on demand . . .

Amount peak demand was reduced through energy management programs:

1987

Summer	279,000 kilowatts
Winter	321,000 kilowatts

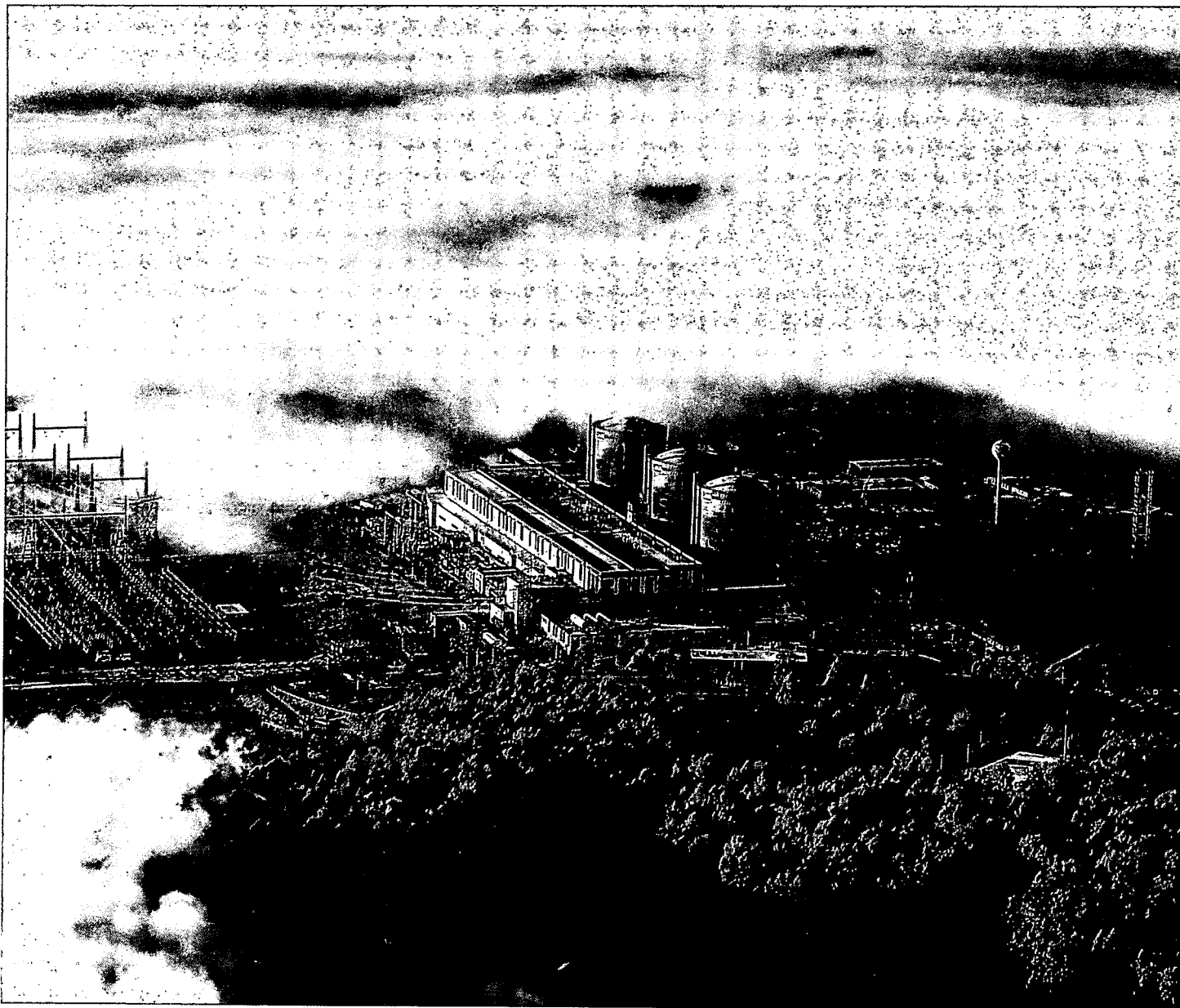
Since 1975

Summer	2.8 million kilowatts
Winter	3.6 million kilowatts

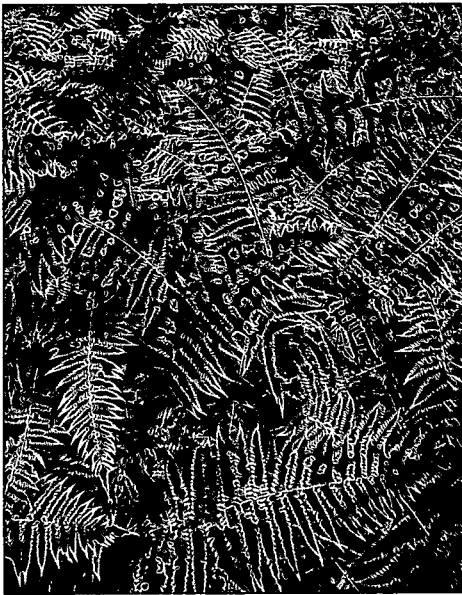
the Keowee-Toxaway Project. The proposed 2.1 million-kilowatt project at Coley Creek would include six underground turbines and a 352-acre upper reservoir on the North Carolina-South Carolina border.

Required licensing by the Federal Energy Regulatory Commission could take four or more years. If approved and completed, the station could begin producing electricity around the turn of the century.

The Company has not yet decided whether to proceed with the Coley Creek project. The station will be built only if a need for turn-of-the-century operation is demonstrated. It is necessary to begin the licensing process now, however, in order to preserve that option. ■



Oconee Nuclear Station, Duke Power's first and largest nuclear power plant, continues to be one of the nation's most reliable.



Service Ethic

Setting the standard for corporate citizenship

Duke Power continued in 1987 to build on its tradition of good corporate citizenship in the communities it serves.

During the 1986-87 winter, the Company, its customers, employees and shareholders and local service organizations throughout the Duke service area helped thousands of less fortunate people stay warm through Duke's Share the Warmth and Community Challenge Heating Fund programs. These two programs raised more than \$2 million.

The Company matched \$374,000 in customer contributions through Share the Warmth. The money was distributed throughout the service area to help customers pay heating bills, regardless of the source of heat.

The Community Challenge Heating Fund matched \$1 for each \$3 raised by local service organizations. The Company contributed \$325,000 to this program, which also helped the less fortunate pay their heating bills.

These programs were repeated in the winter of 1987-88.

Another way Duke shows it cares about the Piedmont Carolinas is through its concern for the environment. The Soil Conservation Society of America in 1987 awarded the Company one of nine national Merit Awards for exemplary service in land and water conservation.

The corporate service ethic finds wide expression among the Company's employees. Duke and its employees pledged

more than \$2.6 million to the United Way in 1987. Corporate and employee contributions together continue to make Duke Power a leading contributor to the United Way in North Carolina and South Carolina.

Duke Power employees also set examples in their communities. Over the past three years an extraordinary 77 Duke employees have served as presidents of their local chambers of commerce or as chairmen of their local United Way campaigns in the Piedmont Carolinas.

Employees Meet Goals

In 1987 Duke Power's 20,000 employees met seven of 10 primary Employee Incentive Goals plus the bonus goal of cost reduction. As a result of employee efforts, millions of dollars have been saved for the Company and its customers.

Employees met or surpassed goals set for customer service reliability, affirmative action, energy management, nuclear production, personal health, power plant design, quality of nuclear operations and cost reduction.

Achieving corporate goals earns employees an additional Company contribution to the Stock Purchase-Savings Program for Employees.

In the seven years of the goals program, employees have met 58 of 74 goals for a 78 percent success rate.

Ten new goals plus the bonus cost reduction goal have been set for 1988. ■

Achieving employee goals

	Goals	Achieved	Percent
1987	11	8	73
since 1981	74	58	78

Investing in the community

Duke Matching Gifts Program	\$210,000 for 180 schools
<i>Company matches employee contributions to colleges and universities.</i>	
Share the Warmth	Up to \$400,000 match
<i>Company matches customer contributions of up to \$25 each.</i>	
Community Challenge Heating Fund	Up to \$325,000 match
<i>Company matches \$1 for each \$3 raised by service organizations.</i>	



Education is a special concern of Duke Power employees. John Velte, an environmentalist at the Company's Lake Norman laboratories, gives frequent talks at elementary schools on animals, the environment and nature's food chain.

Seeking New Horizons

Duke Power expands its core business by building on its strengths.

Duke Power took decisive steps in 1987 to take advantage of today's changing utility industry environment.

In one year Duke:

- Arranged to purchase another electric utility;
- Contracted to sell 400,000 kilowatts of bulk power to a neighboring utility;
- Formed a new subsidiary to market engineering and technical services to other companies; and
- Expanded the scope of existing land management and equipment subsidiaries.

In October Duke Power and the Aluminum Company of America (ALCOA) reached an agreement for Duke to acquire Nantahala Power & Light Company (NP&L), headquartered in Franklin, N.C., for the net book value of its common stock.

ALCOA began building a hydroelectric system in the western North Carolina mountains in the early part of this century to supply power to its aluminum-producing plants in Tennessee. In 1929 ALCOA formed NP&L, which now serves about 43,000 mostly residential customers in five western North Carolina counties. NP&L's service area is adjacent

to the Duke Power service area.

If the acquisition is approved by the North Carolina Utilities Commission, The Public Service Commission of South Carolina and the Federal Energy Regulatory Commission (FERC), NP&L is expected to become a wholly owned subsidiary of Duke Power Company. Hearings on the acquisition are scheduled in North Carolina in March 1988 and are expected in the other jurisdictions during the year.

NP&L operates 11 hydroelectric stations and buys supplemental power from the Tennessee Valley Authority (TVA). After the acquisition and with regulatory approval, Duke will build a transmission line that will link the Duke and NP&L systems. This line will assure NP&L customers a reliable source of power and provide NP&L with supplemental power at rates lower than TVA's.

The supplemental power sales will be mostly off-peak, as the greatest power needs in NP&L's mountainous region are in the winter. The Duke Power system is typically summer-peaking.

The acquisition, with the new transmission line Duke will build, will provide a direct transmission link to TVA for the first time, offering a potential for additional temporary bulk power transactions in the future.

In March the Company completed a bulk power agreement with Carolina Power & Light Company (CP&L) of Raleigh, N.C. Duke will sell CP&L 400,000 kilowatts of generating capacity for six years beginning in 1992. If FERC approves the agreement, CP&L eventually could purchase up to 2 billion kilowatt-hours of energy a year.

The transaction will increase Duke's revenues, offsetting costs and enhancing the Company's position as a low-cost energy producer in the 1990s.

Non-Utility Earnings Affected By Stock Market

Duke Power's operating subsidiaries and diversified businesses continued to develop according to the Company's plan in

1987 despite losses incurred in the financial markets.

Non-utility operating earnings were contributed by Duke Engineering & Services, Inc., Crescent Land & Timber Corp., Mill-Power Supply Company and Duke Power's Merchandising Operations. Investment results came through financial investments held directly by Duke Power Company as well as its subsidiaries, including Church Street Capital Corp.

Non-utility operating earnings totaled \$10.4 million in 1987, up 10.6 percent from \$9.4 million in 1986. Investment earnings, affected by the October stock market crash and a smaller portfolio of investments, declined to \$9 million in 1987 from \$35.3 million in 1986.

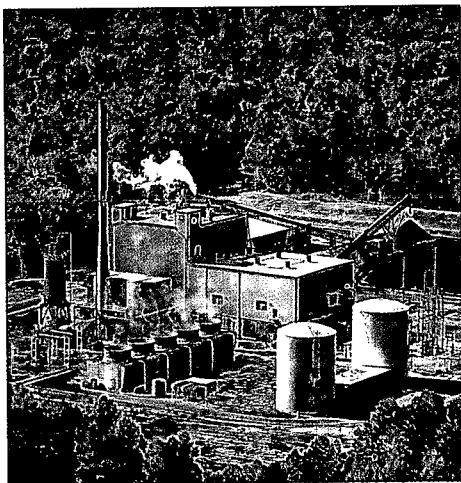
The sum of these operating and investment earnings was 4 percent of earnings for common stock in 1987, down from 11 percent in 1986.

The Company formed a new subsidiary, Duke Engineering & Services, Inc., on January 1, 1987, to market engineering and other technical services to other companies.

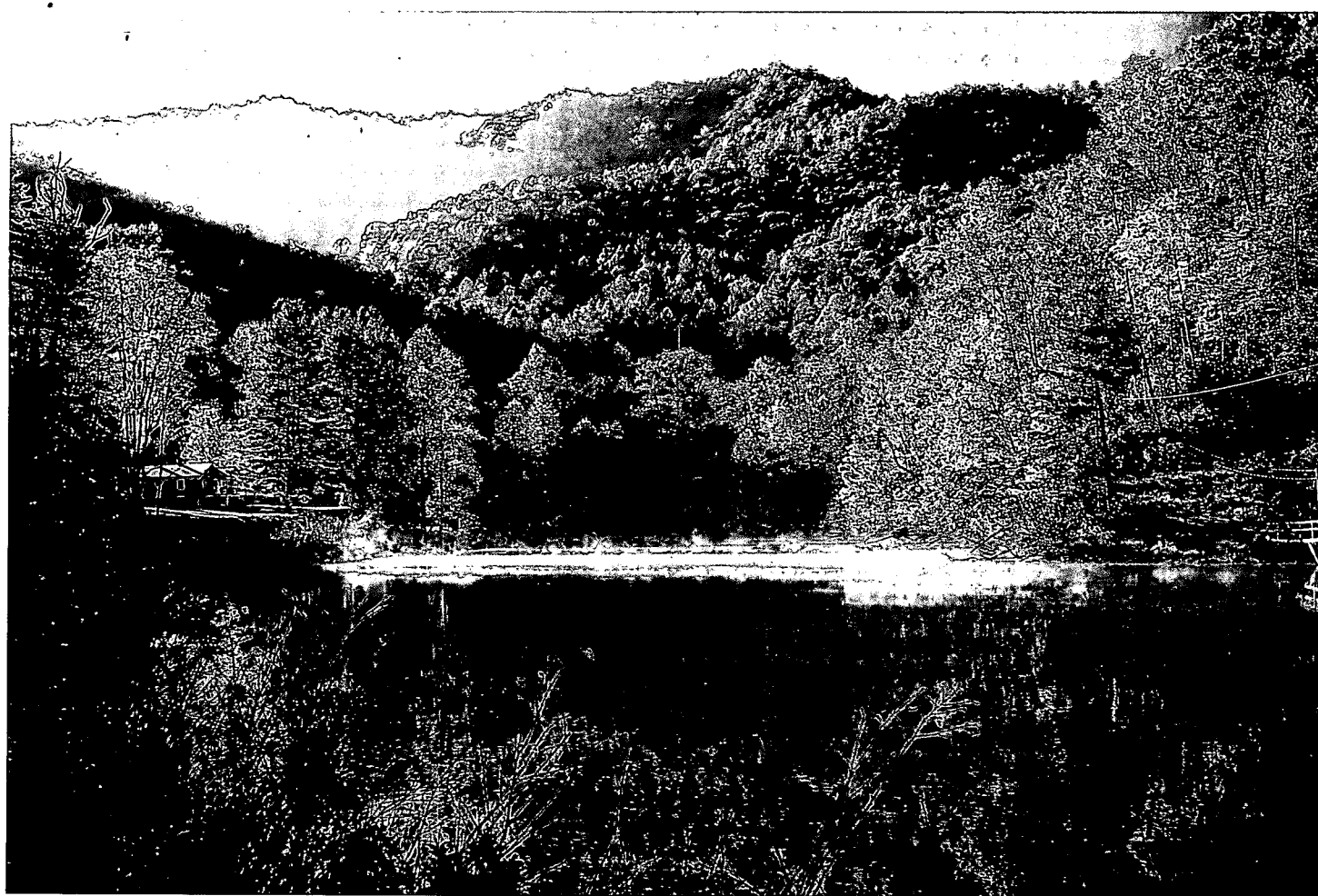
Duke Engineering continued the service business begun in 1982 by Duke's Management and Technical Services organization. During the year, Duke Engineering worked on the design of 595,000 kilowatts of generating capacity for six clients building generating units. Overall, Duke Engineering provided engineering and technical services on 73 projects for 40 clients in 1987.

Crescent Land & Timber Corp., Duke Power's land management subsidiary, recorded lower earnings in 1987, primarily because of the fourth quarter stock market crash. Earnings from real estate and timber operations remained healthy in 1987 as Crescent continued its planned expansion, but were offset by financial investment losses.

Crescent's expansion efforts include part ownership of a Holiday Inn north of Charlotte. The hotel surpassed occupancy projections after opening in 1987.



Duke Engineering & Services, Inc., designs cogeneration plants for independent power producers. This plant in Elizabethtown, N.C., is one of seven Duke Engineering has designed for Cogentrix, Inc.



The proposed acquisition of Nantahala Power & Light Company will add a new service area and the potential for future bulk power sales. Duke will provide electricity to supplement power supplied by NP&L's 11 hydroelectric stations.

The Holiday Inn is part of Crescent's planned growth in residential and commercial projects, including shopping centers and business and industrial parks. Crescent also entered the ornamental tree business in 1987.

Crescent manages 270,000 acres of non-utility property, supplying timber for the furniture, home-building and paper industries. In 1987 it harvested 31.8 million board feet of timber and 51,688 cords of pulpwood.

Mill-Power Supply Company expanded the operations of its Sales Division in 1987 by acquiring a family-owned electrical supply company in Charleston, S.C. The acquisition will provide new markets for its wholesale electrical distribution business. Mill-Power also expanded to the north, opening a sales office in Richmond, Va., for its Mill-Power Technologies Department. Mill-Power Technologies was established in 1984 to market energy management equipment, programmable controllers and computers.

International Business Machines Corp.'s manufacturing systems products division named Mill-Power Technologies its National IBM Industrial Computer Distributor of the Year in 1987 for "a high level of industrial computer product knowledge and customer service."

Mill-Power's Purchasing Division is purchasing agent for Duke Power and its subsidiaries. The division bought more than \$1.1 billion in equipment, fuel, supplies and services for Duke Power in 1987.

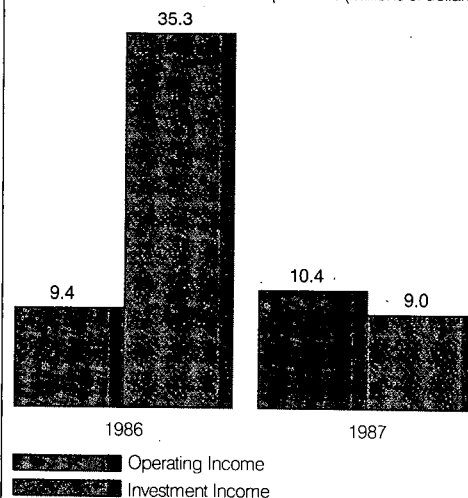
Duke Power's Merchandising Operations sells electrical appliances to retail customers at Duke Power offices throughout the service area. The division increased its sales efforts in 1987 and began aggressive promotions in 1988 that are expected to accelerate its earnings growth. (See story on appliance sales, page 18.)

Church Street Capital Corp. was formed in 1985 to manage a portfolio of intermediate-term investments. Church Street's cash available for investment was reduced in 1987 as funds were redeployed for utility plant.

Church Street's earnings fell below their 1986 level because of stock market losses and a lower level of investments. ■

1987 Non-utility income

From investments and diversified operations (millions of dollars)



Investment earnings declined because of the October market crash and a lower level of investments.

Mining The Energy Valleys

For the first time since the early 1970s, Duke Power set out to aggressively market its product in 1987. After focusing for a decade and a half on discouraging growth in energy demand, Duke launched new programs for all customer groups to accelerate sales of off-peak electricity and boost earnings over the coming years.

The strategy: Make maximum use of existing production capacity while minimizing the need to add new capacity. To accomplish this, Duke will concentrate on filling the "valleys" of energy demand, selling additional power during the off-peak periods at night, on weekends and throughout the winter.

Duke's goals, set out in its Five-Year Marketing Plan, are ambitious but attainable. The Company plans to:

- Expand its share of the residential space-heating market from 41 percent to 50 percent;
- Maintain 86 percent of the home water-heating market;
- Increase new Safe Light accounts for all-night residential outdoor lighting from 9,000 to 30,000 a year;



*And staking
a claim to new
markets*

- Increase the number of commercial heating customers by 5 percent a year and expand penetration in the commercial cooking market;
- Add 7 million kilowatt-hours a year in sales from outdoor commercial and

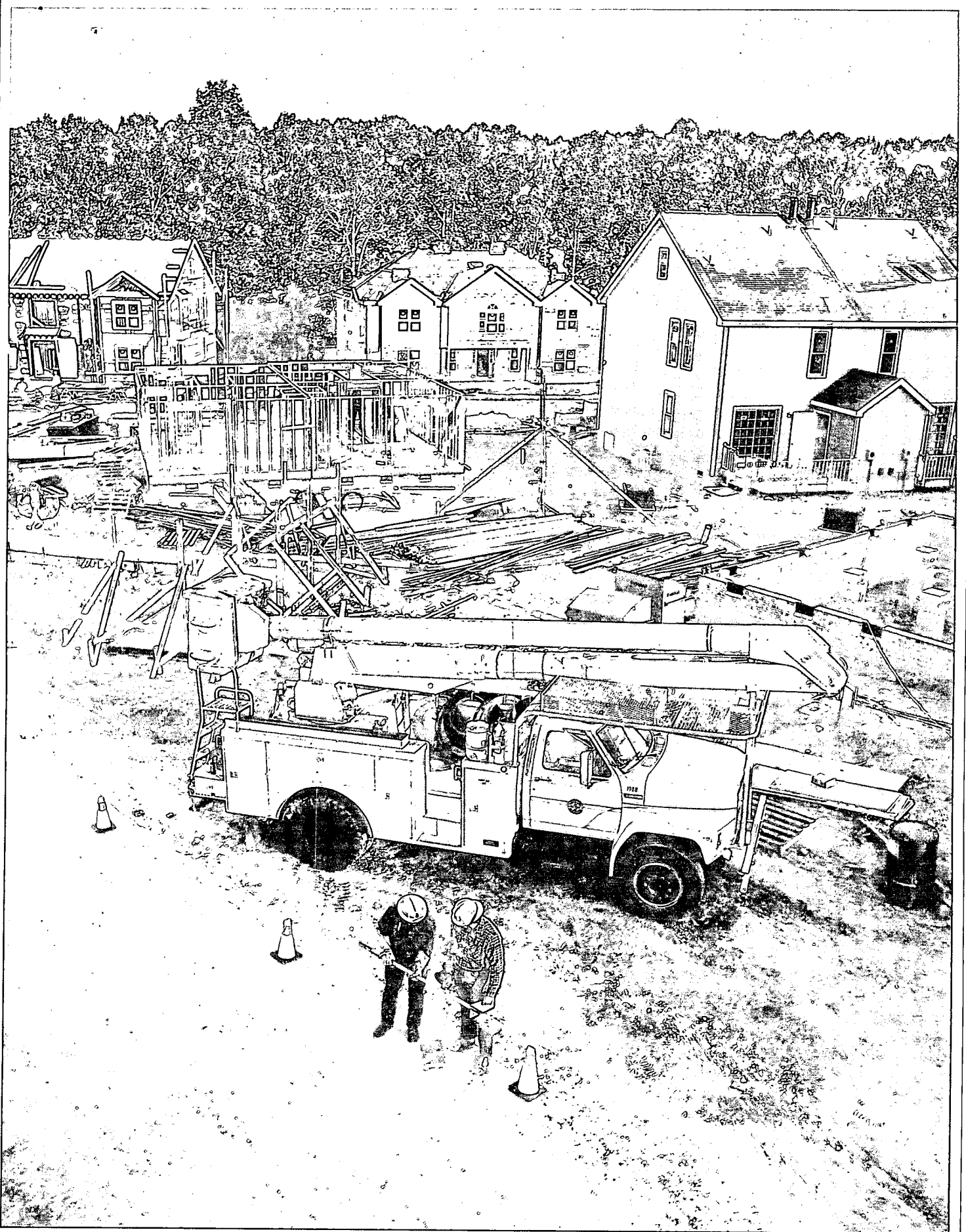
street lights; and

- Add 20 million kilowatt-hours a year in sales through a new industrial program called HERO, or Heat Recovery Opportunities.

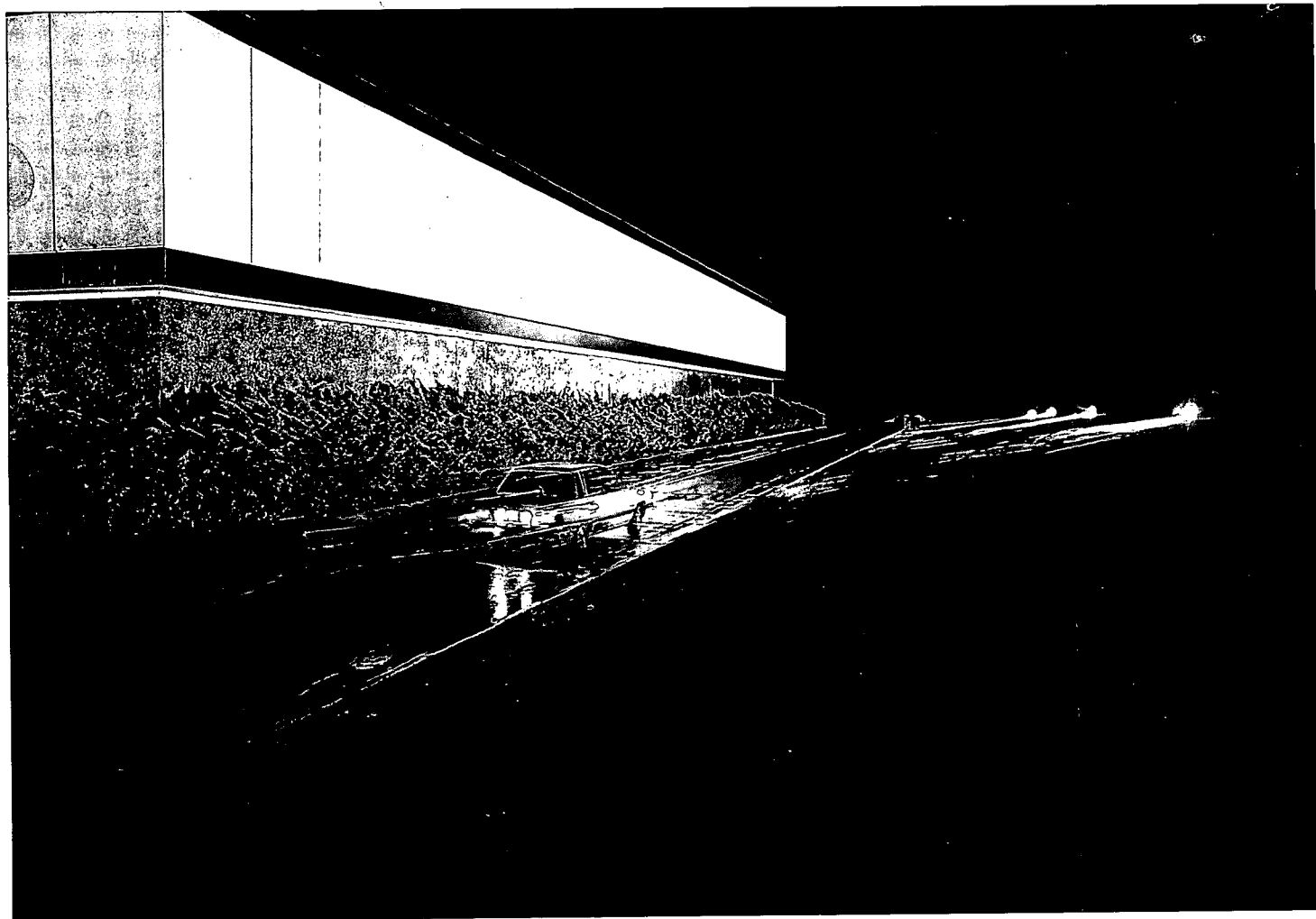
Duke has also rededicated itself to recruiting new and diversified industrial customers to its service area and is researching and promoting new electric technologies.

The new marketing plan is tailored for the energy market of the late 1980s and 1990s just as earlier plans were tailored to meet the market conditions of their time. During the 1970s and early 1980s Duke Power responded to market conditions by promoting conservation and load management to reduce the need for additional generating plants. That program successfully curtailed growth in peak demand by an estimated 3.6 million kilowatts over the past 12 years, allowing the Company time to finance and build the plants necessary to serve a growing customer base.

Today's market conditions dictate a new strategy. Duke now has sufficient capacity to accommodate profitable sales growth as well as to supply existing needs.



New homes mean new customers. Duke Power is there with a renewed emphasis on providing services our customers need and want.



Milliken Research Corporation, a leading textile company headquartered in Spartanburg, S.C., uses creative outdoor lighting to add drama to its facilities.

Other energy companies also have plentiful supplies. These competitors — gas companies, municipal electric systems, rural electric cooperatives and private power generators — are vying for customers.

The Piedmont Carolinas energy marketplace of the 1980s and '90s is a prize well worth the battle: a bustling Sun Belt economy flush with affluent, discriminating consumers.

The residential market is growing as the area enjoys a surge in housing construction that reflects both population increases and the maturing of the Baby Boom generation. Research shows that the average home buyer in Duke's service area is now 39 years old and increasingly from a two-paycheck family. These customers are trading up to larger, more modern homes.

For example, in Charlotte and Mecklenburg County — one of the fastest-growing areas in the Duke service area — more than 40,000 new housing units have

been started in the last five years. In Durham and Chapel Hill in the Research Triangle area, nearly 16,000 have been started.

Duke's service area is also enjoying business growth as more high-technology and service companies move to the Piedmont Carolinas. In 1986, the latest year for which complete figures are available, companies announced \$2.2 billion of investment in new and expanded business in Duke's service area. This investment is projected to create more than 18,000 new jobs.

To capitalize on this growth the Company created a department to research and design programs for all segments of its market. The Marketing Program Development Department draws on techniques and strategies used by consumer product companies to define consumer wants and needs. Using this information, Duke pursued more than 30 new marketing strategies in 1987 and plans to add more in 1988.

Warming Up Residential Sales

In the residential sector Duke's most important sales goal is to capture 50 percent of the home heating market by 1991, up from today's 41 percent. Virtually every home being built in the Piedmont is air conditioned, and Duke Power generating plants will be called on to keep those air conditioners running on the hottest summer afternoon. To gain the most benefit for both shareholders and customers, the Company needs to make maximum use of those generating plants in the winter as well, heating the homes they cool in the summer.

The proportion of homes heated by electricity has increased steadily since the 1950s. To continue that trend even in the face of aggressive competition from natural gas and oil suppliers, Duke introduced a new all-electric home in mid-1987. The Maximum Value Home — or, simply, the Max — combines advanced energy-saving features with a high-efficiency heat pump and electric water heating. (See

story on the Max, page 21.)

The Ma^x is the first all-electric home to be promoted to builders and home buyers in Duke's service area since 1972. That year the successful Gold Medallion Home program was discontinued in favor of the Energy Efficient Structure, which addressed the conservation needs of the 1970s.

New construction is just one segment of the home heating market. Another key element of the Five-Year Marketing Plan is to pursue the retrofit market.

Through an extensive multimedia ad campaign, the Company is promoting the heat pump as "The Comfort Machine." The Comfort Machine is a high-efficiency heat pump that uses less electricity to provide a higher level of comfort than the heat pumps of a decade ago.

Duke initiated a low-interest Comfort Machine financing program in 1987 to encourage customers to install heat pumps. Customers can borrow money directly from Duke Power with no down payment and repay the loan over five years with a small monthly payment added to their electric bills.

Overall, heat pump sales in the Duke Power service area were up 14 percent in 1987 from their 1986 level.

Since most customer decisions on heating systems are influenced by equipment suppliers, Duke Power has built a network of "Authorized Comfort Machine Dealers." Participating dealers agree to meet Duke's installation and efficiency standards and have the opportunity to use the Company's financing program as a sales tool.

Another goal in the residential energy market is to maintain Duke's strong 86 percent share of water heaters. As an incentive, the Company has developed an innovative program called Half-Price Water Heating. It offers electricity for heating water at half the standard rate to customers who agree to use their water heaters only during off-peak hours and on weekends. More than 23,000 customers are participating in this program, and Duke is researching additional incentive programs to boost electric water-heating sales.

Lighting Up The Night

Duke's 12.7 percent market penetration for all-night outdoor residential lighting is
(continued on page 19)

Bowater Finds Its HERO

Recycling steam saves fuel

It takes more energy to make a ton of paper than to make a ton of steel.

So when one of the country's biggest paper mills installed a new process in its South Carolina plant to improve paper quality, officials looked hard for ways to cut energy costs.

Using an industrial heat pump in conjunction with other recovery techniques, Bowater Carolina Company in Catawba, S.C., expects to cut its fuel bill for drying finished paper in half.

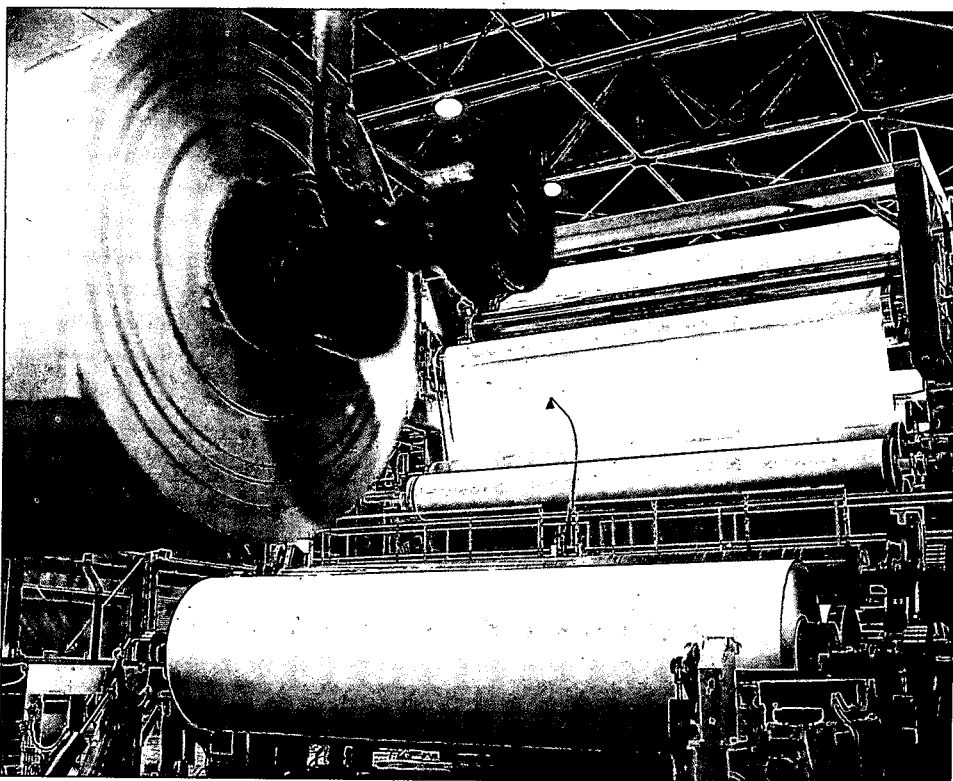
In 1988 Bowater will install this equipment as part of a Duke Power program called HERO — Heat Recovery Opportunities. Bowater had considered similar equipment in 1986 when it first installed its new "thermomechanical pulp" (TMP) mill. The TMP mill produces copious amounts of steam while grinding wood to pulp, and Bowater had expected to put that steam to work drying paper.

Bowater installed a heat recovery system to capture the steam's energy, but

found it had to reduce the steam's pressure for pulp quality reasons. On Duke's recommendation, Bowater officials studied HERO technology at other industrial locations and found the savings compelling. Now Bowater plans to run the steam through a compressor, concentrate its heat and produce high-pressure steam with two large heat pumps.

The heat pumps will use electricity almost continuously through off-peak periods at night and on weekends as well as during weekdays. But Bowater will use less fuel than previously to produce steam for drying.

Duke Power's industrial marketing representatives are showing HERO to other large customers. The technology is especially valuable to textile, food processing, chemical and pulp and paper manufacturers who can recover large amounts of energy from steam or hot water. ■



Bowater Carolina Company, Duke Power's largest one-location customer, has ordered two large industrial heat pumps to recover energy from steam produced in making paper.

From Electric Irons To Microwaves

Appliance sales come of age with record earnings in 1987

In the 1930s Duke Power appliance salesmen peddled electric irons from the backs of trucks to build enough load to justify residential electric lines.

Today, 50 years later, customers can still buy electric irons from Duke Power — as well as dozens of other appliances, from trash compactors to microwave ovens.

In early 1988 Duke began advertising appliances for the first time in more than 15 years. In 1987 Merchandising Operations renewed special sales incentives for

commissioned salesmen, with recognition and awards for top sales producers.

Duke Power's competitive edge is quality equipment and solid service. The Company quickly evaluates customers for credit. And its factory-trained service technicians resolve 92 percent of all service calls in just one visit.

In 1988 Duke plans to sell more than 45,000 major appliances. Merchandising not only increases energy sales, but also meets customer demand for value in ap-

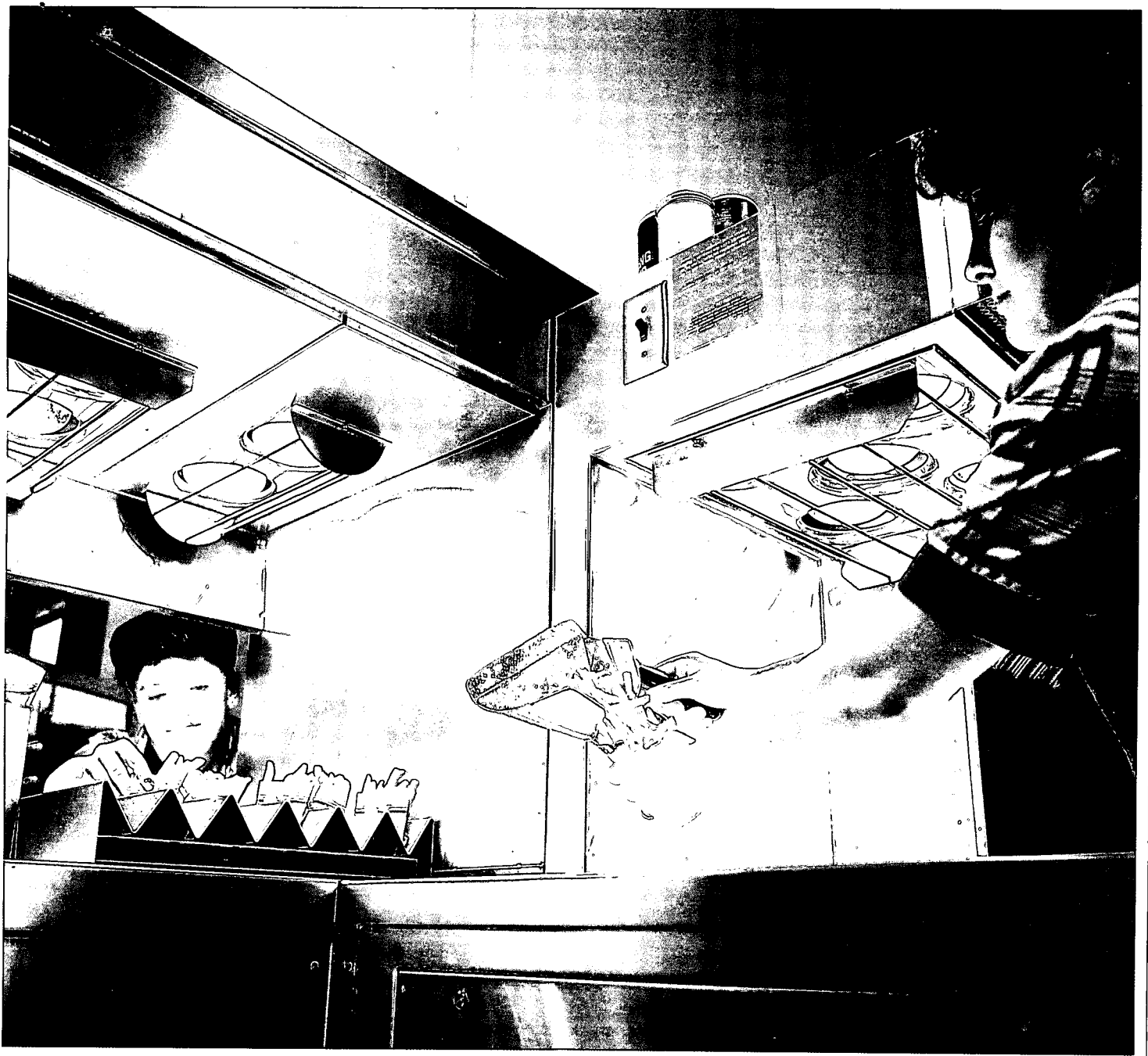
pliances and service. And it earns profits directly for Duke Power's bottom line.

The Company's goals call for Merchandising to earn a cumulative \$28 million in pre-tax profits between 1987 and 1991. In 1987, Merchandising Operations had record earnings of \$6 million before taxes.

Growth in the division's unregulated earnings is part of the Company's goal of increasing total earnings and dividends. ■



Duke Power's appliance sales hit new highs in 1987, and the Company set even higher goals for 1988.



Boddie-Noell Enterprises, a major operator of Hardee's restaurants, knows the advantages of an all-electric kitchen. Its restaurants in Duke's service area cook french fries, hamburgers and other food electrically.

already one of the highest in the nation. The Five-Year Marketing Plan aims to increase that penetration still more through a Safe Light sales campaign promoting security and outdoor evening recreation.

More than 200,000 Duke Power customers already have Safe Lights. The Marketing Plan's goal is to increase new accounts from the recent rate of 9,000 additions annually to 30,000 annually. In 1987 Duke Power added 28,233 new Safe Light customers.

Taking Care Of Business

Over the past five years Duke has seen its

base of commercial customers grow from 168,897 to 202,482. These business customers, including office buildings, banks, fast-food chains and quick-stop grocery stores, purchased 13 billion kilowatt-hours of energy in 1987. The Five-Year Marketing Plan calls for even more sales to the growing service economy.

In the commercial sector, Duke Power intends to add nearly 6,000 new heating customers by 1991, promote the use of all-night lighting and pursue the commercial cooking market.

One of the most efficient ways to reach the commercial heating market is

through architects, engineers and equipment suppliers. Duke Power plans seminars for architects and engineers in 1988 to discuss energy options for the years ahead — including thermal storage technologies and time-of-day pricing.

The Company will launch a newsletter for architects, engineers, developers and general contractors in early 1988. It will feature heating cost comparisons, new buildings with electric heat pumps and advances in technology.

Duke Power is also working with the heat-pump dealer network established for (continued on page 22)



The Taylor family enjoys the comfort, convenience and efficiency of the all-electric kitchen in their Maximum Value Home.

TAKING IT TO THE MAX

New all-electric home is tops in efficiency and value

Leonard and Jill Taylor built their dream house in 1987 and became one of the first families to own Duke Power's new all-electric Maximum Value Home.

Like other Max buyers, the Taylors have found that the Max offers the best in energy efficiency and energy management technology. And the Max has the convenience of a high-efficiency heat pump for both heating and cooling.

Because Max homes are built to the highest energy-efficiency standards, they use less energy for heating and cooling. In addition, their owners are rewarded with a 2 percent discount on their electric rate.

"We've been very pleased all around," said Jill.

The Taylors built their new home because they needed more room. Their two children, Ashley, 6, and Hollis, 4, and the forestry consulting business Leonard operated at home were competing for space.

Building the home according to Max standards appealed to them because they felt it would add value to the home as well as ensure additional comfort. "I definitely thought it would help if we ever sell the home," said Leonard.

When Duke decided to promote a new all-electric home in 1987, it wanted to combine the best features of previous residential marketing programs and to appeal to today's market.

Like the Gold Medallion Home program that helped produce more than 160,000 all-electric homes in the Duke service area between 1958 and 1972, the Max is designed to maintain Duke's leadership in the home energy market. The Company projects that 80,000 Max homes will be built in its service area by 1991.

Like the Energy Efficient Structure (EES) program introduced in 1977, the Max helps Duke Power manage its load. More than 138,000 homes were built to EES standards through 1987. The Max must meet many of the EES efficiency standards as well as others, including a

high-efficiency heat pump, or Comfort Machine. Duct work for heating and cooling must deliver air to the outside wall of all rooms to provide maximum comfort on the hottest summer afternoons or coldest winter mornings.

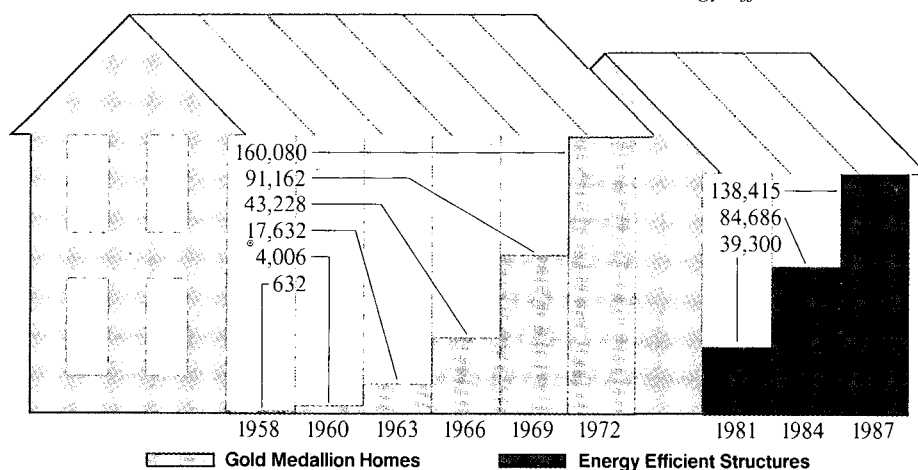
The Max is pre-wired for all residential load control options, allowing customers to take advantage of every opportunity for energy savings.

Because Duke Power certifies each Max, the buyer knows the home will retain that value on resale.

Builders in the Carolinas were quick to recognize the Max's appeal to home buyers. One North Carolina builder announced plans in 1987 for 200 Max homes in a subdivision in Thomasville, N.C. A nationally known builder soon followed with a commitment to build all its homes in Charlotte to Max standards. Though the program was only introduced on June 1, 1987, by year's end 200 builders had begun construction on 1,600 Max homes in Duke's service area. ■

Good track record

The success of the Max Home program can be predicted from the enviable track records compiled by its forerunners — the Gold Medallion Home and Energy Efficient Structure.



Not Just Any Home Can Be A Max

Duke Power's specifications for the Maximum Value Home

Feature	Description
High-efficiency heat pump	Seasonal Energy Efficiency Rating (SEER) of 9 or higher
Electric water heater	
Pre-wiring for load control	Allows the option of additional savings; helps Duke Power manage its load
R-30 insulation in ceilings, R-16 in walls, R-19 under floors	Minimizes heat loss/gain
Glass is limited to 15 percent of floor area	Minimizes heat loss/gain
Outdoor thermostat for heat pump	Limits operation of auxiliary heat to only coldest periods
Perimeter distribution duct work with R- 6.5 insulation	Delivers warm/cool air to outside wall of all rooms for greater comfort

the residential Comfort Machine program to encourage referrals for commercial structures.

Electric cooking offers a tremendous potential for increased sales as restaurants proliferate with changing lifestyles and population growth. One major restaurant operator in Duke's service area already favors the all-electric concept. Boddie-Noell Enterprises of Rocky Mount, N.C., the largest privately owned franchisee of the Hardee's Food System, uses all-electric cooking in most of its Hardee's restaurants served by Duke. The Company's commercial sales representatives are working to convert other restaurants.

Finally, Duke is promoting creative outdoor lighting to architects and engineers through advertising and customer contacts. In 1987, 5.3 million kilowatt-hours were added to sales through outdoor lighting installations.

Recruiting New Industry

More than one-third of the electricity Duke produces goes to power the Piedmont Carolinas' growing industrial economy. The Company introduced programs in 1987 that promise to enhance off-peak sales to industrial customers for years to come.

Duke Power has renewed its efforts to attract desirable new industry to the service area as part of the Five-Year Marketing Plan. Working with North Carolina and South Carolina economic development agencies, Company representatives make contacts on a national level with a persuasive sales message: Duke Power offers superior electric service and stable electric rates because it has successfully financed and completed an entire generation of baseload power plants.

These efforts paid off in 1987 as several major corporations announced plans to locate facilities in Duke's service area. For example, White Consolidated Industries, Inc., said it would build a plant to employ 1,000 people making refrigerators in Anderson, S.C. Guardian Industries, Inc., announced a 300-job glass factory in Chester County, S.C., and W.W. Grainger Company announced a 300-job regional distribution center for the East Coast in Greenville County, S.C.

Home Savings of America announced a residential mortgage service center in Charlotte that will ultimately employ 1,000 people, and Dart Container Corpo-

ration announced a 200-employee plastic cup factory in Randleman, N.C. Mitsubishi Semiconductor of America, Inc., meanwhile announced a major expansion of its semiconductor wafer plant near Durham, N.C.

Duke Power is also working with existing industrial customers to help them cut their total energy bills by converting some processes to electricity. The Company's industrial representatives are investigating with customers new applications of electrical technology for drying and heating, including microwaves, radio frequencies, infrared light and heat pumps.

The Carolinas' textile and furniture industries present a large potential market for new electrical applications. Alba-Waldensian, Inc., of Valdese, N.C., for example, is using a radio-frequency dryer, which works much like a microwave oven, to dry textile products after they are dyed.

"This is a better drying program," said Ron W. Scott, Alba-Waldensian vice president. Alba-Waldensian has reduced the time it takes to dye a product, dry it and ship it from three days to overnight.

Like many apparel companies, Alba-Waldensian had previously dried its products in a "hot room" heated by steam, which had required 24 to 36 hours. Now, most products are dried by radio waves in 15 to 30 minutes.

The many furniture manufacturers and lumber companies in Duke's service area can benefit tremendously by using heat pumps to dry wood. Cronland Lumber Company near Lincolnton, N.C., for instance, has found that using kilns heated with heat pumps to dry green lumber results in better quality control than using steam heat.

"This is the way to go," said Cronland President Aaron Cronland. "Most old kilns are boiler-fired, and they produce a much higher heat. That stresses the wood and starts hurting the product." Cronland has found it can dry lumber extremely efficiently with electricity because less lumber is wasted.

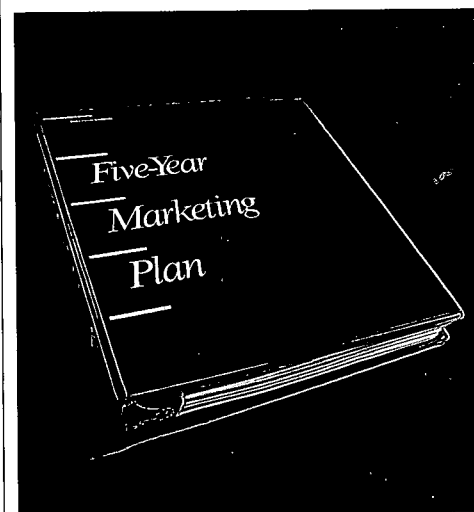
The industrial heat pump is another promising technology. HERO, or Heat Recovery Opportunities, is a Duke Power program that promotes the use of industrial heat pumps to recycle energy normally lost in hot water or steam. (See story on HERO, page 17.)

Industrial heat pump technology is especially suited for the textile, food processing, chemical, and pulp and paper industries. The Company expects to add 20 million kilowatt-hours of sales a year through its HERO program alone by 1991.

Making The Future Brighter

Duke Power's Five-Year Marketing Plan is a comprehensive strategy that approaches the market on all fronts: residential, commercial and industrial. But its goal goes beyond increasing market share. It seeks to help customers find creative new ways of using electricity to improve their businesses and live more comfortably.

Duke Power sees a chance to shape and direct the growth of its markets in the 1990s, to improve its competitive vigor for the challenges ahead and to better serve customers and investors alike. ■



Duke's goals, set out in its Five-Year Marketing Plan, are ambitious, but attainable.

Statements of Income

Dollars in Thousands	Year ended December 31,	1987	1986	1985
Electric revenues (Notes 1 and 2)		<u>\$3,705,784</u>	<u>\$3,400,933</u>	<u>\$2,898,911</u>
Electric expenses				
Operation				
Fuel used in electric generation (Note 1)		624,814	726,151	719,254
Net interchange and purchased power (Note 3)		581,175	378,377	107,145
Wages, benefits and materials		485,192	488,631	435,701
Maintenance of plant facilities		375,085	291,164	260,361
Depreciation and amortization (Notes 1 and 11)		411,182	327,844	319,295
General taxes (Note 1)		173,897	166,385	141,343
Income taxes (Notes 1 and 4)		396,482	437,605	387,777
Total electric expenses		<u>3,047,827</u>	<u>2,816,157</u>	<u>2,370,876</u>
Electric operating income		<u>657,957</u>	<u>584,776</u>	<u>528,035</u>
Other income (Notes 1, 4 and 5)				
Allowance for equity funds used during construction		36,742	52,444	62,741
Earnings of subsidiaries, net		1,183	11,181	11,156
Other, net		12,947	35,203	68,966
Income taxes — other, net		(525)	(3,111)	(19,405)
Income taxes — credit		22,555	32,163	40,363
Total other income		<u>72,902</u>	<u>127,880</u>	<u>163,821</u>
Income before interest deductions		<u>730,859</u>	<u>712,656</u>	<u>691,856</u>
Interest deductions				
Interest on long-term debt		237,367	252,503	267,345
Other interest		3,853	5,764	3,926
Allowance for borrowed funds used during construction (credit) (Note 1)		(10,559)	(13,445)	(17,008)
Total interest deductions		<u>230,661</u>	<u>244,822</u>	<u>254,263</u>
Net income		<u>500,198</u>	<u>467,834</u>	<u>437,593</u>
Dividends on preferred and preference stocks		<u>54,264</u>	<u>58,767</u>	<u>60,912</u>
Earnings for common stock		<u>\$ 445,934</u>	<u>\$ 409,067</u>	<u>\$ 376,681</u>
Common stock data				
Average shares outstanding (thousands)		101,250	101,220	101,178
Earnings per share		<u>\$4.40</u>	<u>\$4.04</u>	<u>\$3.72</u>
Dividends per share		<u>\$2.74</u>	<u>\$2.64</u>	<u>\$2.54</u>

Statements of Changes in Financial Position

Dollars in Thousands	Year ended December 31,	1987	1986	1985
Sources of Funds				
Operations				
Net income		\$ 500,198	\$ 467,834	\$ 437,593
Non-fund items				
Depreciation and amortization (Notes 1 and 11)		614,835	502,151	484,527
Deferred income taxes and investment tax credit, net of amortization (Note 4)		82,623	161,596	141,105
Allowance for equity funds used during construction		(36,742)	(52,444)	(62,741)
Purchased capacity levelization (Note 3)		(134,452)	(77,258)	(22,440)
Other, net		8,136	(72,657)	(67,219)
Total funds from operations		<u>1,034,598</u>	<u>929,222</u>	<u>910,825</u>
Funds from financing and sale of assets				
Issuance of first and refunding mortgage bonds		245,866	394,006	172,404
Issuance of preferred stock		49,563	98,612	—
Nuclear fuel trusts		77,388	57,597	57,638
Issuance of pollution-control bonds		38,734	7,251	34,114
Sale of assets		23,496	—	—
Total funds from financing and sale of assets		<u>435,047</u>	<u>557,466</u>	<u>264,156</u>
Change in short-term position and other marketable securities		<u>65,162</u>	<u>149,866</u>	<u>294,222</u>
Total sources of funds		<u>\$1,534,807</u>	<u>\$1,636,554</u>	<u>\$1,469,203</u>
Applications of Funds				
Construction expenditures		\$ 753,461	\$ 637,908	\$ 594,431
Long-term debt, capital stocks retired or reacquired		441,970	672,239	247,192
Dividends paid		331,691	325,991	317,907
Change in working capital*		40,367	49,356	308,500
Other applications, net		(32,682)	(48,940)	1,173
Total applications of funds		<u>\$1,534,807</u>	<u>\$1,636,554</u>	<u>\$1,469,203</u>
Change in Working Capital				
Increase/(Decrease) in current assets				
Cash		\$ 17,895	\$ 871	\$ (3,011)
Receivables		8,196	81,257	(18,011)
Materials and supplies		15,837	(43,366)	53,735
Prepayments		(1,323)	371	6,633
Decrease/(Increase) in current liabilities				
Accounts payable		(54,972)	16,086	(6,016)
Nuclear fuel disposal costs payable		—	—	122,003
Taxes accrued		54,692	(51,359)	161,141
Interest accrued and other liabilities		42	45,496	(7,974)
Change in working capital*		<u>\$ 40,367</u>	<u>\$ 49,356</u>	<u>\$ 308,500</u>

*Excludes change in short-term position and change in current maturities of long-term debt and preferred stock.

Balance Sheets

Dollars in Thousands

December 31,

1987

1986

Assets**Electric plant** (at original cost — Notes 1, 3, 10 and 14)

Electric plant in service	<u>\$10,072,552</u>	<u>\$9,445,032</u>
Less accumulated depreciation and amortization	<u>3,859,917</u>	<u>3,407,345</u>
Electric plant in service, net	<u>6,212,635</u>	<u>6,037,687</u>
Construction work in progress	<u>704,610</u>	<u>601,064</u>
Total electric plant, net	<u>6,917,245</u>	<u>6,638,751</u>

Other property and investments

Other property — at cost (less accumulated depreciation: 1987 — \$8,832; 1986 — \$8,248)	<u>36,052</u>	<u>40,100</u>
Investments in and advances to subsidiaries (Note 1)	<u>93,633</u>	<u>85,153</u>
Other investments, primarily marketable securities — at cost or less (Note 1)	<u>161,454</u>	<u>289,721</u>
Total other property and investments	<u>291,139</u>	<u>414,974</u>

Current assets

Cash (Note 6)	<u>21,509</u>	<u>3,614</u>
Short-term investments	<u>184,779</u>	<u>113,129</u>
Receivables (less allowance for losses: 1987 — \$3,710; 1986 — \$3,867)	<u>334,111</u>	<u>325,915</u>
Materials and supplies — at average cost		
Coal	<u>86,923</u>	<u>84,137</u>
Other	<u>161,901</u>	<u>148,850</u>
Prepayments	<u>13,754</u>	<u>15,077</u>
Total current assets	<u>802,977</u>	<u>690,722</u>

Deferred debits

Canceled construction projects (Notes 11 and 14)	<u>251,085</u>	<u>296,016</u>
Purchased capacity costs (Note 3)	<u>153,793</u>	<u>101,160</u>
Debt expense, primarily refinancing costs, being amortized over terms of related debt (Note 1)	<u>78,978</u>	<u>62,106</u>
Other	<u>16,577</u>	<u>23,000</u>
Total deferred debits	<u>500,433</u>	<u>482,282</u>

Total assets	<u>\$ 8,511,794</u>	<u>\$8,226,729</u>
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Capitalization and Liabilities

Capitalization (See Statements of Capitalization)	<u>\$ 6,651,528</u>	<u>\$6,514,700</u>
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Current liabilities

Accounts payable	<u>198,011</u>	<u>143,039</u>
Taxes accrued (Note 1)	<u>49,590</u>	<u>104,282</u>
Interest accrued	<u>67,075</u>	<u>68,542</u>
Other	<u>51,143</u>	<u>49,718</u>
Total	<u>365,819</u>	<u>365,581</u>
Current maturities of long-term debt and preferred stocks	<u>59,579</u>	<u>38,911</u>
Total current liabilities	<u>425,398</u>	<u>404,492</u>

Accumulated deferred income taxes (Notes 1 and 4)	<u>1,028,427</u>	<u>913,426</u>
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Deferred credits and other liabilities

Investment tax credit (Notes 1 and 4)	<u>335,647</u>	<u>341,124</u>
Other	<u>70,794</u>	<u>52,987</u>
Total deferred credits and other liabilities	<u>406,441</u>	<u>394,111</u>

Commitments and contingencies (Note 14)		
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Total capitalization and liabilities	<u>\$ 8,511,794</u>	<u>\$8,226,729</u>
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Statements of Capitalization and Retained Earnings

Dollars in Thousands	December 31,	1987	1986
Capitalization			
Common stock equity (Note 7)			
Common stock, no par, 150,000,000 shares authorized; 101,258,731 shares outstanding for 1987 and 101,235,772 shares outstanding for 1986		\$1,862,177	\$1,861,628
Retained earnings		<u>1,374,093</u>	<u>1,210,229</u>
Total common stock equity		<u>3,236,270</u>	<u>3,071,857</u>
Preferred and preference stocks without sinking fund requirements (Note 8)		<u>428,001</u>	<u>468,550</u>
Preferred stocks with sinking fund requirements (Note 9)		<u>263,875</u>	<u>221,991</u>
Long-term debt (Note 10)			
First and refunding mortgage bonds		2,630,506	2,635,790
Capitalized leases		79,908	83,890
Nuclear fuel trusts		86,000	85,000
Unamortized debt discount and premium, net (Note 1)		(21,478)	(20,112)
Current maturities of long-term debt		<u>(51,554)</u>	<u>(32,266)</u>
Total long-term debt		<u>2,723,382</u>	<u>2,752,302</u>
Total capitalization		<u>\$6,651,528</u>	<u>\$6,514,700</u>

Dollars in Thousands	Year ended December 31,	1987	1986	1985
Retained Earnings				
Balance — Beginning of year		\$1,210,229	\$1,071,814	\$ 952,360
Add — Net income		<u>500,198</u>	<u>467,834</u>	<u>437,593</u>
Total		<u>1,710,427</u>	<u>1,539,648</u>	<u>1,389,953</u>
Deduct				
Dividends				
Common stock		277,427	267,224	256,995
Preferred and preference stocks		54,264	58,767	60,912
Capital stock transactions, net		4,643	3,428	232
Total deductions		<u>336,334</u>	<u>329,419</u>	<u>318,139</u>
Balance — End of year		<u>\$1,374,093</u>	<u>\$1,210,229</u>	<u>\$1,071,814</u>

Notes To Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Additions to Electric Plant

The Company capitalizes all construction-related direct labor and materials as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money (allowance for funds used during construction). The cost of renewals and betterments of units of

property is capitalized. The cost of repairs and replacements representing less than a unit of property is charged to electric expenses. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation.

B. Allowance for Funds Used During Construction (AFUDC)

AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. AFUDC, a non-cash, non-operating item, is recognized as a cost of "Construction work in progress," (CWIP) with offsetting credits to "Other income" and "Interest deductions." After construction is completed, a utility is permitted

to recover these capital costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

AFUDC, which is compounded semiannually, was calculated on average embedded rates (net of applicable income taxes) of 9.15 percent for 1987, 9.63 percent for 1986 and 9.90 percent for 1985.

C. Depreciation and Amortization

Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.60 percent for 1987 and 1986 and 3.58 percent for 1985. All coal-fired generating units are depreciated at the rate of 3.57 percent. Nuclear units are depreciated at a rate of 4 percent, which includes an allowance for decommissioning costs.

Amortization of nuclear fuel is included in "Fuel used in electric generation" in the Statements of Income. The amortization is recorded using the unit-of-production method.

Under provisions of the Nuclear Waste Policy Act of 1982, the Company has entered into contracts with the Department of Energy (DOE) for the disposal of nuclear fuel. Payments made to the DOE for disposal costs are based on nuclear generation and are included in "Fuel used in electric generation" in the Statements of Income. The Company fulfilled its obligation for disposal costs of nuclear fuel consumed prior to April 7, 1983, by a payment in June 1985 of approximately \$122,000,000 to the DOE.

D. Subsidiaries

The Company's financial statements reflect consolidation of its wholly owned subsidiary, Church Street Capital Corp., formed in February 1985. All intercompany transactions have been eliminated in consolidation. Investments in other wholly owned subsidiaries have been accounted for by the equity method. (See "Subsidi-

aries," page 43.) Retained earnings as of December 31, 1987, include \$90,780,000 of undistributed earnings of unconsolidated subsidiaries. No dividends were received from unconsolidated subsidiaries in 1987. Dividends received from such subsidiaries were \$1,000,000 in 1986 and \$2,200,000 in 1985.

E. Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its separate company taxable income or loss.

Income taxes are allocated to non-electric operations under "Other income" and to electric operating expense. The "Income taxes — credit" classified under "Other income" results from tax deductions of interest costs relating primarily to investments in CWIP, canceled construction

projects, and short-term and intermediate-term investments.

Deferred income taxes have been provided for timing differences between book and tax income, principally resulting from accelerated tax depreciation, levelization of purchased power costs, canceled construction projects, and capitalized taxes and employee benefits. Investment tax credits are deferred and amortized over the useful lives of the related properties.

F. Unamortized Debt Premium, Discount and Expense

Expenses incurred in connection with the issuance of presently outstanding long-term debt, and premiums and discounts relating to such debt, are being amortized over the terms of the

respective issues. Also, any expenses or call premiums associated with refinancing higher-cost debt obligations are being amortized over the lives of the new issues of long-term debt.

Note 1.
Summary of
Significant
Accounting Policies
(continued)

G. Fuel Cost Adjustment Procedures

Fuel costs are reviewed semiannually in the wholesale and South Carolina retail jurisdictions, with provisions for changing such costs in base rates. In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings.

All jurisdictions allow the Company to adjust for past over- or under-recovery of fuel costs. Therefore, the Company reflects in revenues the difference between actual fuel costs incurred and fuel costs recovered through rates. The North Carolina Utilities Commission ordered the Company to follow these deferred accounting procedures in its August 1986 order, which

was effective for periods beginning January 1, 1986. The prospective adjustment in rates of past over- or under-recovery of fuel costs was challenged in the North Carolina courts. The North Carolina legislature ratified a bill in July 1987 assuring the legality of such adjustments in rates and required a study of the appropriateness of such adjustments. The bill also provides that the fuel adjustment statute will be repealed effective July 1, 1989.

H. Other Investments

Other investments, which consist primarily of marketable securities, are stated at the lower of

cost or market value. At year-end, the cost of these securities approximated market value.

Note 2.
Rate
Matters

The North Carolina Utilities Commission and The Public Service Commission of South Carolina must approve rates for retail sales within their respective states. The Federal Energy Regulatory Commission (FERC) must approve the Company's rates for sales to wholesale customers. The revenues shown below (in millions of

dollars) are annualized on the basis of the filing test year.

A summary of all changes in general rates requested or implemented by the Company since January 1, 1985, is as follows:

Approved						
Jurisdiction and Date Filed	Requested Revenues	Revenues	% of Request	% of Increase/(Decrease) From Previous Revenues	Rate Order Effective	End of 12-Month Test Period
N.C. retail						
February 1985	\$340.0	\$157.7	46.4	9.10	September 1985	June 30, 1984
March 1986 (a)	289.3	133.1	46.0	6.73	October 1986	December 31, 1985
December 1986 (b)	(48.6)	(48.6)	100.0	(2.30)	January 1987	December 31, 1985
November 1987 (b)	(63.3)	(63.3)	100.0	(3.00)	January 1988	December 31, 1985
S.C. retail						
April 1985	143.0	78.4	54.8	10.75	October 1985	June 30, 1984
May 1986	137.8	79.1	57.4	9.55	November 1986	December 31, 1985
December 1986 (b)	(20.9)	(20.9)	100.0	(2.30)	January 1987	December 31, 1985
October 1987 (b)	(26.4)	(26.4)	100.0	(3.00)	January 1988	December 31, 1986
FERC wholesale (c)						
July 1985	9.2	5.2	56.5	10.50	March 1986	December 31, 1986
August 1986 (b)	6.4	1.9	30.4	3.56	July 1987	December 31, 1987
January 1988 (b)	(1.4)	—	—	—	Pending	December 31, 1987

(a) Under appeal. (See Note 14.)

(b) Reflects the impact of the lower federal income tax rate.

(c) FERC wholesale filings do not include the sales to municipalities and electric cooperatives that purchased interests in the Catawba Nuclear Station. Sales to these entities, which previously represented a majority of the Company's wholesale revenues, are now set through contractual agreements. (See Note 3.)

**Note 3.
Joint Ownership
of Generating
Facilities**

The Company has sold interests in both units of the Catawba Nuclear Station. The other owners of portions of the Catawba Nuclear Station and

supplemental information regarding their ownership are as follows:

Owner	Ownership Interest in the Station	Date of Sale
North Carolina Municipal Power Agency Number 1 (NCMPA)	37.5%	November 29, 1978
North Carolina Electric Membership Corporation (NCEMC)	28.125%	February 6, 1981
Saluda River Electric Cooperative, Inc. (Saluda River)	9.375%	February 6, 1981
Piedmont Municipal Power Agency (PMPA)	12.5%	December 20, 1984

Each participant has provided its own financing for its ownership interest in the plant.

The Company retains a 12.5 percent ownership interest in Catawba. As of December 31, 1987, \$487,900,000 of "Electric plant in service" represents the Company's investment in Units 1 and 2 and nuclear fuel for those units. Accumulated depreciation and amortization of \$57,100,000 associated with Catawba had been recorded as of year-end.

In connection with the joint ownership, the Company has entered into contractual agreements with the other joint owners to purchase annually declining percentages of the generating capacity and energy from the plant. The agreements were effective beginning with the commercial operation of each unit. Unit 1 and Unit 2 began commercial operation in June 1985 and in August 1986, respectively. Such agreements were established for 15 years for NCMPA and PMPA and 10 years for NCEMC and Saluda River.

Energy cost payments are based on variable operating costs, a function of the generation output. Capacity payments are based on the fixed costs of the plant. The estimated purchased capacity obligations through 1992 are \$487,000,000 for 1988, \$454,000,000 for 1989, \$434,000,000 for 1990, \$416,000,000 for 1991 and \$402,000,000 for 1992.

The North Carolina Utilities Commission and the Federal Energy Regulatory Commission granted the Company recovery on a levelized basis of the capital costs and fixed operating and maintenance costs of capacity purchased from the other joint owners over a 15-year period. The

Public Service Commission of South Carolina allowed the Company recovery on a levelized basis of the capital costs of capacity purchased over a 7½-year period. As provided in current rates in all jurisdictions, the Company recovers the costs of purchased energy and the portions of purchased capacity not being levelized. The portion of costs not recovered through current rates is being accumulated, and the Company is recording a carrying charge on the accumulated balance. The Company will start to recover the accumulated balance including the carrying charge when the capacity payments drop below the levelized revenues.

For the years ended December 31, 1987 and 1986, the Company recorded purchased capacity and energy costs from the other joint owners of \$693,500,000 and \$515,800,000, respectively. These amounts, reduced by the cost of capacity purchased not reflected in current rates, are included in "Net interchange and purchased power" in the Statements of Income. As of December 31, 1987 and 1986, \$153,793,000 and \$101,160,000 net of income taxes, respectively, associated with the costs of capacity purchased not reflected in current rates had been accumulated in the Balance Sheets as "Purchased capacity costs."

**Note 4.
Income Tax
Expense**

Income tax expense consisted of the following (dollars in thousands):

	1987	1986	1985
Income taxes related to electric expenses			
Current income taxes			
Federal	\$264,276	\$241,150	\$200,884
State	50,001	37,862	36,506
	<u>314,277</u>	<u>279,012</u>	<u>237,390</u>
Deferred taxes, net			
Excess tax over book depreciation	78,017	89,325	87,362
Catawba purchased capacity costs, net of amounts reflected in current rates	29,209	52,942	37,700
Amortization of canceled construction costs	(26,503)	(26,607)	(7,584)
Cost of bond redemption	7,319	21,560	6,358
Capitalized taxes, employee benefits, etc.	3,110	17,023	12,487
Other	4,558	11,738	(5,519)
	<u>95,710</u>	<u>165,981</u>	<u>130,804</u>
Investment tax credit			
Deferred	10,604	16,801	40,729
Amortization of deferments (credit)	(24,109)	(24,189)	(21,146)
	<u>(13,505)</u>	<u>(7,388)</u>	<u>19,583</u>
Total income taxes related to electric expenses	<u>396,482</u>	<u>437,605</u>	<u>387,777</u>
Income taxes related to other income			
Income taxes — other, net	525	3,111	19,405
Income taxes — (credit)	(22,555)	(32,163)	(40,363)
Total income taxes related to other income	<u>(22,030)</u>	<u>(29,052)</u>	<u>(20,958)</u>
Total income tax expense	<u>\$374,452</u>	<u>\$408,553</u>	<u>\$366,819</u>

Total current income taxes were \$291,829,000 for 1987, \$246,957,000 for 1986 and \$225,683,000 for 1985. Of these amounts, state income taxes were \$46,073,000 for 1987, \$33,779,000 for 1986 and \$34,621,000 for 1985.

Total deferred income taxes were \$96,128,000 for 1987, \$168,984,000 for 1986 and \$121,553,000 for 1985. Of these amounts, deferred state income taxes were \$15,585,000 for 1987, \$20,033,000 for 1986 and \$13,178,000 for 1985.

Income taxes differ from amounts computed by applying the statutory tax rate to pretax income as follows (dollars in thousands):

	1987	1986	1985
Income taxes on pretax income at the statutory federal rate of 39.95%-1987, 46%-1986 and 1985	\$349,423	\$403,138	\$370,030
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC)	(18,897)	(30,309)	(36,685)
Amortization of electric investment tax credit deferrals	(24,109)	(24,189)	(21,146)
AFUDC in book depreciation/amortization	37,623	43,679	42,575
State income taxes, net of federal income tax benefits	38,142	28,751	25,284
Other items, net	(7,730)	(12,517)	(13,239)
Total income tax expense (see above)	<u>\$374,452</u>	<u>\$408,553</u>	<u>\$366,819</u>

The Financial Accounting Standards Board has issued a statement that will require the Company to change its accounting for income taxes. While classification of certain items on the Balance Sheets will change, there will be no material effect on the Company's results of operations. The Company is not required to implement this accounting procedure until 1989.

**Note 5.
Other Income**

For the years ended December 31, 1987, 1986 and 1985, the Company recorded investment income of \$20,000,000, \$34,000,000 and \$58,000,000, respectively (\$17,800,000, \$29,900,000 and \$38,700,000, net of income taxes, respectively), as a component of "Other,

net" in the Statements of Income. The income is primarily from dividends and interest on securities. The taxes associated with the investment income are recorded as components of "Income taxes — other, net" in the Company's Statements of Income.

**Note 6.
Short-Term
Borrowings and
Compensating-Balance
Arrangements**

The Company had unused short-term credit facilities of \$360,700,000 with 54 commercial banks as of December 31, 1987, \$306,150,000 with 56 commercial banks as of December 31, 1986, and \$316,050,000 with 59 commercial banks as of December 31, 1985. Included in these credit facilities is \$95,000,000, of which \$40,000,000 is allocated to the 1984 issue and \$55,000,000 is allocated to the 1987 issues of annual tender, pollution-control revenue bonds. These facilities are on a fee basis and/or compensating-balance basis. There were no short-term borrowings during 1987, 1986 or 1985.

In 1987 the Company maintained cash balances with 54 banks. As of December 31, 1987, the Company had \$18,120,730 on deposit with these banks. Substantially all of the Company's cash balances are maintained to compensate banks for their services, even though the Company has no formal compensating-balance arrangements. To compensate banks for credit facilities, the Company had average balance requirements of \$1,305,500 for 1987, \$1,351,500 for 1986 and \$1,362,500 for 1985. The Company retains the right of withdrawal regarding the funds used for compensating-balance arrangements.

**Note 7.
Common Stock and
Retained Earnings**
Common Stock

During the past three years, stock market purchases were used to satisfy the requirements of the Company's stock plans. For the next several years, the Company anticipates issuing new shares of common stock only for the conversion of preference stock. (See Note 8.)

As of December 31, 1987, a total of 4,690,084 shares was reserved for issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1987, none of the Company's retained earnings were restricted as to the declaration or payment of dividends.

**Note 8.
Preferred and
Preference Stocks
Without Sinking
Fund Requirements**

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1987 and 1986:

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

The outstanding Preference Stock, 6 3/4% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of \$23.89 per share, with each share of preference stock valued at par. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1987, 1986 and 1985, shares of preference stock were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1987	5,489	22,959
1986	10,032	41,970
1985	9,819	41,078

In 1986 the Company issued 500,000 shares of Adjustable Rate Preferred Stock, Series A, with a par value of \$100 per share. The dividend rate is adjusted quarterly based on a percentage of the highest rate among certain U.S. Treasury rates. However, in no event will the dividend rate for any dividend period be less than 5.50 percent per annum or greater than 10.50 percent per annum. This rate was 6.91 percent per annum at December 31, 1987.

Preferred and preference stocks without sinking fund requirements as of December 31, 1987 and 1986, were as follows (dollars in thousands):

Note 8.
Preferred and
Preference Stocks
Without Sinking
Fund Requirements
(continued)

Rate/Series	Year Issued	Shares Outstanding	1987	1986
4.50% C	1964	350,000	\$ 35,000	\$ 35,000
5.72% D	1966	350,000	35,000	35,000
6.72% E	1968	350,000	35,000	35,000
8.70% F	1970	600,000	60,000	60,000
8.20% G	1971	600,000	60,000	60,000
7.80% H	1972	600,000	60,000	60,000
8.28% K	1977	500,000	50,000	50,000
8.84% M	1978	400,000	40,000	40,000
15.40% A	1982	1,600,000	—	40,000
Adjustable Rate A	1986	500,000	50,000	50,000
6¾%, AA Convertible	1969	30,006	3,001	—
		35,495	—	3,550
Total			<u>\$428,001</u>	<u>\$468,550</u>

Note 9.
Preferred Stocks
With Sinking Fund
Requirements

The following shares of stock were authorized with or without sinking fund requirements as of December 31, 1987 and 1986:

	Par Value	Shares
Preferred Stock	\$100	10,000,000
Preferred Stock A	25	10,000,000
Preference Stock	100	1,500,000

Preferred stocks with sinking fund requirements as of December 31, 1987 and 1986, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1987	1986
7.35% I	1973	504,000	\$ 50,400	\$ —
		528,000	—	52,800
8.20% J	1977	380,000	38,000	—
		400,000	—	40,000
8.375% L	1978	400,000	40,000	—
		420,000	—	42,000
8.84% N	1979	435,000	43,500	—
		451,250	—	45,125
7.875% P	1986	500,000	50,000	50,000
7.12% Q	1987	500,000	50,000	—
Less: Preferred shares reacquired for current and future sinking fund requirements (at cost)				
		Shares Reacquired		
8.84% N		13,800	—	(1,289)
Less: Current sinking fund requirements				
7.35% I			(2,400)	(2,400)
8.20% J			(2,000)	(2,000)
8.375% L			(2,000)	(2,000)
8.84% N			(1,625)	(245)
Total			<u>\$263,875</u>	<u>\$221,991</u>

The annual sinking fund requirements through 1992 are \$8,025,000 in 1988, 1989, 1990 and 1991 and \$9,525,000 in 1992, with some additional redemptions permitted at the Company's option.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 108 percent of par values, plus accumulated dividends to the redemption date.

**Note 10.
Long-Term Debt**

First and refunding mortgage bonds outstanding as of December 31, 1987 and 1986, were as follows (dollars in thousands):

Series	Year Due	1987	1986	Series	Year Due	1987	1986
15½%	1991	\$ —	\$100,000	(continued) 9½%	2005	\$ 92,800	\$ 92,800
4½%	1992	50,000	50,000	8¾%	2006	96,850	96,850
4¼% B	1992	50,000	50,000	8½%	2007	119,500	119,500
4½%	1995	40,000	40,000	9¾%	2008	120,610	120,610
8½% B	1995	125,000	125,000	10½%	2009	145,050	145,050
7¾%	1996	100,000	100,000	10¾% B	2009	—	148,000
5¾%	1997	72,600	72,600	14½%	2012	—	16,282
7½%	1997	100,000	—	12¾%	2015	62,916	67,517
6¾%	1998	68,500	68,500	10½% B	2015	50,000	50,000
7%	1999	56,075	56,075	9%	2016	175,000	175,000
8% B	1999	64,739	64,739	8½%	2017	150,000	—
8½%	2000	69,244	69,244				
8¾% B	2000	95,635	95,635	<i>Pollution-Control</i>			
7½%	2001	97,900	97,900	6¾%	1988	—	25,000
7¾% B	2001	38,050	38,050	9½%	2013	77,000	77,000
7¾%	2002	78,100	78,100	4.70% (1987)	2014	40,000	40,000
7¾% B	2002	67,900	67,900	4¾% (1986)			
7¾%	2003	94,872	94,872	6½%	2012	20,000	—
8½% B	2003	98,050	98,050	4.10%	2017	10,000	—
9¾%	2004	95,623	95,623	3.95%	2017	25,000	—
				Less: Funds held in trust		(16,508)	(107)
				Total		<u>\$2,630,506</u>	<u>\$2,635,790</u>

Substantially all electric plant was mortgaged as of December 31, 1987.

The annual maturities of long-term debt, including capitalized lease principal payments, through 1992 are \$51,554,000 in 1988, \$35,796,000 in 1989, \$12,942,000 in 1990, \$5,667,000 in 1991 and \$106,187,000 in 1992.

Annual maturities through 1992 include amounts relating to the \$86 million in outstand-

ing obligations under the Company's two nuclear fuel trusts. The maturities are based on estimated fuel consumption. Instead of making cash payments, the Company intends to transfer title of additional nuclear fuel to the trusts as fuel is consumed.

**Note 11.
Canceled
Construction
Projects**

The construction of the Cherokee and Perkins Nuclear Stations was canceled. All jurisdictions have permitted recovery of the incurred costs. These costs are being amortized principally over a 10-year period beginning October 1983. (See Note 14.)

As of December 31, 1987 and 1986, the balances for these canceled projects, net of amortization, were \$400,905,000 and \$472,339,000, respectively (\$251,085,000 and \$296,016,000 net of income tax benefits, respectively).

**Note 12.
Reclassification**

In the Statements of Income and Statements of Changes in Financial Position, certain prior-year

information has been reclassified to conform with 1987 classifications.

**Note 13.
Retirement
Plan**

The Company and its operating subsidiaries have a non-contributory, defined benefit retirement plan covering substantially all their employees. The benefits are based on years of creditable service and the employees' average compensation based on the highest compensation during a consecutive sixty-month period. The benefits are reduced by a Social Security adjustment for employees age sixty-five and over and for early retirees with no creditable service prior to September 1, 1980. The Company's policy for the plan is to fund pension costs accrued.

The Company adopted the provisions of Financial Accounting Standards Board Statement No. 87 (SFAS 87), "Employers' Accounting for Pensions," as of January 1, 1987. The adoption of the new standards did not result in a material change in pension costs for 1987. The new standards have been adopted prospectively, and related disclosures for previous years have not been restated.

A reconciliation of the funded status of the plan to the amounts recognized in the Balance Sheets as of December 31, 1987, is as follows:

	(Dollars in Thousands)
Projected benefit obligation	\$(589,397)
Fair market value of plan assets, consisting primarily of short-term investments and cash equivalents, common stocks, real estate investments, and government and industrial bonds	649,261
Unrecognized net experience gain	(61,734)
Remaining unrecognized SFAS 87 transitional obligation	1,870
Accrued pension cost	<u>\$ 0</u>

As of December 31, 1987, the portion of the projected benefit obligation representing the accumulated benefit obligation was \$460,923,000, of which \$424,630,000 represents the vested benefit obligation. The effect of future compensation increases included in the projected benefit obligation amounted to \$128,474,000.

Net periodic pension cost for the year ended December 31, 1987, included the following components:

	(Dollars in Thousands)
Service cost benefits earned during the year	\$26,707
Interest cost on projected benefit obligation	52,212
Actual return on plan assets	(43,000)
Amount deferred for recognition	(9,042)
Expected return on plan assets	(52,042)
Amortization of transitional obligation over 15 years	134
Net periodic pension cost	<u>\$27,011</u>

The weighted-average assumed discount rate and the assumed increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation as of December 31, 1987, were 9.5 percent and 6.5 percent, respectively. The expected long-term rate of return on plan assets used in determining pension cost for 1987 was 8.5 percent.

Total pension expense, including trustee fees, amounted to \$28,815,000 in 1986 and \$31,491,000 in 1985. As of December 31, 1985, the accumulated benefit obligation was

\$528,977,000, with \$407,467,000 representing the vested benefit portion. The weighted-average assumed rate of return used to determine the actuarial present value of accumulated plan benefits was 7.5 percent in 1985. The actuarial present value of accumulated plan benefits for this calculation does not consider future salary increases.

Net assets available for accumulated plan benefits as of December 31, 1985, were \$557,922,000.

**Note 14.
Commitments and
Contingencies**

A. Construction Program

Projected construction and nuclear fuel costs are \$2.36 billion and \$547 million, respectively, for 1988 through 1990. The program is subject to periodic review and revisions, and actual construction costs incurred may vary from such estimates. Cost variances are due to various factors, including revised load estimates, outcome of licensing and environmental matters, and cost and availability of capital.

B. Nuclear Insurance

The Company's public liability for claims resulting from any nuclear incident is limited to \$720 million under provisions of the Price-Anderson Act, which provides for nuclear liability insurance up to that amount. Under these provisions the Company could be assessed up to \$5 million for each of its licensed reactors for a nuclear incident involving any licensed facility in the nation, and up to \$10 million a year for each, if more than one nuclear incident occurred. Legislation is pending in Congress that could increase the limit on the Company's liability and the amount the Company could be assessed for each of its licensed reactors. As of December 31, 1987, the Company had seven licensed reactors.

The Company is a member of Nuclear Mutual Limited (NML), which provides property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$67 million. This amount represents 10 times the Company's annual premium to NML.

The Company is also a member of Nuclear Electric Insurance Limited (NEIL), which provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. If NEIL's losses ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$19 million. This amount represents five times the Company's annual premium to NEIL.

The Company purchases \$775 million of property damage insurance through NEIL's Excess Property Insurance Program. The Company has also purchased an additional \$120 million of property damage insurance through a pool of stock and mutual insurance companies. These coverages are in addition to the \$500 million of coverage provided by the Company's underlying property damage policies issued through NML. If losses ever exceeded the accumulated funds available to NEIL for the Excess Property Insurance Program, the Company would be liable, on a pro rata basis, for additional assessments of up to \$28 million. This amount represents 7.5 times

the Company's annual premium for \$500 million of excess property insurance.

In addition to the coverage through NEIL's Excess Property Insurance Program, the Company placed \$620 million through a pool of stock and mutual insurance companies for primary and excess property insurance coverage associated with its interest in the Catawba Nuclear Station.

The joint owners of Catawba will assume their pro rata share of any liability for claims resulting from a nuclear incident. The Company is being reimbursed by the other joint owners for certain expenses associated with nuclear insurance premiums paid by the Company.

C. Other

The Company is currently involved in contractual disputes with the other joint owners of the Catawba Nuclear Station. The Company cannot presently determine the ultimate resolution of these matters, but is of the opinion that there are adequate legal and factual bases for the Company's positions in these disputes.

On July 28, 1987, the Federal Energy Regulatory Commission (FERC) granted a motion made by the other Catawba joint owners to exclude costs of abandoned plants from their supplemental power rates. The Company requested a reconsideration of the order, which FERC denied. The Company appealed the order to the courts. The Company estimates that the order, if it becomes final, would have a one-time impact on earnings of approximately \$40 million.

The Company is also involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Except as discussed below, management is of the opinion that the final disposition of the above matters individually will not have a material adverse effect on the results of operations or the financial position of the Company.

Certain parties appealed the 1985 and 1986 rate orders of the North Carolina Utilities Commission to the North Carolina Supreme Court. On July 28, 1987, the Court affirmed the North Carolina Utilities Commission's rate order of 1985. Because the issue of the collection of abandoned plant costs associated with canceled nuclear stations was decided by an evenly divided court, that issue is being contested in the appeal of the 1986 rate case. While the Company is of the opinion that there are adequate legal and factual bases for the Company to prevail on this issue, the Company cannot presently determine the ultimate resolution of this matter.

Auditors' Opinion**Duke Power Company:**

We have examined the balance sheets and the statements of capitalization of Duke Power Company as of December 31, 1987 and 1986, and the related statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described more fully in Note 14(C), there are uncertainties with respect to the Company's recovery of certain costs related to plant abandonments. The ultimate outcome of these matters cannot be determined at this time.

In our opinion, subject to the effects on the financial statements of such adjustments, if any,

as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of the Company at December 31, 1987 and 1986, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Deloitte Haskins & Sells
Certified Public Accountants

Charlotte, North Carolina
February 12, 1988

**Responsibility
for Financial
Statements**

The financial statements of Duke Power Company are prepared by management, which is responsible for their integrity and objectivity. The statements are prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions which should be included. The other information in the annual report is consistent with the financial statements. In preparing these statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, the Company's accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned

functions. The Company's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment the Company's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of the Company. The audit committee meets with management and internal auditors periodically to review the work of each group and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with the Company's independent auditors, Deloitte Haskins & Sells. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

David L. Hauser

David L. Hauser
Controller

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

Earnings and Dividends

Earnings per share increased 9 percent from \$4.04 in 1986 to \$4.40 in 1987. The increase was primarily the result of higher kilowatt-hour sales due to increased economic activity and to weather conditions. Consequently, the earned return on common equity rose to 14.2 percent from 13.7 percent in 1986.

Earnings per share increased over the past five years at an annual rate of 4 percent, from \$3.77 in 1983 to \$4.40 in 1987.

The Company continued its practice of increasing the common stock dividend annually. Over the past five years, common stock dividends rose at an annual rate of 4 percent, from \$2.32 in 1983 to \$2.74 in 1987. Indicated annual dividends per share were \$2.80 in 1987, up 4 percent from 1986.

Revenues and Sales

Revenues increased at an annual rate of 11 percent from 1983 to 1987 primarily because of rate increases and higher kilowatt-hour sales. During this period, both growth in economic activity in the Piedmont Carolinas and the weather conditions have caused kilowatt-hour sales, including electricity delivered to the other joint owners of the Catawba Nuclear Station, to increase at a 5 percent annual rate.

Kilowatt-hour sales for 1987, including deliveries to the other Catawba joint owners, rose 6 percent from 1986. Sales to all customer classes increased over 1986, with sales to residential customers increasing 6 percent. Textile and other industrial sales were 6 and 9 percent higher, respectively, reflecting continued economic growth in our service area.

Operating Expenses

Increased production requirements to support higher kilowatt-hour sales have caused operating expenses to rise at an annual rate of 12 percent over the past five years. Factors contributing to this increase include the addition of three nuclear units, increased maintenance at both nuclear and coal-fired stations, additional Nuclear Regulatory Commission requirements and inflation.

In 1987 purchased power agreements with the other Catawba joint owners resulted in a significant increase in "Net interchange and purchased power." This increase was primarily due to additional capacity and energy costs associated with the in-service operation of Catawba Unit 2 for the entire year. (See Note 3, "Notes to Financial Statements.")

Fuel expenses were relatively stable from 1983 through 1986. Higher production requirements were offset by a change in the generation mix and by increased energy needs being satisfied through purchased power agreements with the other Catawba joint owners. During this period, the three nuclear units that were placed in service reduced the cost per kilowatt-hour for fuel. Fuel expense decreased in 1987 by 14 percent from 1986. This decrease was primarily due to an improved generation mix coupled with a more significant portion of energy requirements being satisfied through power purchased from the other Catawba joint owners.

Other Income

Allowance for funds used during construction (AFUDC) was 11 percent of earnings for common stock in 1987, decreasing from an average of 30 percent for 1983 through 1986. Completion of three nuclear units, the sale of a portion of Catawba Nuclear Station and cancellation of Cherokee Unit 1 caused AFUDC to decline over the past five years. AFUDC will continue to be a relatively small percentage of earnings for common stock for the next several years.

Total non-utility earnings during 1987 were 4 percent of total Company earnings, compared to 10 percent in 1986. These earnings decreased 57 percent from 1986 primarily because of the 1987 stock market losses. Major components of non-utility earnings include interest and dividend income, appliance sales and service, and subsidiary earnings. Over the next few years, the Company expects the portion of earnings attributable to non-utility activities to decline as temporary financial investments are reinvested in utility plant.

Liquidity and Resources

Rate Matters

In late 1986 the Company was granted rate increases in both North Carolina and South Carolina retail jurisdictions to recover its investment in Catawba Unit 2 and payments related to the purchased power contracts with the plant's other joint owners. The Company reduced retail rates by 2.3 percent on January 1, 1987, and by an additional 3 percent on January 1, 1988. These reductions are due to the impact of the lower corporate income tax rates included in the Tax Reform Act of 1986.

In July 1987 the Federal Energy Regulatory Commission approved a 3.56 percent increase in the Company's wholesale jurisdiction, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A rate reduction was requested in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting the lower corporate income tax rate.

The Company was granted approximately 52 percent of retail rate requests from 1983 through 1987. These rate changes included recovery of the Company's investment in McGuire Unit 2 and in both units of the Catawba Nuclear Station, recovery of increased purchased power and operating expenses, and recovery of the investment in the canceled Cherokee Nuclear Station. Rate increases from 1983 through 1986 were partially offset by the rate reduction in 1987 resulting from the lower federal tax rate. (For additional information on rate matters, see Note 2, "Notes to Financial Statements.")

Certain parties appealed the 1985 and 1986 rate orders of the North Carolina Utilities Commission to the North Carolina Supreme Court. On July 28, 1987, the Court affirmed the North Carolina Utilities Commission's rate order of 1985. Because the issue of the collection of abandoned plant costs associated with canceled nuclear stations was decided by an evenly divided court, that issue is being contested in the appeal of the 1986 rate case. While the Company is of the opinion that there are adequate legal and factual bases for the Company to prevail on this issue, the Company cannot presently determine the ultimate resolution of this matter.

The Federal Energy Regulatory Commission (FERC), on July 28, 1987, granted without a hearing a motion made by the other joint owners of the Catawba Nuclear Station to exclude plant abandonment costs from their supplemental power rates. The Company requested a reconsideration of the order, which FERC denied. The Company appealed the order to the

courts. The Company estimates that the order, if it becomes final, would have a one-time impact on earnings of approximately \$40 million. While the Company is of the opinion that there are adequate legal and factual bases for its position, the Company cannot presently determine the ultimate resolution of this matter.

Capital Structure

The Company's capital structure at year-end was 49 percent common equity, 41 percent long-term debt and 10 percent preferred and preference stocks. This capitalization structure is consistent with the Company's long-term financial goals.

The Company's stock plans purchase common stock on the stock market to satisfy plan requirements. For the next several years, the Company does not anticipate issuing common stock other than for preference stock conversions.

Additional Funds

During the past five years, the Company obtained additional funds of \$999 million from the sale of first and refunding mortgage bonds and \$148 million from the sale of preferred stock. The Company has not issued any common stock for the past five years except to satisfy the requirements of its stock purchase plans and the conversion rights of preference stock. (See "Long-Term Financings and Sale of Assets," page 41.)

During 1987 the Company continued its refinancing activities, which began in 1984, by refunding issues of higher-cost securities with lower-cost securities, thus reducing financing costs and providing substantial cost savings in the years ahead. The Company's embedded cost of long-term debt was lowered from 9.59 percent at year-end 1984 to 8.64 percent at year-end 1987. The embedded cost of preferred stock declined from 8.75 percent at the end of 1984 to 7.93 percent at the end of 1987.

During 1987 the Company redeemed or retired \$294 million of long-term debt and issued \$305 million in long-term debt. The Company issued \$50 million of preferred stock in 1987 to replace \$40 million of higher-cost preferred stock. Future refinancing activities will depend on market conditions and prevailing interest rates. (For additional information on the Company's capitalization, see Notes 7, 8, 9 and 10, "Notes to Financial Statements.")

In 1984 the Company received \$457 million from the sale of a portion of the Catawba Nu-

clear Station to the Piedmont Municipal Power Agency.

Church Street Capital Corp., a wholly owned subsidiary, was formed in 1985 to invest the Company's discretionary cash. As of December 31, 1987, Duke Power Company and Church Street had approximately \$185 million in short-term investments and \$161 million in intermediate-term investments.

Fixed Charges Coverage

Fixed charges coverage, using the Securities and Exchange Commission method, increased to 4.49 times for 1987 compared to 4.26 times in 1986. This coverage is above the Company's goal of 4.00 times. The increased coverage in 1987 results from lower interest expense due to refinancings.

Funds From Operations

Funds from operations accounted for 67 percent of total sources of funds in 1987. The percentage of internally generated funds would have been significantly higher if refinancing activities had been excluded. The Company is funding the portions of purchased capacity payments not currently collected in rates. These payments represent an 8 percent reduction in total sources of funds. (For additional information, see "Purchased Capacity Levelization.") Also, approximately 8 percent of total applications of funds is being used for construction of the Bad Creek Hydroelectric Station.

The percentage of internally generated funds still remains above the Company's goal of 50 percent.

Capital Needs

Property Additions and Retirements

Additions to property and nuclear fuel of \$790 million and retirements of \$62 million resulted in a net increase in gross plant of \$728 million in 1987.

Since January 1, 1983, additions to property and nuclear fuel of \$3.5 billion and retirements of \$1.2 billion have resulted in a net increase in gross plant of \$2.3 billion. Unusually large retirements occurred during the period because the Company canceled Cherokee Unit 1 and sold a portion of the Catawba Nuclear Station.

Construction Expenditures

Plant construction costs for generating facilities and for nuclear fuel, including AFUDC, declined from \$481 million in 1983 to \$400 million in 1987. These costs declined primarily because the Company completed three generating units (McGuire Unit 2 in 1984; Catawba Unit 1 in 1985; and Catawba Unit 2 in 1986), canceled Cherokee Unit 1 and sold a portion of the Catawba Nuclear Station. Construction work in progress is expected to increase over the next few years because of construction expenditures at the Bad Creek Hydroelectric Station.

Purchased Capacity Levelization

The rates established in the Company's retail jurisdictions permit the Company to recover its investment in both units of the Catawba Nuclear Station and the costs associated with contractual purchases of capacity from the other Catawba joint owners. The contracts relating to the sales of portions of the station obligate the Company to purchase power from the other joint owners on an annually declining basis. In the North Caro-

lina retail jurisdiction, regulatory treatment of these contracts provides revenue for the recovery of the capital costs and the fixed operating and maintenance costs of purchased capacity on a levelized basis. In the South Carolina retail jurisdiction, revenues are provided for the recovery of the capital costs of purchased capacity on a levelized basis, while the fixed operating and maintenance costs are recovered in current rates.

These rate treatments require the Company to fund portions of the purchased power payments until these costs, including carrying charges, are recovered at a later date. The Company will begin to recover the accumulated costs and carrying charges when the purchased capacity payments drop below the levelized revenues.

The levelized recovery of purchased power obligations under contracts with the other joint owners of the Catawba Nuclear Station will result in payments by the Company over the next three years exceeding the amounts collected in rates for such power by approximately \$199 million.

Other Expenditures

In the past five years, the Company has applied its funds to maturing and refunded securities and to construction expenditures. (See "Liquidity and Resources.")

In June 1985 the Company paid a lump-sum amount of \$122 million to the Department of Energy under the terms of the Nuclear Waste Policy Act of 1982. The payment was for the obligation related to disposal costs for nuclear fuel consumed prior to April 7, 1983.

Future Construction Program

Because the Company has completed its nuclear construction program, construction costs for major generating facilities for 1988 through 1990 will constitute a lower portion of the Company's total applications of funds than in the past five years. Projected construction and nuclear fuel costs for the next three years are \$2.9 billion.

Construction of the Bad Creek Hydroelectric Station continued in 1987. Units 1 and 2 of the 1,000-megawatt pumped-storage facility are scheduled for completion in 1991, with Units 3 and 4 in 1992. By year-end, \$277 million was

spent. The estimated cost of Bad Creek is \$967 million.

Beyond the completion of Bad Creek, the Company has no commitment to place a new generating plant in service. The Company is currently reviewing its options for meeting the need for future peak generating facilities. To keep its options open, the Company began the licensing process for a new pumped-storage hydroelectric plant on Coley Creek near the North Carolina-South Carolina border. No decision has yet been made to construct a plant at this site.

Significant Trends

While the Company's financial position improved over 1986, the ability to maintain financial strength will depend on several factors. Future trends in the Company's earnings depend on economic conditions in the Piedmont Carolinas. With an emphasis on operations, the Company will continue to stress system efficiencies and cost reductions in preparation for a competitive environment.

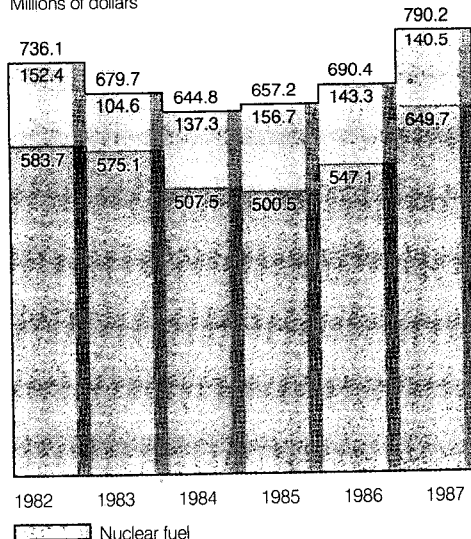
Subject to regulatory approval, the Company entered into a bulk power sale agreement to provide Carolina Power & Light Company (CP&L) with 400 megawatts of capacity for a six-year period beginning in 1992. The customers of both utilities will benefit from a split-the-savings rate

charged for service.

An agreement was executed by the Company and the Aluminum Company of America (ALCOA) providing for the purchase of the common stock of Nantahala Power & Light Company (NP&L), a wholly owned subsidiary of ALCOA, at its net book value at closing. The net book value was \$26 million on December 31, 1987. It is expected that NP&L will operate as a separate subsidiary of the Company. Upon completion of a transmission line between the two systems, the Company will supply supplemental power to NP&L under the terms of an interconnection agreement. The agreements are subject to approval by regulatory authorities.

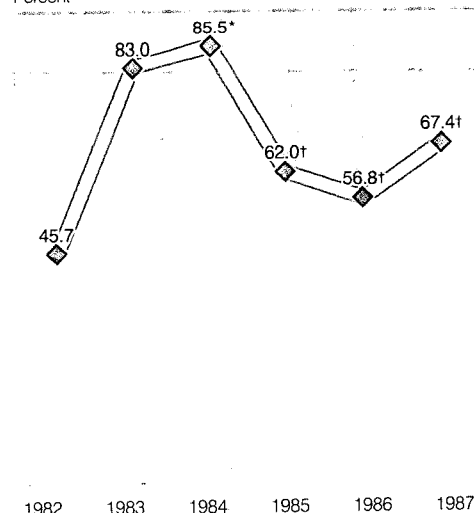
Construction costs

Millions of dollars



Internal cash generation

Percent



*Includes sale of portion of Catawba Nuclear Station.

†Based on funds from operations as a percent of total sources of funds.

Long-Term Financings and Sale of Assets

To meet its capital requirements, the Company has financed with long-term debt and equity securities and has raised additional capital through other types of financings plus the sale of certain assets. From 1985 through 1987, favorable market conditions prompted the Company to refund several issues of higher-cost securities with lower-cost securities in order to reduce financing costs. Financings and sale of assets from 1985 through 1987 were as follows (dollars in thousands):

	1987 Net proceeds	1986 Net proceeds	1985 Net proceeds
Preferred stock			
7.12% Series Q, \$100 par (500,000 shares issued February 4)	\$ 49,563		
7.875% Series P, \$100 par (500,000 shares issued May 15)		\$ 49,562	
Adjustable Rate Series A, \$100 par (500,000 shares issued May 28)		49,050	
Total preferred stock	49,563	98,612	
Long-term debt			
First and refunding mortgage bonds			
7½% Series B due 1997 (Issued March 5)	98,402		
8½% Series due 2017 (Issued February 4)	147,464		
7⅞% Series due 1996 (Issued April 1)		98,812	
9% Series due 2016 (Issued May 15)		171,019	
8½% Series B due 1995 (Issued June 12)		124,175	
10⅞% Series B due 2015 (Issued December 12)			\$ 49,279
12⅞% Series due 2015 (Issued April 1)			123,125
Pollution-control series	38,734	7,251	34,114
Total	284,600	401,257	206,518
Nuclear fuel trusts	77,388	57,597	57,638
Total long-term debt	361,988	458,854	264,156
Total financings	411,551	557,466	264,156
Sale of assets	23,496		
Total long-term financings and sale of assets	\$435,047	\$557,466	\$264,156

The Company's stock plans began purchasing stock on the stock market in the following years to satisfy plan requirements:

	Stock market purchases initiated
Employees' Stock Ownership Plan	1983
Stock Purchase-Savings Program for Employees	1984
Dividend Reinvestment and Stock Purchase Plan	1985
Customer Stock Purchase Plan	1985

Selected Financial Data

	1987	1986	1985	1984	1983
Condensed statements of income (thousands)					
Electric revenues	\$3,705,784	\$3,400,933	\$2,898,911	\$2,710,015	\$2,420,252
Electric expenses	3,047,827	2,816,157	2,370,876	2,161,914	1,971,038
Electric operating income	657,957	584,776	528,035	548,101	449,214
Other income	72,902	127,880	163,821	162,795	213,001
Income before interest deductions	730,859	712,656	691,856	710,896	662,215
Interest deductions	230,661	244,822	254,263	249,565	230,938
Net income	500,198	467,834	437,593	461,331	431,277
Dividends on preferred and preference stocks	54,264	58,767	60,912	61,786	62,600
Earnings for common stock	\$ 445,934	\$ 409,067	\$ 376,681	\$ 399,545	\$ 368,677
Common stock data					
Shares of common stock — year-end (thousands)	101,259	101,236	101,194	101,153	99,634
— average (thousands)	101,250	101,220	101,178	100,346	97,784
Per share of common stock					
Earnings	\$4.40	\$4.04	\$3.72	\$3.98	\$3.77
Dividends	\$2.74	\$2.64	\$2.54	\$2.42	\$2.32
Book value — year-end	\$31.96	\$30.34	\$28.98	\$27.80	\$26.26
Market price — high-low	\$51¼-39¾	\$52-34¾	\$36¾-28½	\$30½-22¼	\$26¾-21¾
— year-end	\$42¾	\$45¼	\$35¾	\$29	\$25½
Balance sheet data (thousands)					
Total assets	\$8,511,794	\$8,226,729	\$8,024,163	\$8,018,818	\$7,379,445
Long-term debt	\$2,723,382	\$2,752,302	\$2,721,041	\$2,696,795	\$2,745,889
Preferred stocks with sinking fund requirements	\$ 263,875	\$ 221,991	\$ 277,012	\$ 285,426	\$ 295,053
Electric and other statistics					
Kilowatt-hour sales (millions)					
Residential	16,580	15,636	14,241	14,493	14,219
General service	13,026	12,312	11,338	10,922	10,339
Industrial	24,974	23,212	21,837	21,821	20,907
Other energy and wholesale	10,171	9,353	8,642	7,163	8,686
Total kilowatt-hour sales (a)	64,751	60,513	56,058	54,399	54,151
Residential customer data					
Average annual KWH use	12,830	12,413	11,659	12,210	12,278
Average revenue billed per KWH	7.40¢	6.96¢	6.42¢	6.11¢	5.67¢
Sources of energy (millions of KWH)					
Generated — Coal	23,617	30,249	27,619	26,394	32,466
— Nuclear (b)	44,810	35,044	33,700	32,632	25,059
— Hydro	1,454	771	1,162	1,995	2,114
— Oil and gas	(1)	14	13	—	8
Total generation	69,880	66,078	62,494	61,021	59,647
Purchased power and net interchange	5	(822)	(1,742)	(2,908)	(1,003)
Total output	69,885	65,256	60,752	58,113	58,644
Less: Other Catawba joint owners' share	11,961	6,261	3,827	—	—
Plus: Purchases from other Catawba joint owners	10,872	5,953	3,769	—	—
Total sources of energy	68,796	64,948	60,694	58,113	58,644
Line loss and Company usage	4,045	4,435	4,636	3,714	4,493
Total kilowatt-hour sales (a)	64,751	60,513	56,058	54,399	54,151
System average heat rate	10,024	9,881	9,900	9,853	9,762
System load factor	62.5%	59.8%	55.8%	62.2%	58.6%

(a) Excludes a portion of the energy sold to the other joint owners of the Catawba Nuclear Station.

(b) Includes 100% of Catawba generation.

Selected Financial Data

Quarterly
Financial Data

A summary of quarterly financial data for 1987 and 1986 is as follows (dollars in thousands, except per-share data):

	Electric Revenues	Electric Operating Income	Net Income	Earnings Per Share
1987 by quarter				
Fourth	\$ 898,769	\$144,047	\$ 92,740	\$0.78
Third	1,036,685	202,641	165,013	1.50
Second	857,750	133,254	102,763	0.88
First	912,580	178,015	139,682	1.24
1986 by quarter				
Fourth	\$ 842,959	\$124,025	\$ 92,077	\$0.77
Third	940,551	181,979	152,530	1.37
Second	784,016	119,208	89,820	0.73
First	833,407	159,564	133,407	1.17

Generally, quarterly earnings fluctuate with seasonal weather conditions, timing of rate changes and maintenance of electric generating units, especially nuclear units.

Stock Market
Information

The Company had approximately 105,107 holders of record of common stock as of December 31, 1987, and 108,045 holders as of December 31, 1986. During 1987 approximately 60,550,700 shares of common stock were traded, compared with 49,499,000 during the previous year. The Company's common stock prices, as quoted in the New York Stock Exchange Composite Transactions, and dividends paid are as follows:

	Dividends Per Share	Stock Price Range			Dividends Per Share	Stock Price Range	
		High	Low			High	Low
1987 by quarter				1986 by quarter			
Fourth	\$0.70	\$50¼	\$40⅞	Fourth	\$0.67	\$49¾	\$44
Third	0.70	48¼	43⅞	Third	0.67	52	41¼
Second	0.67	46¾	39¾	Second	0.65	45⅞	39¾
First	0.67	51¾	45¼	First	0.65	41⅞	34⅞

Subsidiaries

	Dollars in Thousands	1987	1986
Subsidiary Investments	Property and investments — at cost		
	Real estate, recreational and land development	\$45,950	\$44,823
	Net current assets, principally investments, receivables and inventories	56,460	47,961
	Total assets	102,410	92,784
	Deferred income taxes	(8,777)	(7,631)
	Total liabilities	(8,777)	(7,631)
	Investments in and advances to subsidiaries	\$93,633	\$85,153

Reflects the Company's unconsolidated subsidiaries.

Board of Directors

William S. Lee
Chairman of the Board and
Chief Executive Officer^{1,3,4}

Naomi G. Albanese
Dean Emeritus School of
Home Economics
University of North Carolina
at Greensboro²

Dr. Robert L. Albright
President Johnson C. Smith
University²

Douglas W. Booth
President and Chief Operating
Officer^{1,4}

Thomas H. Davis
Chairman of the Executive
Committee
Piedmont Aviation, Inc.³

John L. Fraley
Chairman of the Board
Carolina Freight Corporation³

Alester G. Furman, III
Retired Chairman
The Furman Co., Inc.⁴

Steve C. Griffith, Jr.
Senior Vice President and
General Counsel¹

William H. Grigg
Executive Vice President
Finance and Administration^{1,4}

Paul H. Henson
Chairman
United Telecommunications,
Inc.⁴

George R. Herbert
President Research Triangle
Institute²

***John D. Hicks**
Senior Vice President Public
Affairs¹

George Dean Johnson, Jr.
Partner Johnson, Smith,
Hibbard, Wildman and
Dennis²

James V. Johnson
Retired Vice Chairman and
Director of Public Affairs
Coca-Cola Bottling Co.
Consolidated²

W. W. Johnson
Chairman of the Executive
Committee NCNB
Corporation⁴

Buck Mickel
Chairman RSI Corporation
Consultant for Fluor
Corporation³

Reece A. Overcash, Jr.
Chairman of the Board and
Chief Executive Officer
Associates Corporation of
North America⁴

Warren H. Owen
Executive Vice President
Engineering, Construction and
Production Group¹

James C. Self
Chairman of the Executive
Committee
Greenwood Mills, Inc.
Trustee
The Duke Endowment⁴

1. Executive Committee

2. Audit Committee

3. Compensation Committee

4. Finance Committee

Officers

William S. Lee
Chairman of the Board and
Chief Executive Officer

Douglas W. Booth
President and Chief Operating
Officer

William H. Grigg
Executive Vice President
Finance and Administration

Warren H. Owen
Executive Vice President
Engineering, Construction and
Production Group

Henry L. Cranford
Senior Vice President
Division Operations

Donald H. Denton, Jr.
Senior Vice President
Marketing and Rates

Steve C. Griffith, Jr.
Senior Vice President and
General Counsel

***John D. Hicks**
Senior Vice President
Public Affairs

James R. Bavis
Vice President Human
Resources

Thomas C. Berry
Vice President Southern
Division

Shem K. Blackley, Jr.
Vice President Transmission

Ralph W. Bostian
Vice President Production
Support Department

J. Kenneth Clark
Vice President Corporate
Communications

William A. Coley
Vice President Central
Division

Robert L. Dick
Vice President Construction
and Maintenance

George W. Ferguson, Jr.
Vice President and Deputy
General Counsel

Excell O. Ferrell, III
Vice President Northern
Division

James W. Foster
Vice President Distribution

†Donald E. Hatley
Vice President
Public Affairs

Elbert N. Hedgepeth, Jr.
Vice President Operation

John F. Lomax
Vice President Western
Division

Paul G. Martin
Vice President Eastern
Division

John P. O'Keefe
Vice President Taxes

William O. Parker, Jr.
Vice President Fossil
Production Department

Richard B. Priory
Vice President Design
Engineering

William R. Stimart
Vice President Regulatory
Affairs

George E. Stubbins
Vice President Information
Systems

Hal B. Tucker
Vice President Nuclear
Production Department

Fred E. West, Jr.
Vice President Charlotte
Division

James W. White
Vice President General
Services

C. Joe Sherrill
Assistant Vice President
Transmission-Substation
Division

Lewis F. Camp, Jr.
Secretary and Associate
General Counsel

David L. Hauser
Controller

Richard J. Osborne
Treasurer

Sue A. Becht
Assistant Treasurer

Carolyn R. Duncan
Assistant Secretary

W. Bruce Shannon
Assistant Treasurer

Phyllis T. Simpson
Assistant Secretary

Eugene C. Sites
Assistant Controller

Hansel D. Whitley
Assistant Controller

Subsidiaries

Richard C. Ranson
President
Crescent Land & Timber
Corp.

W. T. Robertson, Jr.
President
Mill-Power Supply Company

William H. Grigg
President
Church Street Capital Corp.

A. Parks Cobb, Jr.
President
Duke Engineering &
Services, Inc.

†Effective February 1, 1988

**John D. Hicks retired February 1, 1988, as director and senior vice president for public affairs after 30 years with Duke Power Company. Mr. Hicks joined Duke in 1957 and was named to the Board of Directors in 1966. During his tenure, Mr. Hicks rendered distinguished service and outstanding leadership to the Company.*

Other Information**Notice of annual meeting**

The 1988 meeting of holders of Duke Power Company common stock will be held Thursday, April 28, at 10 a.m. in the O.J. Miller Auditorium of the Electric Center, 526 South Church Street, Charlotte N.C.

Transfer agents

Common Stock only:
Shareholder Services
Duke Power Company
P.O. Box 36426
Charlotte, N.C. 28236

All Stocks:
Morgan Shareholder Services
Trust Company
30 West Broadway
New York, N.Y. 10015

Registrars

Common Stock only:
First Union National Bank
of North Carolina
212 South Tryon Street
Suite 450
Charlotte, N.C. 28281

All Stocks:
Morgan Shareholder Services
Trust Company
30 West Broadway
New York, N.Y. 10015

Stock exchange listing

Duke Power Company common stock is listed and traded on the New York Stock Exchange. The trading symbol is DUK.

Corporate headquarters

422 South Church Street
P.O. Box 33189
Charlotte, N.C. 28242
704/373-4011

SEC Form 10-K and statistical supplement

Upon request, the Company will provide without charge a copy of its 1987 Annual Report to Shareholders on Form 10-K as filed with the Securities and Exchange Commission. Also available without charge is the Statistical Supplement to the 1987 Annual Report. Requests for these documents should be directed to Rhem Wooten, Investor Relations, Duke Power Company, P.O. Box 36426, Charlotte, N.C. 28236. Shareholders may call Investor Relations at 373-4579 (Charlotte) or at the following toll-free numbers: 1-800-532-0492 (North Carolina); 1-800-438-0142 (elsewhere in the United States).

Investor services

Duke Power Company offers several services for investors. The Stock Purchase and Dividend Reinvestment Plan, available to all shareholders and Duke Power electric customers, provides a convenient way to buy shares without incurring brokerage fees. Direct Deposit of Dividends automatically credits dividends to shareholders' checking or savings accounts on the same day they are paid. And the Small Shares Repurchase Service allows investors with fewer than 50 shares to close their accounts by selling the shares directly back to the Company. Shareholders with questions about any of these services can call Investor Relations at the above numbers.

Annual Report

The 1987 Annual Report is available on audio and video tape. For copies, write Duke Power Company, Corporate Communications, P.O. Box 33189, Charlotte, N.C. 28242.

Duke Power Company

P.O. Box 33189

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