

1988 ANNUAL REPORT DUKE POWER

FORGING A MORE COMPETITIVE COMPANY

THE YEAR IN REVIEW:

MOVING AHEAD ACCORDING TO PLAN

EMPLOYEES LOOK TO THE FUTURE

8907130186 890630
PDR ADOCK 05000269
I PNU



About Duke Power Company

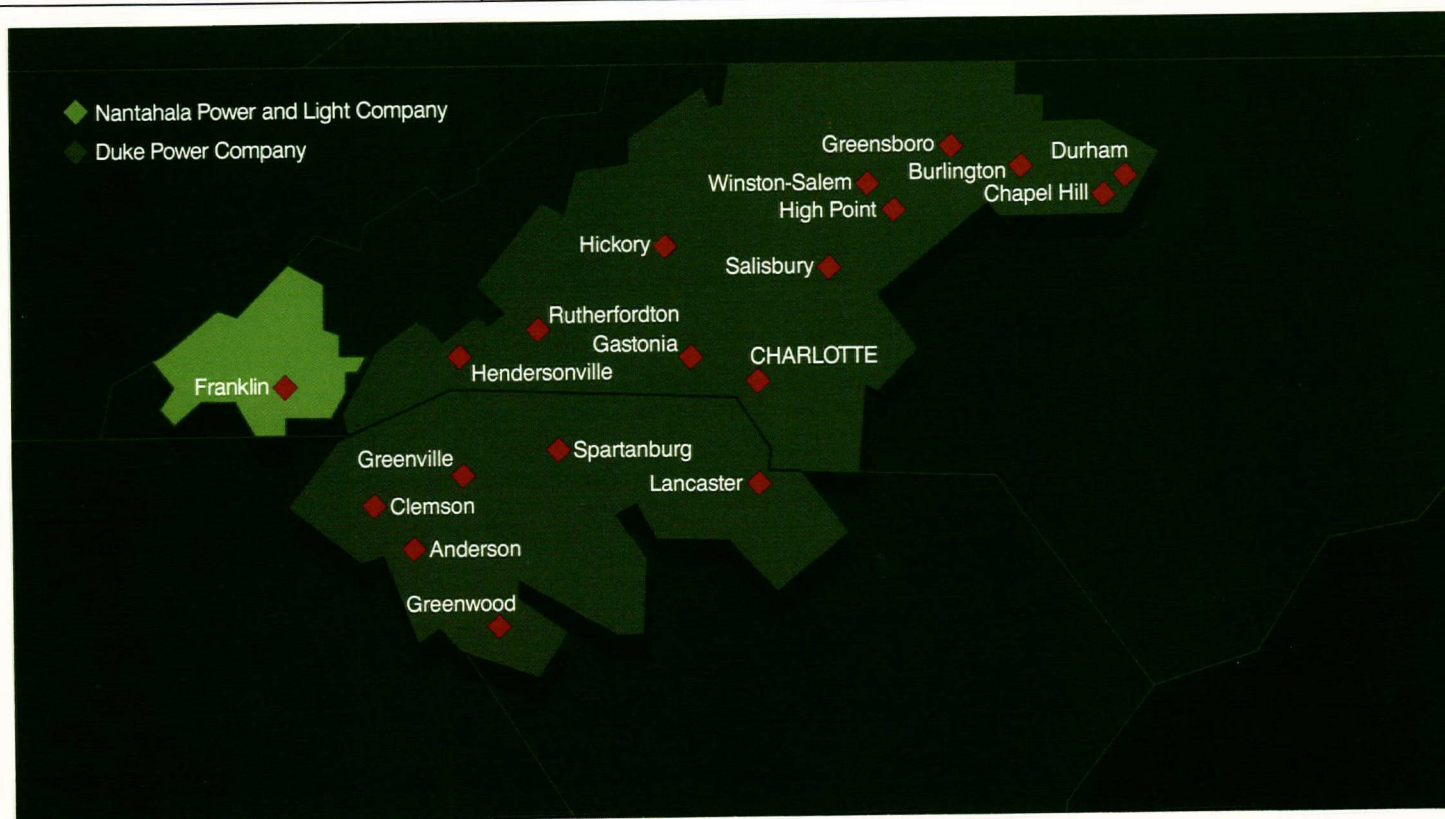
Duke Power is the nation's seventh-largest investor-owned electric utility. Headquartered in Charlotte, N.C., the Company serves a 20,000-square-mile service area in North Carolina and South Carolina with a population of 4.5 million. Duke Power supplies electricity to more than 1.6 million residential, commercial and industrial customers in that area.

The Company's three nuclear generating stations, eight coal-fired stations and 26 hydroelectric stations produced 72.3 billion kilowatt-hours of electricity in 1988. Electric revenues totaled \$3.6 bil-

lion. About 70 percent of sales were in North Carolina and 30 percent were in South Carolina.

Duke Power serves retail customers through 99 customer service offices throughout its service area. The Company also makes wholesale, bulk power and contractual sales.

In 1988 Duke Power completed the acquisition of Nantahala Power and Light Company. Nantahala serves about 47,000 customers in a five-county area of western North Carolina, shown on the adjacent maps. ■



About the Cover

Service has always been the hallmark of Duke Power employees. Their commitment to providing safe, reliable and competitively-priced electricity has sustained the Company through nearly 85 years and helped fuel the growth and vitality of the Piedmont Carolinas. Today those employees are showing that their commitment remains strong by embracing the changes demanded by increasing competition in the electric utility industry. ■

Contents

Financial Highlights	1	Responsibility for	
Letter to Shareholders	2	Financial Statements	36
Year in Review	4	Management's	
"Acting on the Vision"	14	Discussion and Analysis	37
Financial Statements	23	Other Financial Data	41
Notes to Financial Statements	27	Board of Directors	
Auditors' Opinion	36	and Officers	44

To Our Shareholders:

We are more competitive

In 1988 Duke Power met several critical tests as we continued to forge a more competitive organization for the 1990s.

The Five-Year Business Plan, established in 1986, provided a road map for achieving steadily higher earnings while maintaining competitive prices. Increased strategic sales with minimal impact on peak, increased non-utility earnings and tightly controlled costs are key to that plan.

That plan is working. But we recognized in 1988 that to ensure our Company's continued success into the 1990s, we would have to make some painful decisions. As part of our determination to control costs as tightly as possible, we made an extensive and carefully planned review of our entire organization and its functions.

Our aim was to eliminate functions not vital to providing customer service and to assure that the organization was efficient and trim. The result was a work force reduction of 6 percent, or about 1,200 jobs. This was done as quickly as possible, and with fair provisions for those whose positions were eliminated.

The reduction made Duke Power leaner and better prepared to meet the competitive pressures we now face and increasingly will face in the future.

How our employees and our organization are changing to meet the challenges in the electric utility industry is the subject of the special feature section in this year's annual report. This section begins on page 14.

Earnings Are \$4.91 a Share

Earnings in 1988 reached \$4.91 a share, up from \$4.40 a share in 1987. Earnings for the year were affected by two non-recurring items, which are discussed at greater length elsewhere in this report.

Kilowatt-hour sales rose 2.2 percent in 1988. The strongest growth came from our general service customers, which include commercial businesses and institutional customers. Those purchases rose 4.7 percent, illustrating the continued expansion of the Piedmont Carolinas' service economy.

Focus on Customers

Our internal review of jobs and functions resulted in a change in our overall structure. The Company was reorganized into a Customer Group and a Power Group to help us tighten our focus on serving customers.

The Customer Group, headed by Executive Vice President William H. Grigg, brings together all the groups that directly serve customers today and that develop plans for serving them in the future.

The Power Group, headed by Executive Vice President Warren H. Owen, serves the Customer Group — and other

client companies — by designing, building and operating power plants for Duke Power and others.

This new organization increases everyone's accountability. Most important, it fosters new thinking at Duke Power: Everyone serves a customer, whether that customer is the user of electric-

ity in his home or factory, or whether it is another department at Duke Power. Accountability to the customer is the driving force for excellence.

Our electric customers now expect more from us, from more stable voltages needed for sensitive electronic equipment, to innovative account and billing services, to greater comfort and efficiency in their homes. Our new organization will help us meet these needs and anticipate others.

Our Horizons Expand

We face the future having made two important accomplishments in 1988.

In November we completed the acquisition of Nantahala Power and Light Company of Franklin, N.C., whose service area is immediately west of ours. Nantahala serves 47,000 customers. When a transmission line is completed to link the Duke and Nantahala systems, we plan to sell power to Nantahala to supplement its own hydroelectric production.

Also, Duke Energy Corp. was formed in 1988 to sponsor the development and financing of new power projects outside Duke Power Company's traditional service area. Early this year Duke Energy

Financial Highlights

	1988	1987	Percent increase (decrease)
Kilowatt-hour sales (millions) (a) . .	66,199	64,751	2.2
Electric revenues	\$3,626,985,000	\$3,705,784,000	(2.1)
Earnings for common stock	\$ 497,057,000 (b)	\$ 445,934,000	11.5
Common Stock Data			
Average shares outstanding	101,266,000	101,250,000	—
Earnings per share	\$4.91 (b)	\$4.40	11.6
Dividends per share	\$2.88	\$2.74	5.1
Book value per share (year-end) . .	\$34.01	\$31.96	6.4
Return on average common equity			
equity	13.4% (c)	14.2%	(5.6)
Plant construction costs (d)	\$ 949,267,000	\$ 777,626,000	22.1
Internal cash generation	79%	67%	17.9
Earnings coverage of fixed charges, SEC method			
charges, SEC method	4.25X (b)	4.49X	(5.4)
Total electric plant, net	\$7,373,696,000	\$6,917,245,000	6.6
Peak load (kw)			
Summer	13,618,000	12,691,000	7.3
Winter	12,728,000	11,451,000	11.2

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

(b) Includes the cumulative effect of the accounting change for unbilled revenues.

(c) Excludes the cumulative effect of the accounting change for unbilled revenues, and the provision for loss associated with court affirmation of the Federal Energy Regulatory Commission order denying recovery of abandonment cost in supplemental power rates to the other joint owners of Catawba.

(d) Includes investment in nuclear fuel.

People Are Making It Happen At Duke Power

An increasingly competitive environment in the utility industry is demanding new ideas, new approaches and a new spirit from those who will compete and win.

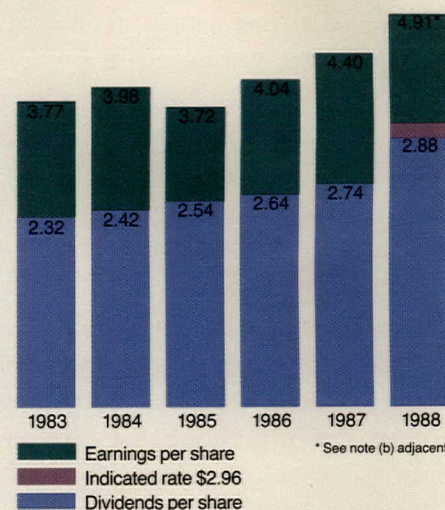
Duke Power and its employees are responding by drawing on old strengths — ingenuity, customer service and a can-do attitude — to continue the Company's vigorous drive for excellence.

Duke Power is changing. That change

can be seen in the attitudes, ideas and actions of individual employees. Several employees — each representing hundreds of others — are featured in this year's annual report. Their vision and accomplishments show clearly that Duke Power is a company made up of outstanding individuals, each making a contribution and making a difference. This special section begins on page 14. ■

Earnings per share

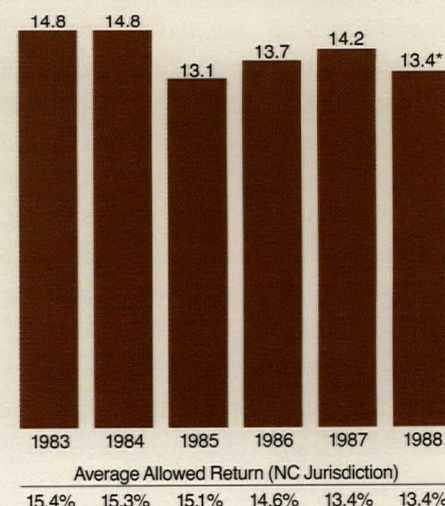
Dollars



The trend in earnings and dividends growth continued upward in 1988.

Return on average common equity

Percent



Healthy earnings in 1988 produced a good return for shareholders.

agreed to develop jointly with Transco Energy Ventures Company two 115,000-kilowatt, coal-fired generating plants. The plants will sell electricity to Virginia Electric and Power Company and processing

steam to other industrial facilities. The plants will be designed by Duke Engineering & Services, Inc., an affiliate formed in 1987. In addition, Duke Engineering will design for another company

two other facilities to serve Virginia Power. In total, Duke Engineering will design 40 percent of the coal-fired capacity involved in Virginia Power's recent procurement process.

Finally, we welcome two new directors to the Duke Power Company board: Crandall C. Bowles, president of the Springs Company of Lancaster, S.C., and Max Lennon, president of Clemson University. The Springs Company provides management services for several operations, including investment, real estate, insurance, newspaper publishing and other activities.

1988 presented challenges, but it was a successful year because of the skill, dedication and commitment of Duke Power's employees. These men and women continue our tradition of excellence in operating efficiencies, reliability of service to customers, innovative marketing strategies and resourceful cost containment. Because of our employees' performance in the past and their zeal for the future, this annual report is dedicated to them. ■



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



Douglas W. Booth
President and
Chief Operating Officer



William S. Lee

Douglas W. Booth

February 10, 1989

Duke Power's Five-Year Business Plan — established in 1986 — served the Company well in 1988 by providing a road map for a more competitive and more challenging environment in the 1990s.

The plan's marketing thrust is designed to strengthen Duke Power's position in the growing commercial and residential markets that have marked the Piedmont Carolinas' economy of the mid- to late 1980s. And the plan's emphasis on efficiency and cost containment with specific budget and profitability goals provides the discipline necessary to continue growth in sales, earnings and dividends through the 1990s.

The discipline of the Five-Year Business Plan forced a comprehensive review in 1988 of the importance and efficiency of virtually all functions performed by the Company. This work activity review led to the elimination of many functions that were of some advantage but were not deemed essential to the fundamental business of providing safe, reliable electric service. The review also led to the reduction of layers of management in some departments and the reorganization and consolidation of many departments. As a result, the Company eliminated about 1,200 jobs and better utilizes employees while delegating more authority and responsibility.

Electric revenues fell to \$3.6 billion in 1988, a result primarily of a 3 percent retail rate reduction effective January 1, 1988, to reflect the impact of lower corporate income taxes included in the Tax Reform Act of 1986. Earnings for common stock increased to \$4.91 a share, up 11.6 percent from \$4.40 a share in 1987. Total earnings for common stock were \$497.1 million, up from \$445.9 million.

The change in earnings was affected by two significant non-recurring items. First, to better match revenues and expenses the Company changed its accounting policy of recognizing revenue to provide for the accrual of estimated unbilled revenues. The change increased earnings by \$1.01 per share. This was partially offset

Duke's Business Plan Continues To Build Momentum For The '90s

Earnings growth pays dividends for shareholders

by a charge of 46 cents a share resulting from a decision of the District of Columbia Court of Appeals which upheld an order by the Federal Energy Regulatory Commission excluding abandoned plant costs from the rates for supplemental power Duke sells to the other joint owners of the Catawba Nuclear Station.

Aside from these non-recurring items, the increase in earnings over 1987 was a result of higher kilowatt-hour sales in 1988, especially to general service cus-

tomers. The comparison of 1988 earnings to 1987 is affected by the somewhat lower earnings in 1987 due to investment losses in that year. Earnings in 1988 were reduced by 15 cents a share to reflect benefits for those employees whose jobs were eliminated in the work activity review. In addition, higher maintenance and operating costs at Duke's coal-fired and nuclear generating stations and inflation had a negative effect on earnings.

Duke's directors voted a four-cent increase in quarterly dividends to 74 cents, effective in the third quarter of 1988. The action, the 13th consecutive increase, raised the indicated annual divi-

dividend to \$2.96 from \$2.80. Duke has a goal of providing regular dividend increases over the long term to maintain a payout ratio of 60 to 65 percent of common stock earnings.

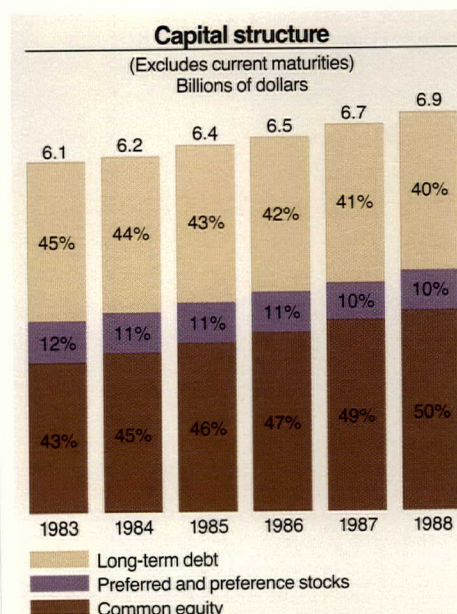
Duke Power's marketing staff responded to increased competition in the residential space- and water-heating market in 1988 by working closely with builders and real estate firms to sell the advantages of electricity.

The Company's marketing plan continues to emphasize efficiency and load management by promoting load control and conservation measures. By focusing on high-efficiency heat pumps, more efficient homes and offices and other strategic sales programs, the Company's marketing plan is designed to add kilowatt-hour sales without increasing the summer peak or the need for more generating capacity.

Sales in 1988 continued to grow. Total kilowatt-hour sales gained 2.2 percent. General service sales — which include sales to commercial customers — reflected strength in the Piedmont Carolinas' economy with a 4.7 percent increase.

Electricity use by Duke customers drove peak demand to new highs in 1988. Three successive peaks were set in August, with an all-time high of 13,618,000 kilowatts reached on August 18.

The previous peak before the summer of 1988 was 12,728,000 kilowatts, set on



Duke Power's capital structure continues to meet the Company's financial goals.

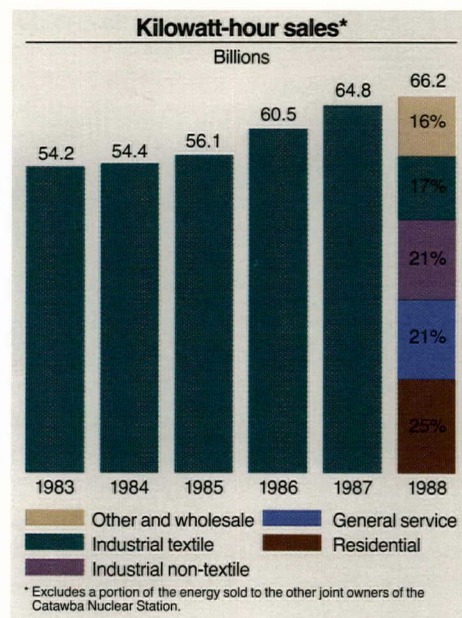
canceled plants in retail and wholesale rates, a federal court has ruled it cannot recover them from the other joint owners of the Catawba Nuclear Station. The U.S. Court of Appeals for the District of Columbia in January 1989 upheld a Federal Energy Regulatory Commission ruling that the costs were not included in the contracts with the other Catawba owners, therefore those costs could not be included in the rates for supplemental power.

That decision had the one-time effect of reducing Duke Power's 1988 earnings by 46 cents a share.

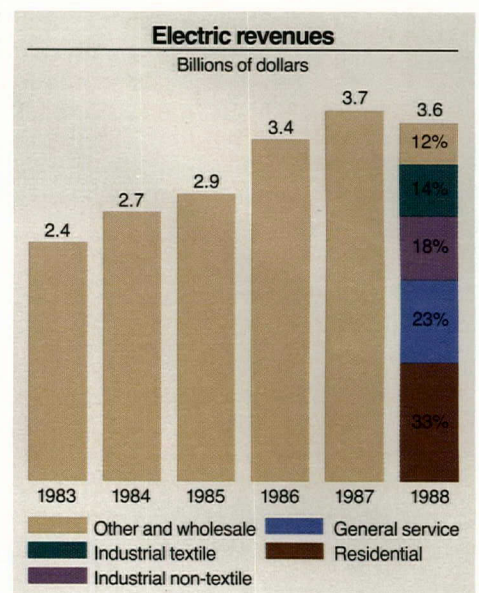
Price-Anderson Act Is Extended

President Reagan in 1988 signed into law a 15-year extension of the Price-Anderson nuclear liability insurance act. The legislation raised the liability limit for damages arising from a single nuclear accident from about \$700 million to about \$7 billion.

Though the new act substantially increases individual companies' exposure to liability in a worst-case accident, it assures the electric utility industry of a stable nuclear insurance environment into



Electricity sales continued to grow with expansion in the Piedmont economy.



Revenues fell in 1988 due to retail rate reductions that reflect lower federal income tax rates.

the next century.

Debt Issue Anticipated

Duke undertook no new stock or debt financings in 1988 and anticipates no need for equity financing in the coming year. The Company has been liquidating its portfolio of short- and intermediate-

term investments by reinvesting funds in electric plant.

That liquidation will be substantially complete this year, and the Company expects to issue new short-term debt during 1989 and new long-term debt either this year or in 1990. ■



The new Charlotte Coliseum illustrates the growth in Duke's service area. The coliseum, which opened in 1988, seats 23,388 and is home to the National Basketball Association's Charlotte Hornets. The Hornets set an NBA expansion team record for home-game attendance only one-third of the way through the 1988-89 season.

1988 Sales – KWH

Residential	+ 1.0%
General service	+ 4.7%
Textile	– 0.9%
Non-textile	
industrial	+ 2.1%
Total industrial	+ 0.7%
All other	+ 4.9%
Total	+ 2.2%

January 27, 1988.

The unusually hot weather in 1988 occurred while several of the Company's generating stations were out of service. Duke operators activated the Company's Emergency Load Management programs to successfully reduce the Duke system's

peak load on several occasions during the summer.

Plant Cancellation Questions Are Resolved

The North Carolina Supreme Court in July resolved the question of the legality of including certain plant cancellation costs in Duke Power's retail rates by upholding a 1986 North Carolina Utilities Commission decision.

The Court ruled that it had heard the same question previously in an appeal of Duke Power's 1985 rate case. The Court split 3-3 on the 1985 case, thus affirming the Utilities Commission's order allowing Duke to recover in rates the costs of the canceled Perkins and Cherokee nuclear stations.

On another issue from the 1986 rate

case, the Court ruled that the Commission used an appropriate capital structure — the mixture of stock and debt on Duke's balance sheet — in considering Duke's rate request.

While resolving the plant cancellation and capital structure questions, the Court sent back to the Commission a third contested issue for further consideration. The Court directed the Commission to provide support for its finding on the allowed rate of return on Duke's common equity, giving consideration to the Court's concern over certain elements in that rate. The Court held that specific findings must be made as to the amount, if any, of flotation costs and other component costs of equity included in the allowed rate of return. That issue is still pending.

Though Duke may recover the costs of



Duke Power's marketing staff worked closely with home builders in 1988, placing special emphasis on the quality, efficiency and appeal of the all-electric Maximum Value Home.

Cities of the Piedmont Crown Their Skyscrapers

The economy of the Piedmont Carolinas continues to diversify as headquarters and regional offices proliferate in the two states' excellent business climate.

With more corporate offices in the region, smaller firms and services have also grown, leading to rapid growth in the Carolinas' service economy.

Office towers and complexes have risen in downtowns and suburbs while the retail sector continues to thrive throughout the Duke Power service area. More large-scale projects are under way in 1989.

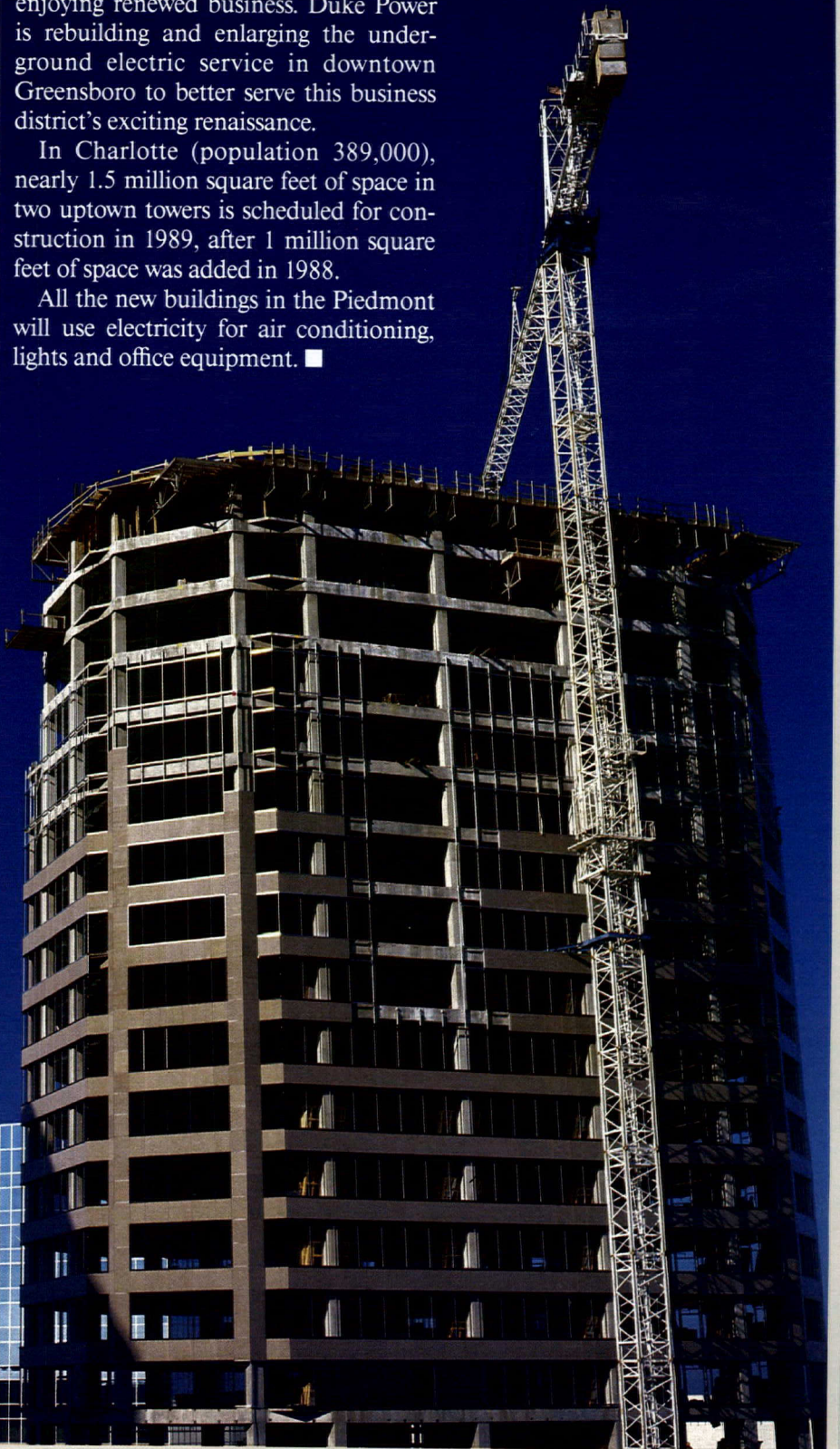
A striking example of the new office construction in the Duke service area is appearing in Greensboro, N.C. (population 184,000). Long noted for its textile industrial economy, Greensboro is undergoing rapid transformation in the late 1980s. Three office towers with a combined 1 million square feet of office space are rising in downtown Greensboro to house banking and insurance operations.

Greensboro is also renovating an historic section, Old Greensborough, that is

enjoying renewed business. Duke Power is rebuilding and enlarging the underground electric service in downtown Greensboro to better serve this business district's exciting renaissance.

In Charlotte (population 389,000), nearly 1.5 million square feet of space in two uptown towers is scheduled for construction in 1989, after 1 million square feet of space was added in 1988.

All the new buildings in the Piedmont will use electricity for air conditioning, lights and office equipment. ■



Duke Power's highly efficient network of baseload generating stations refined its mode of operation in 1988 as nuclear units continued to supply customers' baseload needs.

The Company's eight coal-fired plants cut back their generation, conforming to fluctuating demand as the nuclear plants met virtually all baseload requirements. Before the Company's nuclear construction program was completed, the bulk of the ongoing requirements was met by coal-fired units. Since 1987 baseload production has been mostly nuclear, and the coal units have operated slightly less efficiently than when they ran closer to maximum output.

Still, Duke's coal-fired units were recognized again — for the 14th consecutive year — as the most efficient fossil system in the country in 1987 by *Electric Light & Power (EL&P)* magazine.

The seven nuclear units operated by Duke continued to build an impressive record of their own. During 1988, the nuclear units operated at a capacity factor of 77 percent, well above the national average of 66 percent, and above the 71 per-

Generating Answers

Who has the best power plants in the nation?

cent they achieved in 1987. And, according to information from the Nuclear Regulatory Commission (NRC) on the fuel efficiency of multi-unit nuclear plants, McGuire, Catawba and Oconee nuclear stations were the first, second and fifth most efficient nuclear plants in the country in 1987.

Nuclear power plants generated 66 percent of the electricity used on the Duke system in 1988, compared with 64 percent in 1987. Coal-fired plants generated 33 percent and hydroelectric plants generated 1 percent.

Duke Power customers benefit from the superior performance of the Company's nuclear plants because nuclear fuel costs about 60 percent less than the coal needed to generate the same amount of power.

The Company's coal system gets more power from each ton of coal than other coal-fired systems in the United States, as evidenced by their performance in the *EL&P* rankings. Had the coal plants operated only as efficiently as the nation's second-ranked coal system, Duke would have burned an additional \$12.3 million worth of coal in 1987.

Staying Ahead of the Power Peaks

Bad Creek Hydroelectric Station construction entered a dramatic new phase in 1988 as work began on the underground powerhouse.

The \$1.1-billion Bad Creek plant is

a 1,065,000-kilowatt, pumped-storage station that will begin producing power in the 1990s. The station is located near the North Carolina-South Carolina line in rugged mountain terrain. The scheduled completion of two of the station's four units has been moved back to 1992, with the other two units following in 1993. The completion dates were changed because of delays from the station's turbine supplier. At year-end, work on Bad Creek was 42 percent complete.

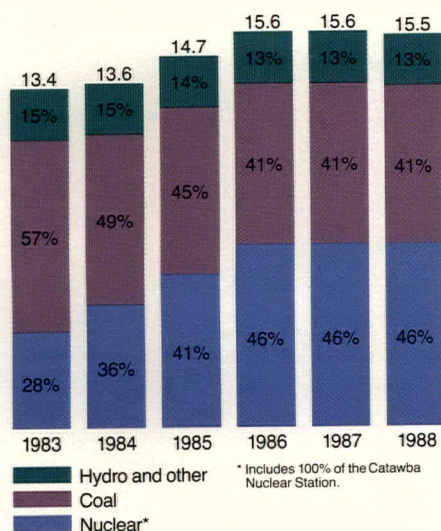
Pumped-storage stations use lower-cost electricity from baseload stations to pump water from a lower reservoir to a higher one

when power demand is low, usually at night and on weekends. Later, as demand for power peaks, this stored water is released through turbines to drive generators. Bad Creek will be Duke Power's second pumped-storage station. The other, 610,000-kilowatt Jocassee Hydroelectric Station, is near Bad Creek at the Company's Keowee-Toxaway Complex in northwest South Carolina.

Bad Creek is just one part of the Company's overall plan to meet customer

Generating capacity

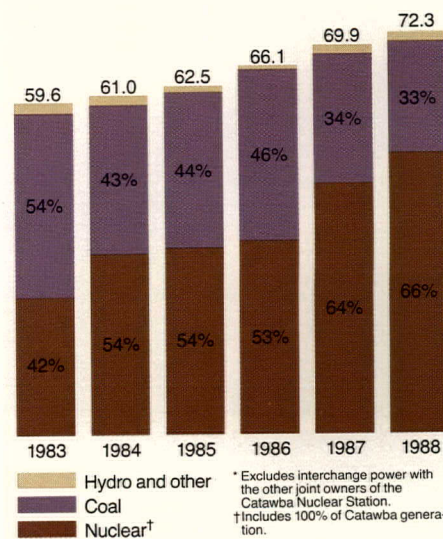
Millions of KW



Customer needs are met with over 15 million kilowatts of capacity.

Net generation*

Billions of KWH



Duke's nuclear units operated at a capacity factor of 77 percent in 1988, producing 66 percent of the Company's electricity.

Duke Power continued in 1988 to serve the communities in its service area with programs designed to make the Piedmont a better place to live and work.

Duke Power and its people have always cared about the well being of their communities. This has been clearly demonstrated in their commitment to providing safe, reliable and affordable power. But they've gone far beyond this commitment to serving customers. They have given generously of their personal time, money and talent in response to pressing community needs.

Recognizing that the future will be in the hands of today's children, 2,400 Duke Power employees volunteer their help in the Piedmont Carolinas' schools. Employees tutor, serve as guest teachers, as coaches and as big brothers or sisters of potential dropouts. And Duke employees help organize and run Boy Scout troops, help feed and house the homeless, and contribute time, effort and money to countless churches,

Taking Service Seriously

At Duke Power, service means citizenship and business

civic groups and community organizations.

During the 1987-88 winter, Duke Power and local service organizations worked together to keep thousands of people warm. Their generosity helped Duke's Share the Warmth and Community Challenge Heating Fund programs raise more than \$2.1 million.

Through Share the Warmth, Duke

raised nearly \$841,000 by matching contributions from customers, employees and shareholders. The money was distributed throughout the Duke Power service area to people needing help with their heating bills, regardless of their source of heat.

The Community Challenge Heating Fund matched \$1 for each \$3 raised by service organizations. Duke Power contributed \$325,000 to this fund during the 1987-88 winter. Both Share the Warmth and Community Challenge were repeated in the winter of 1988-89.

The Company and its employees pledged \$2.4 million

to the United Way in 1988, again making Duke Power a leading contributor to the United Way in North Carolina and South Carolina.

The Company's commitment to equal opportunity was also recognized during 1988. The U.S. Department of Labor presented Duke Power with its Exemplary Voluntary Efforts (EVE) Award for a program to help minority high school students prepare for college through special seminars at Company offices. The Labor Department presented seven EVE awards nationally in 1988 to companies showing extra effort in expanding opportunities for minorities.

Employees Meet 8 Goals

Duke Power's employees met 7 of 10 performance Employee Incentive Goals plus the bonus goal of cost reduction, saving customers millions of dollars.

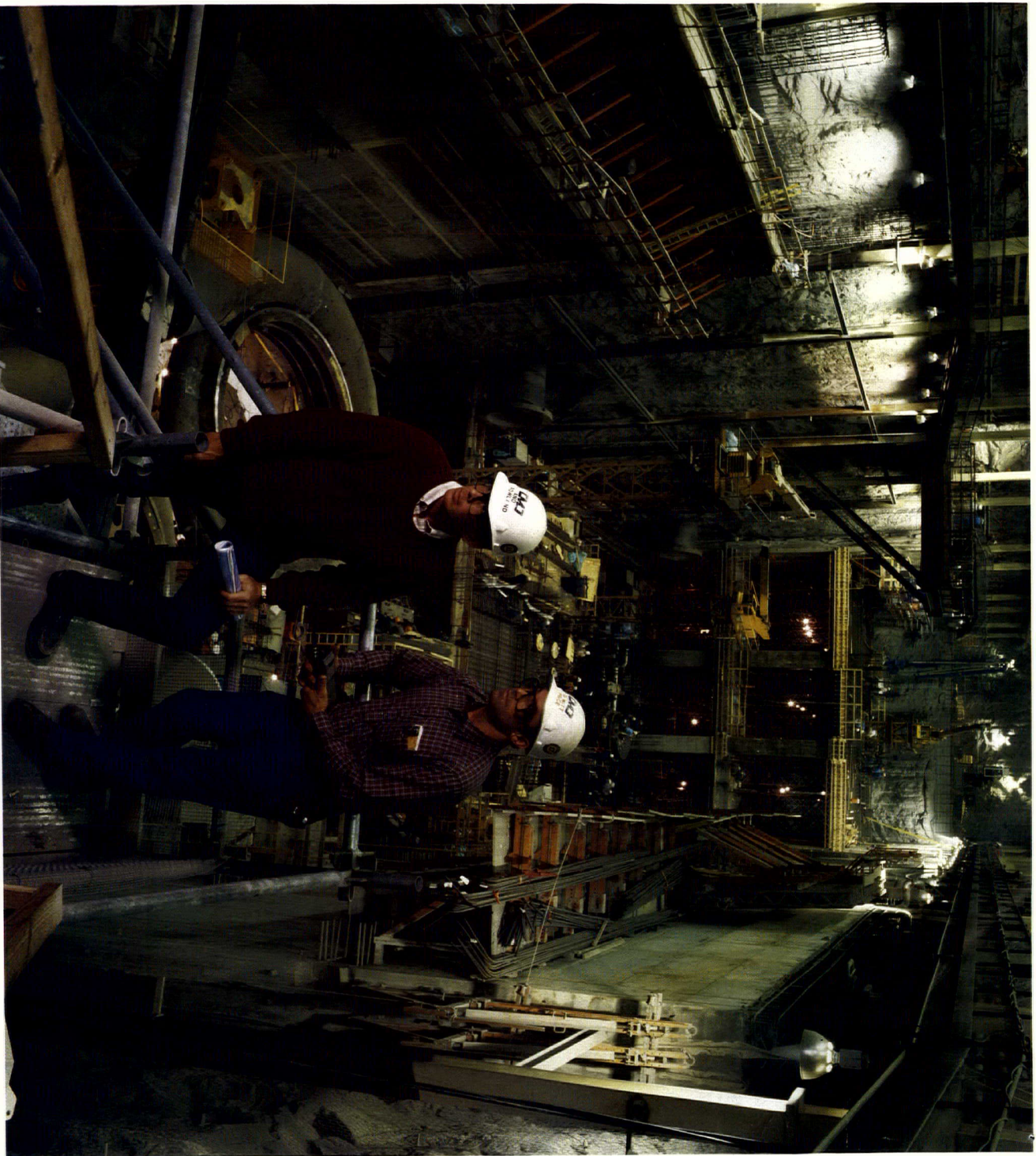
Employees met or surpassed goals in reduced vehicle accidents, affirmative action, energy management, fossil production, nuclear production, power plant design, quality of nuclear operations, and cost reduction.

Achieving the goals earns employees extra Company contributions to the Stock Purchase-Savings Program for Employees. In the eight years of the goals program, employees have met 66 of 85 goals for a 78 percent success rate.

Ten new goals plus the bonus expenditure control goal have been set for 1989. ■



Duke employees have given their time and talent for many years to community organizations such as the Boy Scouts. In addition, Duke subsidiary Crescent Land & Timber Corp. donated valuable lake front property to the Boy Scouts' Mecklenburg County Council in Charlotte. The council was able to buy land for a major new Scout camp after it sold the property in 1988.



Deep underground, construction of Bad Creek Hydroelectric Station's power house progresses. The 1,065,000-kilowatt, pumped-storage station is scheduled to begin producing power in 1992.

needs through the end of this century. Duke Power has identified a number of flexible options for supplying customers' needs at the least cost.

The Company's objective — to assure a reliable supply of power at a competitive price — can be met through an integrated plan that addresses both the demand for electricity and sources of supply.

Options include the continued promotion of programs such as residential load control and interruptible industrial contracts to limit the need for new generation. The Company may also purchase power in the 1990s from other utilities in

the Southeast which offer reasonable bulk power terms. Proposed changes in laws affecting generating sources may make it feasible to take bids from other companies to build generating plants to supply Duke Power.

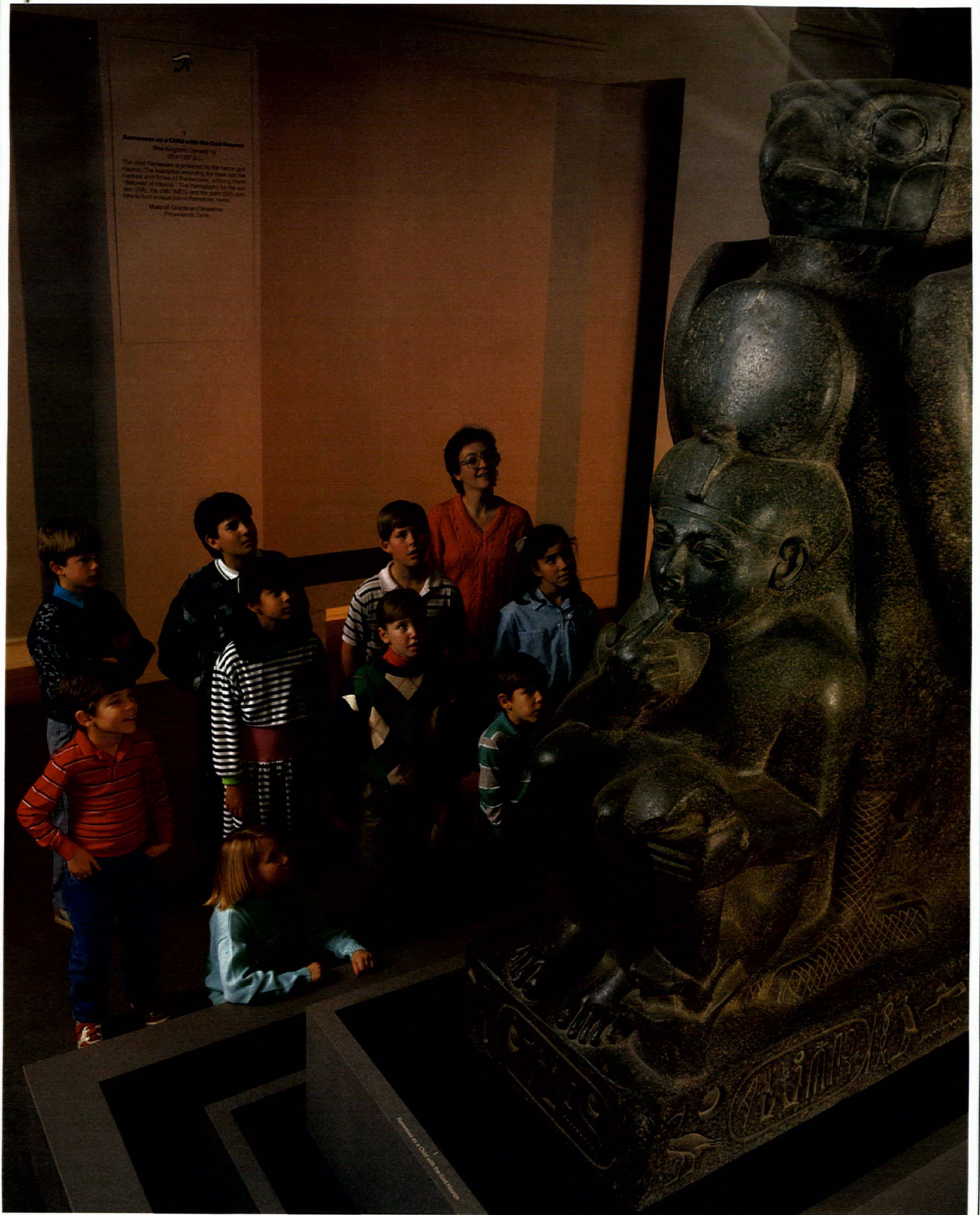
Putting a lid on demand . . .

Amount peak demand was reduced through energy management programs:

Summer	1988
Winter	Since 1975
Summer	309,680 kilowatts
Winter	322,220 kilowatts
Summer	3.1 million kilowatts
Winter	3.9 million kilowatts

The Company is also studying other sources for peaking power, including combustion turbine generators and a future pumped-storage plant.

Duke Power has followed this process of matching anticipated long-range demand and supply for many years. In 1988 the North Carolina Utilities Commission ordered Duke and other utilities to formalize their plans for meeting customer needs in the future and file them as "least cost plans." The Commission is scheduled to hold public hearings on the plans in late 1989. ■



School children and adults throughout the Carolinas enriched their understanding of ancient culture through an exhibit at the Charlotte Mint Museum of Art of works from the era of Ramesses the Great, Pharaoh of Egypt more than 3,000 years ago. Duke Power was an underwriter of the the exhibit, which drew more than 634,000 visitors over four months.

Duke Power met marketplace challenges beyond its traditional customers and made changes in 1988 that will enhance the Company's financial growth and stability for years to come.

A major milestone was reached when the Company completed its acquisition of Nantahala Power and Light Company, headquartered in Franklin, N.C.

Meanwhile, Duke Engineering & Services, Inc., participated — with new affiliate Duke Energy Corp. and other clients — in bids that will result in its designing and potentially operating generating plants for a neighboring utility.

Three significant steps were also made in other areas of expertise: Merchandising Operations launched a line of top quality consumer electronics products; Crescent Land & Timber Corp. began assembling a real estate development team; and Mill-Power Supply Company reorganized and refocused its talents and energies on the industrial electrical and high-tech equipment market.

Duke Power obtained all required regulatory approvals in 1988 for its purchase of Nantahala Power and Light, announced in 1987. Duke bought the electric utility from the Aluminum Company of America for the net book value of its stock, \$30 million. E.N. Hedgepeth, Jr., formerly a senior Duke Power executive, was named chairman of the board and president of Nantahala.

Nantahala, formed in 1929, serves about 47,000 customers in a five-county area of the western North Carolina mountains, adjacent to the Duke Power service area.

Nantahala operates 11 hydroelectric stations and currently purchases supplemental power from the Tennessee Valley Authority (TVA). Duke has received a certificate from The Public Service Commission of South Carolina to build a transmission line linking the Duke system with Nantahala's system. Certain intervenors have filed complaints concerning the transmission line with the North Carolina Utilities Commission, which are

The Name of the Game Is Selling

Focusing on customers outside the traditional utility business

still pending.

When the line is built, Duke will be able to supply Nantahala's customers with supplemental power at a lower cost than TVA's present levels.

Most of the supplemental power sales from Duke to Nantahala are expected to be off-peak. Nantahala's power needs are greater in winter, while Duke's needs are greater in summer.

The Company formed a new affiliate in 1988, Duke Energy Corp., to develop generating plants outside the Duke Power service area. Duke Energy will jointly develop with Transco Energy Ventures

Company two 115,000-kilowatt cogeneration plants to supply electricity to Virginia Electric and Power Company. Duke Engineering will design the plants.

In addition, Duke Engineering participated in another company's winning bid to Virginia Power and will design two other 110,000-kilowatt generating plants to supply that utility. Duke Engineering was formed in 1987 to keep Duke engineers and designers abreast of new technology and to seize market opportunities presented by the evolving deregulation of electric utilities.

The plants involved in the bids will produce steam for

industrial processes at factories while also generating electricity that they will sell to Virginia Power.

Duke Engineering and its predecessor entity, Managment and Technical Services, have designed 700,000 kilowatts of generating capacity for other companies since 1982.

During 1988 Duke Engineering provided engineering and technical services on 91 projects for 57 clients.

Choosing the Right Products For Today's Markets

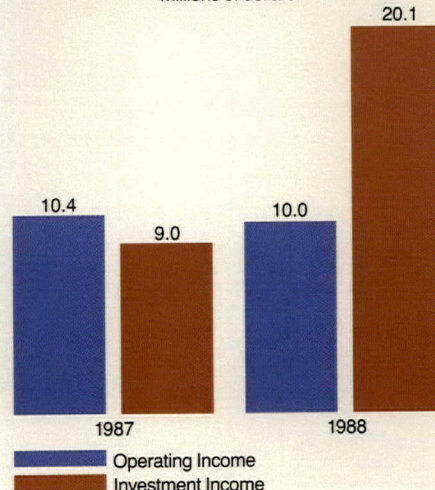
The electronic revolution transforming homes and businesses has created an enormous market for products as diverse as home camcorders and precision programmable controls for industry. Duke Power is involved in both.

In 1988 Duke's Merchandising Operations added consumer electronics products such as televisions and videocassette recorders to its extensive line of appliances, ranges, refrigerators and dishwashers.

Duke's 99 customer service offices now display, sell and service practically any home appliance conceivable. Customers are attracted to Duke's high-quality products, convenient credit policies and outstanding reputation for after-the-sale service.

Mill-Power Supply Company has been a leading supplier of high-tech industrial electronic equipment since 1984 when it created a new division, Mill-Power Tech-

Subsidiary and non-utility earnings
(From investments and diversified operations)
Millions of dollars



Total subsidiary and non-utility income provided 6 percent of earnings for common stock in 1988.

nologies. In 1988 Mill-Power improved its competitive stance through a reorganization that transferred its utility purchasing function to the parent Duke Power Company.

In the past, Mill-Power has had dual responsibilities — selling electrical equipment and purchasing supplies for Duke and its subsidiaries. The reorganization will allow Mill-Power to concentrate on its profit-producing sales activities.

Meanwhile, Crescent Land & Timber Corp. took steps toward building an in-

house team that will become more involved in real estate development. Crescent in 1988 began planning a major residential development of more than 600 acres on Lake Norman north of Charlotte. The development is expected to include a golf course, high-quality homes on both golf course and waterfront lots, and marina facilities. Crescent received rezoning approval for the land in 1988.

Crescent manages 270,000 acres of non-utility property, supplying timber for

the furniture, home-building and paper industries. In 1988 it harvested 35.5 million board feet of timber and 42,615 cords of pulpwood.

The Company formed a new entity in 1988, Mint Street Capital Associates, a partnership of Duke Power subsidiaries with financial investment portfolios. Mint Street consolidates all financial investments of the non-utility groups, and is managed by Church Street Capital Corp., a financial management subsidiary formed in 1985. ■



The appliance stores in Duke Power's 99 customer service offices introduced consumer electronic goods — televisions, videocassette recorders and portable camcorders — in 1988. The products proved an instant success: More than 9,300 units were sold in three months.

ACTING ON

The electric utility industry is changing, and Duke Power is changing with it. Increasing numbers of energy suppliers are competing for customers, and the future is likely to bring an even more entrepreneurial environment.

In today's business environment an electric utility must expand its market share and outperform many competitors in order to succeed. To do that it must anticipate and meet customer needs, it must price its products competitively and it must act quickly and flexibly to take advantage of opportunities outside the traditional regulated arena.

Markets already are changing, and the pace of change will

quicken. Looking into the 1990s, Duke Power sees a need for a new approach to business: more flexibility, more creativity, more attention to specific customer needs. And it all must be done more efficiently.

This new style won't be developed overnight. The first step is recognizing the need to change. The second is communicating this need to every member of the team. Everyone must see the benefits of change and know the danger of being overtaken by change. Each member of the team must understand the new vision of the Company in a competitive marketplace.

The third step is acting on the vision, and that step must be



THE VISION

taken individually by every employee of Duke Power. The key to meeting the challenge of a changing environment is for each member of the team to believe in the vision and to set it into motion by acting on it in his or her job day to day.

The Company sees clearly the need for change. To meet the challenges of the 1990s, Duke Power undertook in 1988 an extensive, carefully planned review of all functions; eliminated those not vital to serving customers or meeting competition in the years ahead; and consolidated and reorganized where appropriate to streamline and make the Company more efficient. These steps were taken to prepare the Company to compete

more vigorously in the future, not because of a crisis in the present.

Change is difficult, especially when the old ways proved quite successful in their time. But the vision of a different market and a different way of doing business is taking hold throughout Duke Power. To some employees, competition, flexibility and innovation aren't just new buzz words. They are and have been the keys to more rewarding and satisfying jobs. Presented here is the changing world of Duke Power, as seen through the eyes of some of those special people. ■

RICHARD T. "STICK" WILLIAMS

DEPARTMENT:

Customer Service

POSITION:

Branch manager, Shelby, N.C.

AGE: 35

EDUCATION:

University of North Carolina at Chapel Hill, B.S. in Business Administration

CAREER PATH:

Certified Public Accountant — Big Eight accounting firm, Duke Power financial analyst, cash management supervisor, corporate communications media specialist, investor relations manager, customer relations consultant

1988 HIGHLIGHT:

Completion of a summary billing project for business customers with multiple Duke Power accounts

1989 GOAL:

"I'm going to be the chief customer service representative of Shelby and Cleveland County. My job will be to know what services our customers need in that area and do whatever is necessary to deliver that service."

QUOTE:

"There is one thing I want to be certain of — that a customer never confronts 'the system.' I never want to hear that a customer was told we can't do something because of 'the system.' If a customer has a need and we can meet it, then we'll do whatever is necessary."

Richard T. "Stick" Williams has seen Duke Power Company from many angles. His experience in a variety of Company functions is preparing him for a leadership role — but it also is confirming some personal observations: You can't hide behind excuses, and expenses must either provide tangible benefits or hurt you competitively.

These days Williams is gratified that Duke Power is living by those rules. He sees the Company responding to a changing, more competitive environment by finding out — and delivering — what customers want. And he sees a Company keeping its expenses low.

"We've decided to face the new environment and we're not assuming anymore what service the customer is going to have provided to him," Williams says. "Our biggest adjustment — but the most enjoyable part — has been finding out exactly what the customer needs and wants and then being the energy company to fill that need."

In his nine years with Duke Power, Williams has become certain that customers have a unanimous concern: price. "We all live and operate in an international economy now. Our customers need electricity price stability to remain competitive," he said. Because of that, he thinks customers were extremely supportive of Duke's reorganization in late 1988 in which 1,200 jobs were eliminated.

"Because of Duke Power's unique relationship with the community, I think customers were in general saddened that some of our people lost jobs," Williams said. "But I think they were also rather

impressed with our commitment to controlling costs.

"Actions speak louder than words. You can talk about controlling costs all you want. But the community respected the fact that we were willing to go through a very painful exercise in order to keep prices down."

Williams believes a company must address challenges before they become problems, rather than *react* to circumstances. When he worked with newspaper, television and radio reporters in the early 1980s, the Company's largest challenge was winning public acceptance for rate increases needed to finance today's baseload generating plants.

"That was the first time I came face-to-face with the public, and I found they didn't understand exactly why a new plant would cause us to need a rate adjustment or where the expenses came from. They didn't understand that this up-front expenditure was bringing more and better jobs to their community.

"I gave a lot of speeches and talked to a lot of people. If you could explain to them the benefits, you'd be surprised at how their eyes would open up, at how the screaming wasn't nearly so loud anymore."

By the mid-1980s, customers were demanding service — both in the quality of electricity delivered to their appliances and machines and in the handling of their accounts.

Williams saw Duke respond with more reliable and stable distribution systems that reduced voltage fluctuations or disturbances and with computer technology

that makes crucial data more readily available to customer service representatives. He also helped develop a computer system to consolidate business customers' multiple accounts into a "summary billing" package.

"Some business customers were getting as many as 300 or 500 bills for various meters they had at widespread locations across the service territory," Williams said. "Now, they might get four summary bills each month that they can pay with four checks, and they can monitor their energy expenses much more easily. Administratively it has saved them a tremendous amount of time.

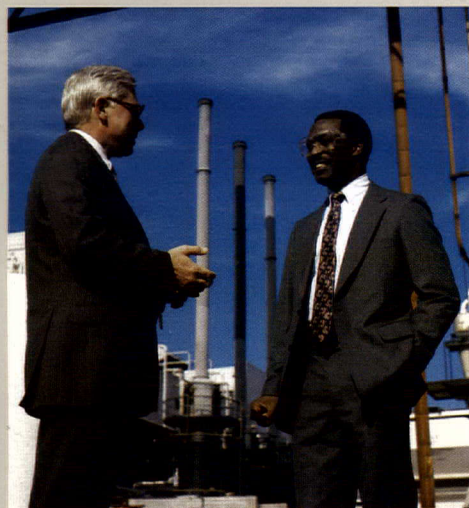
"It has been extremely satisfying to go to our customers and say, 'We're going to make this work.'"

Moreover, Williams sees enhancements: Soon, industrial and commercial customers can get summary bills on multiple accounts by computer tape. Duke may be able to bill some customers via direct computer link over telephone lines.

Though Williams has seen Duke Power change dramatically in just nine years, he's also seen it hold true to its deepest commitments. Dedication to individual customers and the communities where they live is what has made Duke Power so responsive to changes in the marketplace, Williams believes.

"Not only is Duke Power going to be a different company," he said, "but it also is going to be a more effective company. Even though we're going to be different in many ways, our dedication to citizenship and service is still going to be at the forefront.

"That has served us well. That has made Duke Power Company successful and it will carry us well into the future." ■



TERRY HUFFSTICKLER

DEPARTMENT:

Construction and Maintenance

POSITION:

Welding engineering technician

AGE: 38

EDUCATION:

Limestone College, B.A. in Business Administration; Richland Technical Institute, welding

CAREER PATH:

Construction welder at nuclear stations, welding technical support in construction, welding technical support in construction and maintenance

1988 HIGHLIGHT:

Developed discussion groups within his division to improve communications among coal-fired stations, nuclear stations, design engineers and the maintenance crews responsible for plant modifications

1989 GOAL:

"I want to influence other people to develop proactive attitudes and to become more involved in advance planning. We can be more efficient and we can make the organization more efficient."

QUOTE:

"We need to be looking at the big picture in 1990 and '91. We need to select the right people now who can develop the skills we'll need then."

Terry Huffstickler shifts mental gears easily. He has to — his job in power plant construction and maintenance has evolved rapidly as Duke Power has moved from a major construction phase to an emphasis on ultra-efficiency.

Huffstickler's utility career started as a welder helping to build nuclear power plants. Today he is a welding engineering technician making sure that Duke Power has the equipment and expertise to perform needed jobs and that jobs meet engineering and government codes.

When Duke's major construction program ended with the completion of Catawba Nuclear Station in 1986, Huffstickler started looking to what he calls "the big picture" — anticipating plant maintenance and modifications one and two years in advance.

"During construction we 'fought

fires,'" Huffstickler said recently. "But now our philosophy has changed. We are becoming more proactive. We don't wait for a problem to occur. We need to identify the potential for problems and meet that need *before* they happen."

Huffstickler is part of Duke Power's consolidated Construction and Maintenance Department (CMD), formed in 1986 to continue Duke's pared-down construction program as well as to handle maintenance and modifications at the Company's power plants.

Formed partly from Duke's former Construction Department, which has built Duke's power plants for more than 80 years, CMD continues the Duke Power tradition of do-it-yourself and do-it-right.

For instance, the Company made a modification in 1987 to improve the safety and efficiency of removing the reactor vessel heads during refueling at Catawba Nuclear Station. Huffstickler helped a special team evaluate the job.

"We looked at what had to be done," he said. "We looked at the equipment we'd need, at the training required to use that equipment and the qualifications of the people who would do the job.

"We involved the whole crew, including health physics people because we'd be working in a hot (radioactive) area."

Health physics personnel are responsible for limiting nuclear plant workers' exposure to radiation to very conservative and safe amounts.

"We evaluated what had to be done, and we determined that we had the expertise to do it ourselves instead of hiring a contractor to do it, which had been our original plan," Huffstickler added. "We trained everyone in use of the equipment and performed mock-ups of the work.

"In the end we saved the Company right around a half-million dollars."

The work CMD must now do is complex and requires precise communication among engineers, plant operators and craft workers, including welders and technical support people such as Huffstickler.

To ensure that communication, Huffstickler developed discussion groups at each plant site in Duke Power's Central Division where work was being done. The groups include himself, a craft worker, a plant representative and someone in charge of scheduling work.

"Every quarter we sit down and look at



what's been done and how we can improve it. And then we identify problems from the past and potential problems in future work so we can correct the situation or look at methods that might prevent them from happening," Huffstickler said.

"We want to develop good lines of communication with our clients in the fossil and nuclear production areas. We want to show them our willingness to do the work for them, not tell them how to run the plant."

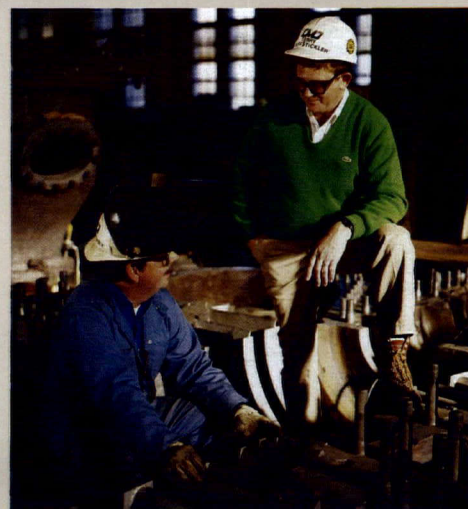
Huffstickler thinks that a sense of pride is paying off for CMD. The transition from construction to maintenance has

been difficult and has required retraining and learning new procedures.

"We are really a child as an organization right now," Huffstickler said. "We're developing a new philosophy.

"We're bringing the craft people more in touch with the management level, we're becoming a flatter organization with fewer levels of management and we're beginning to let lower level employees share in the responsibility of their jobs.

"We are doing all the things that are right in line with what we needed to do going from a construction operation to an operating and maintenance operation." ■



KAY SAVILLE

DEPARTMENT:

Marketing Program Development

POSITION:

Manager of marketing advertising

AGE: 37

EDUCATION:

University of North Carolina at Greensboro, B.S. in Business Administration; Duke University, Master of Business Administration

CAREER PATH:

Consumer education representative, residential energy specialist, marketing strategist

1988 HIGHLIGHT:

"We did a lot of market research on the new heat pump program. You're going to see the results of really listening to the customer and finding out what he wants from us."

1989 GOAL:

"I want to make advertising work to meet our sales objectives."

QUOTE:

"It really comes down to the fact that it is so competitive out there."

Kay Saville sits in a darkened room watching and listening to a dozen Duke Power customers on the other side of a one-way mirror.

The customers respond enthusiastically to what they're hearing: descriptions of Duke Power's highly efficient all-electric Maximum Value Home.

These customers don't know it, but the marketing firm that recruited them to this two-hour "focus group" is working for Duke Power. The Duke Power employee behind the one-way glass — Kay Saville,



M.B.A., eight-year veteran of marketing and customer relations — is even *more* enthusiastic about what she's hearing than the focus group participants are.

Their response suggests that Duke's "Max" is on target.

"We *have* to respond to the market out there," says Saville, one of the first three employees in Duke's embryonic Marketing Program Development Department. "Everyone's agreed that we are going to do more market research and respond to what we find." The exciting part of this process is that Duke is modifying the way it does business because of customers' wants and needs, Saville notes.

In the past three years, Marketing Program Development has developed the Maximum Value Home, the high-efficiency heat pump Comfort Machine campaign, low-interest heat pump financing, the HERO industrial heat

pump campaign, commercial heating, lighting and cooking programs, and many others.

"We're not trying to fit the customer into a mold, to tell him he needs something we have to sell. Back 10 years ago, energy was much more scarce and the focus was on load management. Our marketing effort back then was to educate customers on the value of electricity and on how to use electricity more efficiently. That's still an important job.

"But today we want to develop programs and services that the customer really needs and wants."

Saville has seen Duke Power grow and adapt to its changing environment. She joined the Company as a residential service representative in 1977 when Duke Power acquired from the University of North Carolina the utility system serving Chapel Hill, N.C. What first impressed



her — and the residential customers she served in Chapel Hill — was the commitment to individual customers.

"I found the customers had never had the option before of having someone come by their house and check the insulation for free and make sure their heating system was properly installed," she recalled. "That was very well received."

Saville's extensive background in customer relations served her well when Duke Power formed its Marketing Pro-

gram Development Department in 1985. She immediately went to work on the Company's first Five-Year Marketing Plan designed to boost off-peak and strategic sales. The marketing plan is part of an overall Company business plan to continually increase common stock earnings and dividends without raising electric rates through 1992.

Since 1985 the challenges inherent in meeting those goals have become ever more apparent. And beyond 1992, the

steeper challenges of utility competition await the Company's efforts. But Saville is enthusiastic and optimistic about employees' abilities to meet the test, and she sees clearly just what has to be done.

"We're going to have to continue to listen to customers — really listen — to discern their wants and needs," she said.

"And we're going to have to be real flexible in offering program options and services. It isn't going to be plain old vanilla electricity anymore." ■



RODNEY RAMEY

DEPARTMENT:

Customer Service, Greensboro, N.C.

POSITION:

Line technician

AGE: 34

EDUCATION:

North Carolina public schools

CAREER PATH:

Line helper, line technician, leading salesman in 1988 Safe Light sales competition, line crew leader, underground distribution system troubleshooter

1988 HIGHLIGHT:

"What I learned during the Safe Light competition has proved invaluable. When you talk to a customer, he's the most important customer Duke Power has. If he's got a problem, you give him the satisfaction that the Company did something about his problem right there."

1989 GOAL:

Helping to rebuild and maintain a more sophisticated underground distribution system serving downtown Greensboro.

QUOTE:

"I know people depend on me. A power outage in a 22-story downtown building is a serious problem, so we have to keep our service reliability high. It's a job that's needed, and that makes me feel good."

Rodney Ramey's job as a line technician makes him responsible for seeing that electricity is delivered reliably, efficiently and safely to customers' homes, businesses, schools and churches.

But it also makes him a pretty good salesman, because he usually knows just what Duke Power customers want and need. Ramey was the Company's top

seller in 1988 of Safe Lights, a special outdoor lighting service. The Safe Light provides night-time lighting virtually anywhere on a customer's property, and one low monthly fee covers installation, maintenance and all electricity.

A key to Ramey's success in selling the lights was seeing the world from the customer's perspective. For instance, one customer had a problem with thefts at a farm equipment sales lot. Ramey saw that a Safe Light near a fence at a dark, vulnerable point would discourage intruders. The customer bought 10 Safe Lights.

Another customer with a walk-in business had a poorly-lighted stairway. Ramey saw that a Safe Light could help prevent accidents — and lawsuits.

"Those experiences have given me a broader outlook, even when I'm handling complaints," he said. "You don't go in and tell the customer what you're going to do. You listen to him and find out what the problem is, and then you fix it."

Ramey doesn't just turn on his attention to customer needs when he sees an opportunity to make a sale. It's part of his approach to his job, even when customers might take his efforts for granted. He's made thousands of contributions to helping customers: working long hours in a midnight blizzard to repair downed lines; responding rapidly to a downtown power outage; working late to make a new serv-

ice hookup a day early; returning a loose pet to its fenced-in backyard.

"Electricity is a 'guaranteed' commodity to most customers," Ramey notes. "When the lights go out, they lose that stabilizing force in their lives, and there's nothing they can do about it."

"Even though it's cold, and you've been out in the weather for 20 or 30 hours, and the work you're doing is extremely dangerous — it can kill you — you're excited. Everybody else is huddled around a fireplace wondering why the lights went out, and you're doing a job that's needed."

In more than 16 years Ramey's handled every job a Greensboro-area line technician has to handle, from routine service calls to resolving sticky customer complaints to selling new services, such as the Safe Light. Currently Ramey is helping to rebuild and maintain the downtown Greensboro underground electrical distribution system. The work is demanding because problems in underground systems are extraordinarily hard to troubleshoot. Yet reliability is essential in office towers where thousands work.

Thanks to line technicians like Ramey, Duke Power has one of the best service reliability records in the nation.

In his time at Duke, Ramey has seen constant progress. More and better equipment, an intense, high-quality training program and an emphasis on customer service have led steadily to improvements. Today, crews of two or three technicians do the work of seven or eight people 16 years ago.

"The Company is becoming more streamlined and more efficient," Ramey said. "We're using more equipment versus manpower, and we're focusing on training programs. The Company is more competitive with the prospect of deregulation. We are very customer-oriented now."

"But you know, we have always been customer-friendly. That's an '80s phrase, but it was our business in the '60s and '70s too."

The greater emphasis on efficiency and on extra measures to meet customer needs that Ramey sees comes at a time when markets are changing.

"Customers expect a lot more from us today," Ramey said. "They don't just want the lights on. They want to feel that they're important, and we're going to treat them that way." ■

DON BLACKMON

DEPARTMENT:

Duke Engineering & Services, Inc.

POSITION:

Manager, business development

AGE:

40

EDUCATION:

The Citadel, B.S. in Civil Engineering

CAREER PATH:

Duke Power engineer working on design, siting and licensing of hydroelectric, nuclear and coal-fired stations; one of original team to market Duke's engineering expertise through the Management and Technical Services (MATS) organization

1988 HIGHLIGHT:

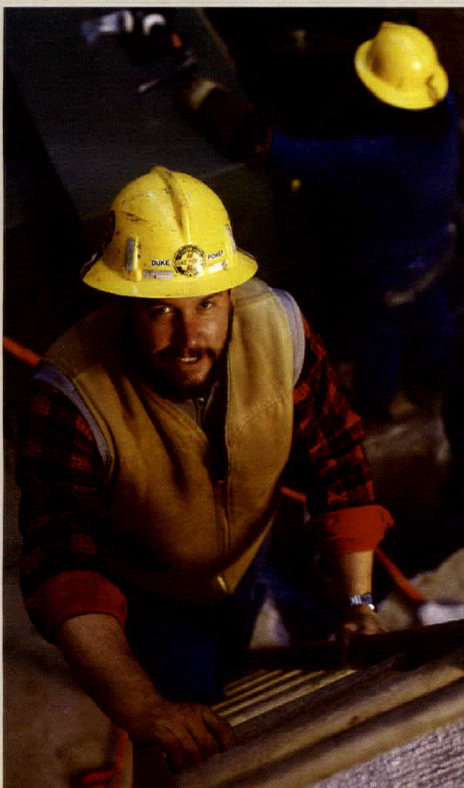
Proposals that will enable Duke Engineering to design a large portion of Virginia Electric and Power Company's new coal-fired capacity

1989 GOAL:

"Get more people to become risk takers and develop their own personal competitive strategy. Risk taking is the key."

QUOTE:

"In order to be competitive, everyone has to have a job that causes them some grief on a daily basis."



Don Blackmon has a fascinating view of the competitive marketplace. His job managing business development for Duke Engineering & Services, Inc., gives him a "window" on a world quite different from traditional utility business.

After more than a decade of working on power plant licensing, siting and design, Blackmon joined Duke's Management and Technical Services (MATS) organization when it was formed in 1982.

Designed to market Duke Power's technical and engineering expertise to other companies, MATS was a forerunner of Duke Engineering, a subsidiary formed in 1987.

"I think we were a little naive when we first got started, but it was a worthwhile endeavor," Blackmon recalls.

MATS' original mission was to serve internal Duke Power needs as much as those of outside clients. For instance, one MATS aim was to hone the expertise of Duke engineers and designers by allowing



them to work with state-of-the-art technologies at a time when Duke was entering a lull in its own power plant design work.

"But we quickly found out that the marketplace wanted a whole lot more,"

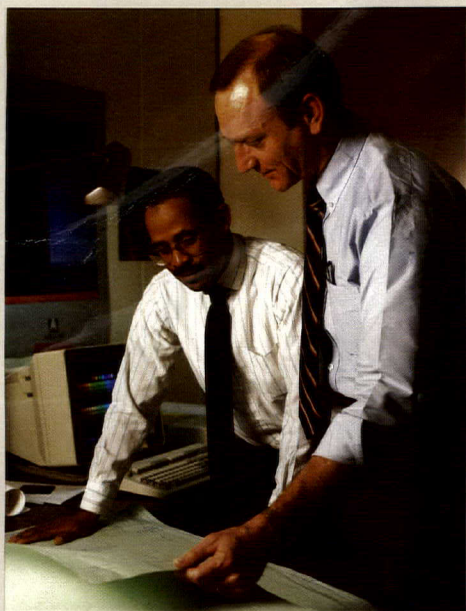
Blackmon said.

Duke's engineers found that price and speed counted for far more in competitive bidding than whatever rated third.

"What MATS did best," Blackmon said, "was demonstrate that, with a lean

organization, with people doing the work and taking direct responsibility for their work rather than a large management team, the work could be done very efficiently without a great deal of risk."

MATS learned that it could compete



wholly owned subsidiary with a permanent staff of engineers, designers and other technical specialists. But it still depends on other Duke Power departments to staff some projects.

The result has been that Duke Engineering exposes a wide spectrum of Duke Power employees to the discipline of the competitive marketplace.

"Anything we do, we have to do it fast, and we have to do it right," Blackmon said. "If we don't, the competition will eat us up. What we've found we needed to do at Duke Engineering is force the person with the technical expertise to make the decision rather than sending it up the line for a decision. It will be critical to make decisions faster."

The mission of MATS shifted over the years until, by the time Duke Engineering was formed, earning profits for shareholders had become the primary goal. And the organization had become tougher and more resilient in the marketplace.

An important lesson was learning strengths and weaknesses. MATS and Duke Engineering were at a disadvantage in competing for jobs where other bidders hired unattached, non-specialized work crews for specific jobs and dismissed them afterwards.

But Duke Engineering was well ahead

of the competition when it came to technical expertise, such as designing cogeneration plants or providing the technical advice and organization to a group of nuclear utilities facing licensing difficulties.

"We are making changes that we are going to have to make to be competitive," Blackmon added. "We're getting there, but we're not where we want to be yet."

"We're getting more cost competitive. We're finding ways to cut costs every day. And we are working to identify specifically which markets we want to penetrate — what businesses we are in."

"I'm very optimistic about Duke Engineering. We have a fantastic cadre of resources in Duke Power who can do any kind of electrical utility work outside Duke. Considering the culture that we are moving from and the culture that we ultimately need to be moving to, we're doing well."

"I think you can take Duke Power Company employees who have been here for years and make them entrepreneurs, provided you're willing to give them the authority and the responsibility to make their own decisions, and provided the rewards are commensurate with what they produce and the risks they take."

"The folks we have on board now are those kinds of people." ■

more effectively when project teams took direct responsibility for the end product. The resulting project organizations worked so well that Duke Power organized its current Bad Creek Hydroelectric Station project along the same lines. In the fall of 1988, Duke Power's entire design engineering department was restructured along project organization lines.

Organizationally, MATS was treated as another division within Duke Power that bid on jobs and assigned employees from various Duke departments to them. In 1987 Duke Engineering was formed as a

Building A New Duke Power Together

Successful employees are using successful strategies on the job. A basic tenet of those strategies is the realization that every job means a customer — whether that customer is a factory superintendent, a family heating and cooling its home, or another Duke Power employee doing his or her own job.

To succeed in the even more competitive 1990s, Duke Power employees will have to show the same traits and attitudes as Rodney Ramey, Stick Williams, Kay Saville, Don Blackmon and Terry Huffstickler.

These employees are attentive to the changing nature of the electric utility industry. They try to recognize what a customer needs to improve his life or business. They are efficient, and they are resourceful. They find new ways to do things, as Stick Williams did in developing a way to consolidate commercial customers' multiple accounts, or as Terry Huffstickler did to perform plant modifications with existing crews.

They're ready for a future that demands that Duke Power be-

come more like a consumer-product company. Duke employees must anticipate change and be flexible in adapting the Company, its programs and services to that change. The old saying from the retail world, "The customer's always right," holds truth for utilities, too.

Like Don Blackmon in the rough and tumble world of competitive engineering, Duke employees are learning to expect inconvenience or "grief" in the process of meeting marketplace challenges. Like Rodney Ramey, who showed customers that a Safe Light could prevent thefts or lawsuits, they're growing more entrepreneurial.

And like Kay Saville, Stick Williams and Terry Huffstickler, they're focusing on listening to what customers, both inside and outside the Company, say they need and want.

Duke's employees have always been behind the Company's success. Today they're making the changes that will carry that success into the 1990s and beyond. ■

Consolidated Statements of Income

Dollars in Thousands	Year ended December 31,	1988	1987	1986
Electric revenues (Notes 1 and 2)		<u>\$3,626,985</u>	<u>\$3,705,784</u>	<u>\$3,400,933</u>
Electric expenses				
Operation				
Fuel used in electric generation (Note 1)		626,191	624,814	726,151
Net interchange and purchased power (Note 3)		587,145	581,175	378,377
Wages, benefits and materials		529,129	485,192	488,631
Maintenance of plant facilities		383,307	375,085	291,164
Depreciation and amortization (Notes 1 and 11)		417,503	411,182	327,844
General taxes		182,000	173,897	166,385
Income taxes (Notes 1 and 4)		272,159	396,482	437,605
Total electric expenses		<u>2,997,434</u>	<u>3,047,827</u>	<u>2,816,157</u>
Electric operating income		<u>629,551</u>	<u>657,957</u>	<u>584,776</u>
Other income (Notes 1, 4 and 5)				
Allowance for equity funds used during construction		52,616	36,742	52,444
Other, net		16,978	18,002	50,689
Provision for abandonment loss (Note 13)		(81,999)	—	—
Income taxes — abandonment loss (Note 4)		34,967	—	—
Income taxes — other, net		3,547	(4,397)	(7,416)
Income taxes — credit		20,102	22,555	32,163
Total other income		<u>46,211</u>	<u>72,902</u>	<u>127,880</u>
Income before interest deductions		<u>675,762</u>	<u>730,859</u>	<u>712,656</u>
Interest deductions				
Interest on long-term debt		235,061	237,367	252,503
Other interest		7,979	3,853	5,764
Allowance for borrowed funds used during construction (credit) (Note 1)		(15,409)	(10,559)	(13,445)
Total interest deductions		<u>227,631</u>	<u>230,661</u>	<u>244,822</u>
Income before cumulative effect of change in accounting method		<u>448,131</u>	<u>500,198</u>	<u>467,834</u>
Cumulative effect of a change in method of accounting for unbilled revenues, net of income taxes (Note 1)		<u>102,255</u>	—	—
Net income		<u>550,386</u>	<u>500,198</u>	<u>467,834</u>
Dividends on preferred and preference stocks		<u>53,329</u>	<u>54,264</u>	<u>58,767</u>
Earnings for common stock		<u>\$ 497,057</u>	<u>\$ 445,934</u>	<u>\$ 409,067</u>
Common stock data				
Average shares outstanding (thousands)		101,266	101,250	101,220
Earnings per share before cumulative effect of change in accounting method		\$3.90	\$4.40	\$4.04
Cumulative effect of a change in method of accounting for unbilled revenues		<u>1.01</u>	—	—
Total earnings per share		<u>\$4.91</u>	<u>\$4.40</u>	<u>\$4.04</u>
Dividends per share		<u>\$2.88</u>	<u>\$2.74</u>	<u>\$2.64</u>

Consolidated Statements of Cash Flows

Dollars in Thousands	Year ended December 31,	1988	1987	1986
Cash flows from operating activities				
Net income		\$ 550,386	\$ 500,198	\$ 467,834
Adjustments to reconcile net income to net cash provided by operating activities:				
Non-cash items				
Depreciation and amortization (Notes 1 and 11)		632,866	616,956	477,423
Deferred income taxes and investment tax credit, net of amortization (Note 4)		(16,699)	82,623	161,596
Allowance for equity funds used during construction		(52,616)	(36,742)	(52,444)
Purchased capacity levelization (Note 3)		(95,738)	(134,452)	(77,258)
Provision for abandonment loss (Note 13)		81,999	—	—
Cumulative effect of a change in method of accounting for unbilled revenues, net of income taxes (Note 1)		(102,255)	—	—
Other, net		62,970	46,367	(2,837)
(Increase) Decrease in				
Accounts receivable		(5,464)	(6,360)	(81,162)
Materials and supplies		(4,203)	(15,837)	43,366
Prepayments		1,630	1,323	(371)
Increase (Decrease) in				
Accounts payable		41,935	42,396	(11,606)
Taxes accrued		(19,010)	(54,692)	51,359
Interest accrued and other liabilities		7,061	(43)	(45,496)
Total adjustments		532,476	541,539	462,570
Net cash provided by operating activities		1,082,862	1,041,737	930,404
Cash flows from investing activities				
Construction expenditures and investment in nuclear fuel		(896,651)	(740,884)	(642,388)
Purchase of Nantahala Power and Light		(29,576)	—	—
Proceeds from sale of assets		—	23,496	—
Net change in investment securities		198,586	55,656	153,619
Net cash used in investing activities		(727,641)	(661,732)	(488,769)
Cash flows from financing activities				
Proceeds from the issuance of				
First and refunding mortgage bonds		—	245,866	394,006
Pollution-control bonds		1,283	38,734	7,251
Nuclear fuel trusts		85,612	77,388	57,597
Preferred stock		—	49,563	98,612
Payments for the redemption of				
First and refunding mortgage bonds		—	(285,752)	(426,495)
Pollution-control bonds		—	(25,000)	—
Nuclear fuel trusts		(85,612)	(76,388)	(57,597)
Preferred stock		(8,025)	(50,848)	(104,775)
Term notes		—	—	(79,725)
Payments under capital lease obligation		(4,348)	(3,982)	(3,647)
Dividends paid		(344,964)	(331,691)	(325,991)
Net cash used in financing activities		(356,054)	(362,110)	(440,764)
Net increase (decrease) in cash		(833)	17,895	871
Cash at beginning of year		21,509	3,614	2,743
Cash at end of year		\$ 20,676	\$ 21,509	\$ 3,614

Consolidated Balance Sheets

Dollars in Thousands	December 31,	1988	1987
Assets			
Electric plant (at original cost — Notes 1, 3, 10 and 13)			
Electric plant in service		\$10,659,521	\$10,072,552
Less accumulated depreciation and amortization		4,323,916	3,859,917
Electric plant in service, net		6,335,605	6,212,635
Construction work in progress		1,038,091	704,610
Total electric plant, net		7,373,696	6,917,245
Other property and investments			
Other property — at cost (less accumulated depreciation: 1988 — \$64,677; 1987 — \$12,199) ...		106,843	73,657
Other investments, primarily marketable securities (Note 1)		115,957	166,594
Total other property and investments		222,800	240,251
Current assets			
Cash (Note 6)		20,676	21,509
Short-term investments		89,711	237,658
Receivables (less allowance for losses: 1988 — \$3,690; 1987 — \$3,710) (Note 1)		456,554	332,120
Materials and supplies — at average cost			
Coal		83,405	86,923
Other		169,622	161,901
Prepayments		12,124	13,754
Total current assets		832,092	853,865
Deferred debits			
Canceled construction projects (Notes 11 and 13)		182,542	251,085
Purchased capacity costs (Note 3)		192,084	153,793
Debt expense (Note 1)		75,835	78,978
Other		11,556	16,577
Total deferred debits		462,017	500,433
Total assets		\$ 8,890,605	\$ 8,511,794
Capitalization and Liabilities			
Capitalization (See Consolidated Statements of Capitalization)		\$ 6,856,723	\$ 6,651,528
Current liabilities			
Accounts payable		264,988	198,011
Taxes accrued (Note 1)		26,652	49,590
Interest accrued		67,945	67,075
Other		57,334	51,143
Total		416,919	365,819
Current maturities of long-term debt and preferred stocks		51,343	59,579
Total current liabilities		468,262	425,398
Accumulated deferred income taxes (Notes 1 and 4)		1,117,383	1,028,427
Deferred credits and other liabilities			
Investment tax credit (Notes 1 and 4)		331,644	335,647
Other		116,593	70,794
Total deferred credits and other liabilities		448,237	406,441
Commitments and contingencies (Note 13)			
Total capitalization and liabilities		\$ 8,890,605	\$ 8,511,794

Consolidated Statements of Capitalization and Retained Earnings

Dollars in Thousands	December 31,	1988	1987
Capitalization			
Common stock equity (Note 7)			
Common stock, no par, 150,000,000 shares authorized; 101,272,023 shares outstanding for 1988 and 101,258,731 shares outstanding for 1987		<u>\$1,862,495</u>	<u>\$1,862,177</u>
Retained earnings		<u>1,581,901</u>	<u>1,374,093</u>
Total common stock equity		<u>3,444,396</u>	<u>3,236,270</u>
Preferred and preference stocks without sinking fund requirements (Note 8)		<u>427,683</u>	<u>428,001</u>
Preferred stocks with sinking fund requirements (Note 9)		<u>255,850</u>	<u>263,875</u>
Long-term debt (Note 10)			
First and refunding mortgage bonds		<u>2,630,803</u>	<u>2,630,506</u>
Capitalized leases		<u>75,560</u>	<u>79,908</u>
Nuclear fuel trusts		<u>86,000</u>	<u>86,000</u>
Unamortized debt discount and premium, net (Note 1)		<u>(20,251)</u>	<u>(21,478)</u>
Current maturities of long-term debt		<u>(43,318)</u>	<u>(51,554)</u>
Total long-term debt		<u>2,728,794</u>	<u>2,723,382</u>
Total capitalization		<u>\$6,856,723</u>	<u>\$6,651,528</u>

Dollars in Thousands	Year ended December 31,	1988	1987	1986
Retained Earnings				
Balance — Beginning of year		<u>\$1,374,093</u>	<u>\$1,210,229</u>	<u>\$1,071,814</u>
Add — Net income		<u>550,386</u>	<u>500,198</u>	<u>467,834</u>
Total		<u>1,924,479</u>	<u>1,710,427</u>	<u>1,539,648</u>
Deduct				
Dividends				
Common stock		<u>291,635</u>	<u>277,427</u>	<u>267,224</u>
Preferred and preference stocks		<u>53,329</u>	<u>54,264</u>	<u>58,767</u>
Capital stock transactions, net		<u>(2,386)</u>	<u>4,643</u>	<u>3,428</u>
Total deductions		<u>342,578</u>	<u>336,334</u>	<u>329,419</u>
Balance — End of year		<u>\$1,581,901</u>	<u>\$1,374,093</u>	<u>\$1,210,229</u>

Notes To Consolidated Financial Statements

Note 1.
Summary of
Significant
Accounting Policies

A. Revenues

To provide a better matching of revenues and expenses, the Company changed its accounting policy of recognizing revenue to provide for the accrual of estimated unbilled revenues effective January 1, 1988. Prior to 1988, the Company recognized revenues concurrent with billings to customers. The cumulative effect of this accounting change, less income taxes of \$63,803,000, amounted to \$102,255,000 and was included in 1988 income. Other than

the recording of the cumulative effect adjustment, the new accounting method had no material effect on net income for 1988. Had this new accounting method been in effect during 1987 or 1986, net income would not have been materially different from that shown in the accompanying financial statements. Unbilled revenues of \$166,767,000 are recorded as a component of "Receivables" on the Consolidated Balance Sheets as of December 31, 1988.

B. 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.

C. 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, the Company is per-

mitted 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 9.40 percent for 1988, 9.15 percent for 1987 and 9.63 percent for 1986.

D. Depreciation and Amortization

Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted-average depreciation rates were 3.61 percent for 1988 and 3.60 percent for 1987 and 1986. 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.

The Nuclear Regulatory Commission (NRC) issued a rulemaking in 1988 which will require an external mechanism to fund the liability to decommission the components of a nuclear unit subject to radioactive contamination. The minimum funding level mandated by the NRC is approximately \$100 million per unit in 1986 dol-

lars to be funded by the end of the licensed life of the plant. The Company is required to submit a funding plan to the NRC by July 1990.

Amortization of nuclear fuel is included in "Fuel used in electric generation" in the Consolidated 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 Consolidated Statements of Income.

E. Subsidiaries

The Company's consolidated financial statements reflect consolidation of all of its wholly owned subsidiaries, in accordance with a statement issued by the Financial Accounting Standards Board. All significant intercompany trans-

actions have been eliminated in consolidation. Information for 1987 and 1986 has been restated to conform to the new presentation. (See "Subsidiary Investments," page 43.)

Note 1.
Summary of
Significant
Accounting Policies
(continued)

F. 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

G. 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

H. 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 or-

I. Other Investments

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

J. Consolidated Statements of Cash Flows

The Financial Accounting Standards Board issued a statement requiring the implementation of the Consolidated Statements of Cash Flows in 1988. The Consolidated Statements of Cash Flows replaces the Statements of Changes in Financial Position provided in previous years. Information for 1987 and 1986 has been restated

projects, and short- 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 unbilled revenues. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties.

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.

dered 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 has a sunset provision effective July 1, 1989.

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

to conform to the new presentation. For purposes of the Consolidated Statements of Cash Flows, the Company's investments in highly liquid debt instruments with a maturity of three months or less are included in cash flows from investing activities.

and 9.55 percent, effective November 1986, in the North Carolina and South Carolina retail jurisdictions, respectively. These increases provided for recovery of the Company's investment in Catawba Unit 2 and payments related to the purchased power contracts with the plant's other joint owners. The NCUC order has been remanded to the Commission (see Note 13).

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 recognize the lower corporate income tax rate included in the Tax Reform Act of 1986.

Note 2.
Rate
Matters

The North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina must approve rates for retail sales within their respective states. The Federal Energy Regulatory Commission must approve the Company's rates for sales to wholesale customers. However, sales to the other joint owners of the Catawba Nuclear Station, which previously represented a substantial majority of the Company's wholesale revenues, are now set through contractual agreements (see Note 3).

Changes in retail rates implemented by the Company since January 1, 1986, include rate increases of 6.73 percent, effective October 1986,

**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
North Carolina Municipal Power Agency Number 1 (NCMPA)	37.5%
North Carolina Electric Membership Corporation (NCEMC)	28.125%
Piedmont Municipal Power Agency (PMPA)	12.5%
Saluda River Electric Cooperative, Inc. (Saluda River)	9.375%

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, 1988, \$497,700,000 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 \$86,100,000 associated with Catawba had been recorded as of year-end. The Company's share of operating costs of Catawba are included in the corresponding electric expenses in the Consolidated Statements of Income.

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 1993 are \$465,000,000 for 1989, \$445,000,000 for 1990, \$432,000,000 for 1991, \$426,000,000 for 1992 and \$413,000,000 for 1993.

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 their contractual purchased power buyback periods. The Public Service Commission of South Carolina allowed the Company recovery on a levelized basis of the capital costs of capacity purchased over one-half their contractual purchased power buyback periods. 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, 1988, 1987 and 1986, the Company recorded purchased capacity and energy costs from the other joint owners of \$632,200,000, \$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 Consolidated Statements of Income. As of December 31, 1988 and 1987, \$192,084,000 and \$153,793,000 net of income taxes, respectively, associated with the costs of capacity purchased not reflected in current rates had been accumulated in the Consolidated Balance Sheets as "Purchased capacity costs."

Note 4.
Income Tax
Expense

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

	1988	1987	1986
Income taxes related to electric expenses			
Current income taxes			
Federal	\$207,354	\$264,276	\$241,150
State	45,606	50,001	37,862
	<u>252,960</u>	<u>314,277</u>	<u>279,012</u>
Deferred taxes, net			
Excess tax over book depreciation	71,102	78,017	89,325
Catawba purchased capacity costs, net of amounts reflected in current rates	6,808	29,209	52,942
Amortization of canceled construction costs	(26,116)	(26,503)	(26,607)
Unbilled revenues	(13,965)	(6,133)	(889)
Cost of bond redemption	(2,075)	7,319	21,560
Capitalized taxes, employee benefits, etc.	(3,957)	3,110	17,023
Other	(5,699)	10,691	12,627
	<u>26,098</u>	<u>95,710</u>	<u>165,981</u>
Investment tax credit			
Deferred	11,812	10,604	16,801
Amortization of deferments (credit)	(18,711)	(24,109)	(24,189)
	<u>(6,899)</u>	<u>(13,505)</u>	<u>(7,388)</u>
Total income taxes related to electric expenses ...	<u>272,159</u>	<u>396,482</u>	<u>437,605</u>
Income taxes related to other income			
Income taxes — abandonment loss	(34,967)	—	—
Income taxes — other, net	(3,547)	4,397	7,416
Income taxes — credit	(20,102)	(22,555)	(32,163)
Total income taxes related to other income	<u>(58,616)</u>	<u>(18,158)</u>	<u>(24,747)</u>
Total income tax expense	<u>\$213,543*</u>	<u>\$378,324</u>	<u>\$412,858</u>

Total current income taxes were \$230,242,000 for 1988, \$295,701,000 for 1987 and \$251,262,000 for 1986. Of these amounts, state income taxes were \$42,262,000 for 1988, \$46,073,000 for 1987 and \$33,779,000 for 1986. Total income taxes paid were \$226,400,000 for 1988, \$294,365,000 for 1987 and \$203,963,000 for 1986.

Total deferred income taxes were \$(9,800,000) for 1988, \$96,128,000 for 1987 and \$168,984,000 for 1986. Of these amounts, deferred state income taxes were \$4,070,000 for 1988, \$17,311,000 for 1987 and \$20,033,000 for 1986.

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

	1988	1987	1986
Income taxes on pretax income at the statutory federal rate of 34%-1988, 39.95%-1987, 46%-1986	\$224,967	\$350,970	\$404,469
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (AFUDC)	(23,128)	(18,897)	(30,309)
Amortization of electric investment tax credit deferrals	(18,711)	(24,109)	(24,189)
AFUDC in book depreciation/amortization	31,883	36,520	43,679
Deferred income tax flowback at rates higher than statutory	(27,989)	(7,268)	(226)
State income taxes, net of federal income tax benefits ...	30,928	38,110	28,737
Other items, net	(4,407)	2,998	(9,303)
Total income tax expense	<u>\$213,543*</u>	<u>\$378,324</u>	<u>\$412,858</u>

* Excludes income taxes of \$63,803,000 related to unbilled revenues. Such income taxes are included in "Cumulative effect of a change in method of accounting for unbilled revenues" on the Consolidated Statements of Income.

The Financial Accounting Standards Board has issued a statement that will require a

change in the method of accounting for income taxes. While classification of certain items on the Consolidated Balance Sheets will change, there will be no material effect on the Company's results of operations. The Company is required to implement this accounting standard by 1990.

**Note 5.
Other Income**

For the years ended December 31, 1988, 1987 and 1986, the Company recorded investment income of \$19,397,000, \$6,850,000 and \$40,707,000, respectively (\$20,098,000, \$9,020,000 and \$35,453,000, net of income taxes, respectively), as a component of "Other,

net" in the Consolidated 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 Consolidated 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, 1988, and December 31, 1987, and \$306,150,000 with 56 commercial banks as of December 31, 1986. These facilities are on a fee basis and/or compensating-balance basis. 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. There were no short-term borrowings during 1988, 1987 or 1986.

In 1988 the Company maintained cash bal-

ances with 54 banks. As of December 31, 1988, the Company had \$16,938,397 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 1988 and 1987, and \$1,351,500 for 1986. The Company retains the right of withdrawal with respect to 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, 1988, a total of 4,676,792 shares was reserved for issuance to stock plans and for the conversion of preference stock.

Retained Earnings

As of December 31, 1988, 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, 1988 and 1987:

	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, 6¾% 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 1988, 1987 and 1986, shares of preference stock

were converted into shares of common stock as follows:

Year	Preference Shares	Common Shares
1988	3,176	13,292
1987	5,489	22,959
1986	10,032	41,970

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 7.25 percent per annum at December 31, 1988.

Preferred and preference stocks without sinking fund requirements as of December 31, 1988 and 1987, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1988	1987
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
Adjustable Rate A	1986	500,000	50,000	50,000
6¾%, AA Convertible	1969	26,830	2,683	—
		30,006	—	3,001
Total			<u>\$427,683</u>	<u>\$428,001</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, 1988 and 1987:

	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, 1988 and 1987, were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1988	1987
7.35% I	1973	480,000	\$ 48,000	\$ —
		504,000	—	50,400
8.20% J	1977	360,000	36,000	—
		380,000	—	38,000
8.375% L	1978	380,000	38,000	—
		400,000	—	40,000
8.84% N	1979	418,750	41,875	—
		435,000	—	43,500
7.875% P	1986	500,000	50,000	50,000
7.12% Q	1987	500,000	50,000	50,000
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)	(1,625)
Total			<u>\$255,850</u>	<u>\$263,875</u>

The annual sinking fund requirements through 1993 are \$8,025,000 in 1989, 1990, and 1991; \$9,525,000 in 1992; and \$11,025,000 in 1993. Some additional redemptions are 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, 1988 and 1987, were as follows (dollars in thousands):

Series	Year Due	1988	1987	Series	Year Due	1988	1987
4½%	1992	\$ 50,000	\$ 50,000	8½%	2007	\$ 119,500	\$ 119,500
4¼% B	1992	50,000	50,000	9¾%	2008	120,610	120,610
4½%	1995	40,000	40,000	10½%	2009	145,050	145,050
8½% B	1995	125,000	125,000	12½%	2015	62,916	62,916
7½%	1996	100,000	100,000	10½% B	2015	50,000	50,000
7½% B	1997	100,000	100,000	9%	2016	175,000	175,000
5¾%	1997	72,600	72,600	8½%	2017	150,000	150,000
6¾%	1998	68,500	68,500				
7%	1999	56,075	56,075	<i>Pollution-Control</i>			
8% B	1999	64,739	64,739	9½%	2013	77,000	77,000
8½%	2000	69,244	69,244	6.125% (1988)	2014	40,000	40,000
8½% B	2000	95,635	95,635	4.70% (1987)			
7½%	2001	97,900	97,900	6.25% (1988)	2012	20,000	20,000
7¾% B	2001	38,050	38,050	6½% (1987)			
7¾%	2002	78,100	78,100	5.85% (1988)	2017	10,000	10,000
7¾% B	2002	67,900	67,900	4.10% (1987)			
7¾%	2003	94,872	94,872	5.45% (1988)	2017	25,000	25,000
8½% B	2003	98,050	98,050	3.95% (1987)			
9¾%	2004	95,623	95,623	Less: Funds held			
9½%	2005	92,800	92,800	in trust		(16,211)	(16,508)
8¾%	2006	96,850	96,850	Total		<u>\$2,630,803</u>	<u>\$2,630,506</u>

Substantially all electric plant was mortgaged as of December 31, 1988.

**Note 10.
Long-Term Debt**
(continued)

Interest paid, net of amount capitalized, was \$222,102,000, \$227,557,000 and \$259,628,000 for the years ended December 31, 1988, 1987 and 1986, respectively.

The annual maturities of long-term debt, including capitalized lease principal payments, through 1993 are \$43,318,000 in 1989, \$30,176,000 in 1990, \$28,184,000 in 1991, \$106,237,000 in 1992 and \$6,813,000 in 1993.

Annual maturities through 1993 include amounts relating to the \$86 million in outstanding 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 retail jurisdictions have permitted recovery of the incurred costs. These costs are being amortized principally over a 10-year period beginning October 1983. (See Note 13.)

As of December 31, 1988 and 1987, the balances for these canceled projects, net of amortization, were \$296,269,000 and \$400,905,000, respectively (\$182,542,000 and \$251,085,000 net of income tax benefits, respectively).

**Note 12.
Retirement
Plan**

The Company and its operating subsidiaries, with the exception of Nantahala Power and Light Company which maintains its own retirement plans, 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 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 expense in that year. The new standards were 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 Consolidated Balance Sheets as of December 31, 1988 and 1987 is as follows (dollars in thousands):

	1988	1987
Projected benefit obligation:		
Vested benefits	\$(528,776)	\$(424,630)
Nonvested benefits	(30,852)	(36,293)
Accumulated benefit obligation	(559,628)	(460,923)
Effect of projected future compensation levels	(99,201)	(128,474)
Projected benefit obligation	(658,829)	(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	703,269	649,261
Unrecognized net experience gain	(50,677)	(61,734)
Remaining unrecognized SFAS 87 transitional obligation	1,736	1,870
Accrued pension cost	<u>\$ (4,501)</u>	<u>\$ 0</u>

Net periodic pension cost for the years ended December 31, 1988 and 1987, included the following components (dollars in thousands):

	1988	1987
Service cost benefits earned during the year	\$ 25,442	\$ 26,707
Interest cost on projected benefit obligation	55,993	52,212
Actual return on plan assets	(72,465)	(43,000)
Amount deferred for recognition	<u>6,815</u>	<u>(9,042)</u>
Expected return on plan assets	(65,650)	(52,042)
Net amortization	<u>(199)</u>	<u>134</u>
Net periodic pension cost	<u><u>\$15,586</u></u>	<u><u>\$ 27,011</u></u>

**Note 12.
Retirement
Plan
(continued)**

Total pension expense, including trustee fees, amounted to \$28,815,000 in 1986.

In determining the projected benefit obligation, the weighted-average assumed discount rate used was 9.5 percent in 1988 and 1987, while the assumed increase in future compensation levels was 6.5 percent in 1988 and 1987. The expected long-term rate of return on plan assets used in determining pension cost for 1988 and 1987 was 10.0 percent and 8.5 percent, respectively.

During 1988, the Company conducted a work activity review which resulted in the elimination of approximately 1,200 positions. Special termination benefits and severance benefits, which amounted to approximately \$24,000,000 of non-plan costs, were provided to those employees that were terminated. Also, as a result of the work activity review, the Company recorded a one-time net loss from terminations associated with its retirement plan of \$4,501,000.

**Note 13.
Commitments and
Contingencies**

A. Construction Program

Projected construction and nuclear fuel costs are \$2.63 billion and \$534 million, respectively, for 1989 through 1991. The program is subject to periodic review and revisions, and actual construction costs incurred may vary from such esti-

mates. 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 maintains nuclear insurance coverage in three areas: liability coverage, property and decontamination coverage, and extended accidental outage coverage to cover increased generating costs and/or replacement power purchases. The Company is being reimbursed by the other joint owners of the Catawba Nuclear Station for certain expenses associated with nuclear insurance premiums paid by the Company.

Pursuant to the Price-Anderson Act as recently amended, the Company is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately \$7.2 billion. The maximum required private primary insurance of \$160 million has been purchased along with a like amount to cover certain worker tort claims. The remaining amount, currently \$7.1 billion, which will be increased by \$63 million as each additional commercial nuclear reactor is licensed, has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs, and public liability damages exceed primary insurances, licensees may be assessed up to \$63 million for each of their licensed reactors, payable at a rate not to exceed \$10 million a year per licensed reactor for each incident. The \$63 million amount is subject to indexing for inflation and is further subject to a surcharge of 5 percent if funds are insufficient to pay claims and associated costs. If retrospective premiums were to be assessed, the joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of such assessment.

The Company is a member of Nuclear Mutual Limited (NML), which provides \$500 million in primary property damage coverage for certain of the Company's nuclear facilities. If NML's losses ever exceed its reserves, the Company will be liable, on a pro rata basis, for additional assessments of up to \$62 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) and purchases \$825 million of insurance through NEIL's excess property and decontamination liability insurance program. The Company has also purchased an additional \$400 million of excess property damage insurance through a pool of stock and mutual insurance companies. If losses ever exceed the accumulated funds available to NEIL for the excess property and decontamination liability program, the Company will be liable, on a pro rata basis, for additional assessments of up to \$28 million. This amount is limited to 7.5 times the Company's annual premium for \$500 million of excess property and decontamination liability insurance. The joint owners of Catawba are obligated to assume their pro rata share of any liability for retrospective premiums and other premium assessments resulting from the NEIL policies applicable to Catawba.

In addition to the \$825 million in coverage through NEIL's excess property program and the \$400 million in excess coverage mentioned above, and in lieu of primary property coverage through NML, the Company has placed \$500 million through a pool of stock and mutual insurance companies for primary property insurance coverage associated with its interest in the Catawba Nuclear Station.

The Company participates in a NEIL program that provides insurance for the increased cost of generation and/or purchased power resulting from an accidental outage of a nuclear unit. The Oconee, McGuire and Catawba Nuclear Stations are insured for up to approximately \$1.2 million, \$2 million and \$1.9 million per unit per week, respectively, after a 21-week deductible period, with declining amounts per unit where more than one unit is involved. Coverages continue at 100 percent for 52 weeks and at 50 percent for an additional 52 weeks. If NEIL's losses for this program ever exceeded its reserves, the Company would be liable, on a pro rata basis, for additional assessments of up to \$21 million. This amount represents five times the Company's annual premium to NEIL.

Note 13.
Commitments and
Contingencies
(continued)

C. Other

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. Management is of the opinion that the final disposition of these proceedings will not have a material adverse effect on the results of operations or the financial position of the Company.

On July 28, 1987, the Federal Energy Regulatory Commission (FERC) granted a petition made by the other Catawba joint owners to exclude costs of abandoned plants from their supplemental power rates affirming the other joint owners' contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts. The court upheld the FERC order in January 1989. The order had a one-time impact on earnings of \$.46 per share.

Certain parties appealed the Company's 1986 rate order of the North Carolina Utilities Commission to the North Carolina Supreme Court on various grounds seeking revision or modification and refunds. On July 28, 1988, the Court affirmed most of this rate order including the portion authorizing the collection of aban-

doned plant costs associated with canceled nuclear stations, but the Court found that the Commission's conclusion regarding some elements of the fair rate of return on common equity was not supported by adequate findings of material facts. This issue was remanded to the Commission for further consideration and the Company cannot presently determine the ultimate resolution of this matter.

The other joint owners of the Catawba Nuclear Station and the Company are involved in various arbitration proceedings pursuant to the Interconnection Agreements (the Agreements). The basic contention in each proceeding is that certain calculations affecting bills under the Agreements should be performed differently. Although these matters in arbitration may be material, they are items covered by the Agreements between the Company and the other joint owners, which have been approved by the Company's retail regulatory commissions. The ultimate resolution of these matters cannot presently be determined, however, the Company is of the opinion that it has properly interpreted the Agreements and that the ultimate resolution of these matters should not have a materially adverse effect on its results of operations or financial position.

Independent Auditors' Report

Duke Power Company:

We have audited the accompanying consolidated balance sheets and the consolidated statements of capitalization of Duke Power Company and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as

evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the companies at December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1988 the Company changed its accounting policy of recognizing revenue to provide for the accrual of estimated unbilled revenues.

Deloitte Haskins & Sells

Deloitte Haskins & Sells
Certified Public Accountants

Charlotte, North Carolina
February 10, 1989

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 to \$4.91 in 1988 compared to \$4.40 in 1987. Earnings per share for 1988 include \$1.01 per share for the effect of accruing unbilled revenues and a provision for the loss of \$.46 per share because of the court order excluding costs of abandoned plants from the other Catawba joint owners' supplemental power rates. (See Notes 1 and 13, "Notes to Consolidated Financial Statements.") The total Company's earned return on average common equity, excluding these items, decreased from 14.2 percent in 1987 to 13.4 percent in 1988.

Higher kilowatt-hour sales billed, especially sales billed to general service customers, contributed to the increase in earnings per share. Comparative earnings per share were affected by stock market losses incurred in the fourth quarter of 1987. However, benefits for employees laid off after a work activity review completed in late 1988 reduced earnings approximately \$.15 per share. (See Note 12, "Notes to Consolidated Financial Statements.") Earnings were also reduced by an increase in nuclear and coal-fired operating and maintenance costs and inflation. Earnings per share increased over the past five years at an annual rate of 5 percent, to \$4.91 in 1988 from \$3.98 in 1984.

The Company continued its practice of increasing the common stock dividend annually. Common dividends per share increased from \$2.42 in 1984 to \$2.88 in 1988, rising at an annual rate of 4 percent. Indicated annual dividends per share were \$2.96 in 1988, up 6 percent from 1987.

Revenues and Sales

Revenues billed to customers increased at an annual rate of 8 percent from 1984 to 1988 primarily because of higher kilowatt-hour sales and rate increases. Growth in economic activity in the Piedmont Carolinas has caused kilowatt-hour sales billed, including electricity delivered to the other joint owners of the Catawba Nuclear Station, to increase at a 6 percent annual rate from 1984 to 1988.

Kilowatt-hour sales billed for 1988, including deliveries to the other Catawba joint owners, increased 4 percent over 1987. Sales to general service customers, non-textile industrial customers and residential customers increased over 1987. Sales to general service and non-textile industrial customers increased 5 and 2 percent, respectively, reflecting economic growth in the service area, while textile sales were relatively flat in 1988.

Operating Expenses

Non-fuel operating and maintenance expenses rose at an annual rate of 11 percent from 1984 to 1988. Factors contributing to this rise include increased maintenance at both nuclear and coal-fired stations, additional Nuclear Regulatory Commission requirements, inflation and the addition of nuclear units.

In 1988 "Net interchange and purchased power" was relatively stable when compared to 1987 primarily because there has been no change in the leveled amount of purchased capacity costs recorded associated with the Catawba Nuclear Station. Purchased power agreements with the other Catawba joint owners resulted in a significant increase in 1987 from 1986 primarily because of additional capacity and energy costs associated with the in-service operation of Catawba Unit 2 for the entire year of 1987. (See Note 3, "Notes to Consolidated Financial Statements.")

Fuel expense was relatively stable from 1984 through 1986. Higher production requirements were offset by a change in the generation mix because of the addition of nuclear units, primarily McGuire Unit 2, and by satisfying increased energy needs through purchased power agreements with the other Catawba joint owners.

Fuel expense decreased in 1987, primarily because of an improved generation mix coupled with satisfying a more significant portion of energy requirements through power purchased from the other Catawba joint owners. Fuel expense was relatively flat in 1988 when compared to 1987 primarily because of declining fuel prices which were partially offset by increased production, primarily coal-fired generation, required to meet a higher level of demand.

In September 1988 the Company announced plans to conduct work activity reviews to identify changes in the organization which could be implemented to make the Company more efficient without compromising safety or service. In November the findings of the review were implemented and, as a result, the work force was reduced approximately 6 percent, and other organizational changes were made. There was a one-time impact on earnings of approximately \$15 million which was the result of special termination benefits for affected employees.

Other Income

Allowance for funds used during construction (AFUDC) represented 14 percent of earnings for common stock in 1988, decreasing from an average of 20 percent for 1984 through 1987. The decline in AFUDC over the past five years is a result

of the completion of three nuclear units and the sale of a portion of Catawba Nuclear Station. AFUDC is expected to rise moderately over the next few years due to the growing investment in the Bad Creek Hydroelectric Station.

Included in "Other, net," the return on purchased capacity levelization represented 5 percent of total earnings compared to 3 percent in 1987. This change is due to the increasing cumulative effect of the Company's funding purchased power costs not currently collected in rates. (See

Note 3, "Notes to Consolidated Financial Statements.")

Subsidiary and non-utility earnings were 6 percent of total Company earnings in 1988, compared to 4 percent in 1987. These earnings increased 55 percent from 1987 primarily because subsidiary earnings were depressed in 1987 due to stock market losses. Major components of non-utility earnings include appliance sales and service, and interest income.

Liquidity and Resources

Rate Matters

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 recognize the lower corporate income tax rate 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 rates, reflecting both the costs of Catawba Unit 2 and the lower corporate income tax rate for 1987. A 2.4 percent rate reduction was implemented in the Company's wholesale jurisdiction effective January 1, 1988, also reflecting the lower corporate income tax rate.

From 1984 through 1988, the Company was involved in various retail rate activities. During this period, rate changes included recovery of the Company's investment in McGuire Unit 2 and in both units of the Catawba Nuclear Station, and recovery of increased purchased power and operating expenses. Rate increases from 1984 through 1986 were partially offset by the rate reductions in 1987 and 1988 resulting from the lower corporate income tax rate. (For additional information on rate matters, see Note 2, "Notes to Consolidated Financial Statements.")

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. Management is of the opinion that the final disposition of these proceedings will not have a material adverse effect on the results of operations or the financial position of the Company.

On July 28, 1987, the Federal Energy Regulatory Commission (FERC) granted a petition made by the other Catawba joint owners to exclude costs of abandoned plants from their supplemental power rates affirming the other joint owners' contention that these costs were not a part of the Catawba contracts. The Company appealed the order to the courts. The court upheld the FERC order in January 1989. The order had a one-time impact on 1988 earnings of \$.46 per share.

Certain parties appealed the Company's 1986 rate order of the North Carolina Utilities Com-

mission to the North Carolina Supreme Court on various grounds seeking revision or modification and refunds. On July 28, 1988, the Court affirmed most of this rate order including the portion authorizing the collection of abandoned plant costs associated with canceled nuclear stations, but the Court found that the Commission's conclusion regarding some elements of the fair rate of return on common equity was not supported by adequate findings of material facts. This issue was remanded to the Commission for further consideration and the Company cannot presently determine the ultimate resolution of this matter.

The other joint owners of the Catawba Nuclear Station and the Company are involved in various arbitration proceedings pursuant to the Interconnection Agreements (the Agreements). The basic contention in each proceeding is that certain calculations affecting bills under the Agreements should be performed differently. Although these matters in arbitration may be material, they are items covered by the Agreements between the Company and the other joint owners, which have been approved by the Company's retail regulatory commissions. The ultimate resolution of these matters cannot presently be determined, however, the Company is of the opinion that it has properly interpreted the Agreements and that the ultimate resolution of these matters should not have a materially adverse effect on its results of operations or financial position.

Capital Structure

The Company's capital structure at year-end was 50 percent common equity, 40 percent long-term debt, and 10 percent preferred and preference stocks. This capitalization structure is consistent with the Company's long-term financial goals.

To satisfy the requirements of various stock purchase plans, the Company purchases common stock on the stock market. The Company does not anticipate issuing common stock, other than for preference stock conversions, in the near term.

Additional Funds

During the years 1984-1987, the Company ob-

tained additional funds of \$953 million from the sale of first and refunding mortgage bonds and \$148 million from the sale of preferred stock. These funds were obtained primarily for refinancing activities. In 1988 no additional funds were obtained from the sale of first and refunding mortgage bonds or preferred stock. However, the Company does anticipate issuing short-term debt during 1989 and new long-term debt either in 1989 or 1990. 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.)

Because of refinancings, the Company's embedded cost of long-term debt was lowered from 9.59 percent at year-end 1984 to 8.67 percent at year-end 1988. The embedded cost of preferred stock declined from 8.75 percent at the end of 1984 to 7.94 percent at the end of 1988. The possibility of 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 Consolidated Financial Statements.")

Mint Street Capital Associates, a general part-

nership of certain subsidiaries of Duke Power Company, was formed January 21, 1988, to provide central management for the investment of their funds. As of December 31, 1988, Duke Power Company and consolidated subsidiaries had approximately \$66 million in intermediate-term investments and \$90 million in short-term investments.

Fixed Charges Coverage

Fixed charges coverage, including the effect of the accounting change for unbilled revenues, decreased to 4.25 times for 1988 compared to 4.49 times in 1987 using the Securities and Exchange Commission method. This coverage is above the Company's goal of 4.00 times. The decreased coverage in 1988 is the result of reducing electric rates because of the lower corporate tax rate.

Cash From Operations

In 1988 net cash provided by operating activities accounted for 79 percent of total cash from operating, financing and investing activities. Approximately 12 percent of total cash from operating, financing and investing activities is being used for construction of the Bad Creek Hydroelectric Station.

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

Capital Needs

Property Additions and Retirements

Additions to property and nuclear fuel of \$974 million and retirements of \$50 million resulted in a net increase in gross plant of \$924 million in 1988.

Since January 1, 1984, additions to property and nuclear fuel of \$3.7 billion and retirements of \$622 million have resulted in a net increase in gross plant of \$3.1 billion. Retirements during the period were unusually large because the Company sold a portion of the Catawba Nuclear Station.

Construction Expenditures

Plant construction costs for generating facilities and for nuclear fuel, including AFUDC, increased from \$390 million in 1984 to \$482 million in 1988. This increase is primarily the result of construction expenditures at the Bad Creek Hydroelectric Station. It is expected that construction work in progress will continue to increase as the Bad Creek Hydroelectric Station nears completion.

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 recovers the accumulated costs and carrying charges when the declining 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 \$205 million.

Future Construction Program

Because the Company has completed its nuclear construction program, construction costs for major generating facilities for 1989 through 1991 will constitute a smaller portion of the Company's total applications of cash than in the past five years. Projected construction costs and nu-

clear fuel costs for the next three years are \$2.63 billion and \$534 million, respectively.

Construction continued at the Bad Creek Hydroelectric Station in 1988. Units 1 and 2 of the 1,065-megawatt pumped-storage facility are scheduled for completion in 1992, with Units 3 and 4 in 1993. By year-end \$461 million of an es-

timated \$1.1 billion had been spent.

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 energy demands.

Significant Trends

While the Company maintained solid financial performance in 1988, the ability to maintain and improve this level of financial strength will depend on several factors. Future trends in the Company's earnings depend to a large extent on economic conditions in the Piedmont Carolinas and on the ability of the Company to maintain and further pursue efficiencies and cost reductions.

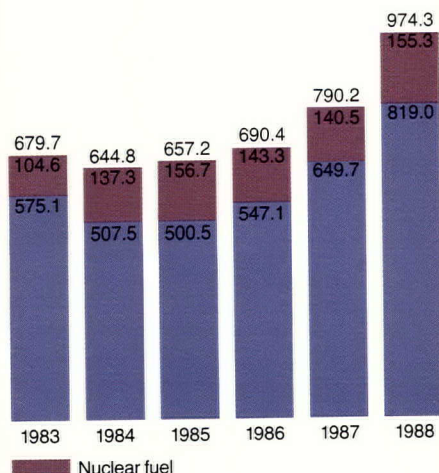
Duke Power Company's purchase of Nantahala Power and Light Company (NP&L) from the Aluminum Company of America (Alcoa) was closed on November 17, 1988, following the approval by both the North Carolina Utilities Commission and the Federal Energy Regulatory Commission earlier in the year. The purchase price, determined by the current net book value of NP&L stock, was \$30 million. 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 interconnect agreement which has been approved by the Federal Energy Regulatory Commission. The Company has received approval from the Public Service Commission of South Carolina to build the transmission line. Certain intervenors have filed complaints, which are still pending, concerning the transmission line with the North Carolina Utilities Commission.

In 1987 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. This agreement is subject to regulatory approval.

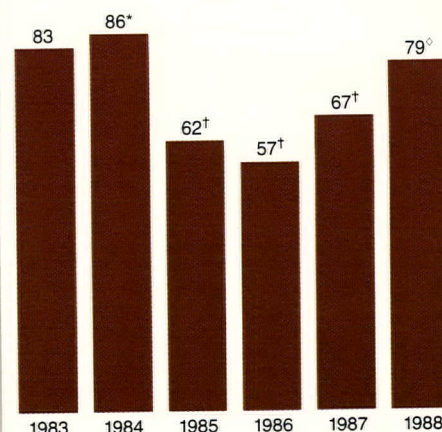
Construction costs

Millions of dollars



Internal cash generation

Percent



* Includes sale of a portion of the Catawba Nuclear Station.

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

° Based on net cash from operating activities as a percentage of total cash from operating, financing, and investing activities.

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. In 1987 and 1986, 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 1986 through 1988 were as follows (dollars in thousands):

	1988 Net proceeds	1987 Net proceeds	1986 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		<u>49,563</u>	<u>98,612</u>
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
Pollution-control series	<u>\$ 1,283</u>	<u>38,734</u>	<u>7,251</u>
Total	<u>1,283</u>	<u>284,600</u>	<u>401,257</u>
Nuclear fuel trusts	<u>85,612</u>	<u>77,388</u>	<u>57,597</u>
Total long-term debt	<u>86,895</u>	<u>361,988</u>	<u>458,854</u>
Total financings	<u>86,895</u>	<u>411,551</u>	<u>557,466</u>
Sale of assets		<u>23,496</u>	
Total long-term financings and sale of assets	<u><u>\$86,895</u></u>	<u><u>\$435,047</u></u>	<u><u>\$557,466</u></u>

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
Stock Purchase and Dividend Reinvestment Plan	1985

Selected Financial Data

	1988	1987	1986	1985	1984
Condensed consolidated statements of income (thousands)					
Electric revenues	\$3,626,985	\$3,705,784	\$3,400,933	\$2,898,911	\$2,710,015
Electric expenses	2,997,434	3,047,827	2,816,157	2,370,876	2,161,914
Electric operating income	629,551	657,957	584,776	528,035	548,101
Other income	46,211	72,902	127,880	163,821	162,795
Income before interest deductions	675,762	730,859	712,656	691,856	710,896
Interest deductions	227,631	230,661	244,822	254,263	249,565
Cumulative effect of accrual of unbilled revenues	102,255	—	—	—	—
Net income	550,386	500,198	467,834	437,593	461,331
Dividends on preferred and preference stocks	53,329	54,264	58,767	60,912	61,786
Earnings for common stock	\$ 497,057	\$ 445,934	\$ 409,067	\$ 376,681	\$ 399,545
Common stock data					
Shares of common stock — year-end (thousands)	101,272	101,259	101,236	101,194	101,153
— average (thousands)	101,266	101,250	101,220	101,178	100,346
Per share of common stock					
Earnings (a)	\$4.91	\$4.40	\$4.04	\$3.72	\$3.98
Dividends	\$2.88	\$2.74	\$2.64	\$2.54	\$2.42
Book value — year-end	\$34.01	\$31.96	\$30.34	\$28.98	\$27.80
Market price — high-low	\$49-42¼	\$51¾-39¾	\$52-34¾	\$36¾-28½	\$30¾-22¼
— year-end	\$46¼	\$42¾	\$45¼	\$35¾	\$29
Balance sheet data (thousands)					
Total assets	\$8,890,605	\$8,511,794	\$8,226,729	\$8,024,163	\$8,018,818
Long-term debt	\$2,728,794	\$2,723,382	\$2,752,302	\$2,721,041	\$2,696,795
Preferred stocks with sinking fund requirements	\$255,850	\$263,875	\$221,991	\$277,012	\$285,426
Electric and other statistics (b)					
Kilowatt-hour sales (millions)					
Residential	16,744	16,580	15,636	14,241	14,493
General service	13,634	13,026	12,312	11,338	10,922
Industrial	25,154	24,974	23,212	21,837	21,821
Other energy and wholesale	10,667	10,171	9,353	8,642	7,163
Total kilowatt-hour sales (c)	66,199	64,751	60,513	56,058	54,399
Residential customer data					
Average annual KWH use	12,614	12,830	12,413	11,659	12,210
Average revenue billed per KWH	7.20¢	7.40¢	6.96¢	6.42¢	6.11¢
Sources of energy (millions of KWH)					
Generated — Coal	23,930	23,617	30,249	27,619	26,394
— Nuclear (d)	47,934	44,810	35,044	33,700	32,632
— Hydro	402	1,454	771	1,162	1,995
— Oil and gas	32	(1)	14	13	—
Total generation	72,298	69,880	66,078	62,494	61,021
Purchased power and net interchange	437	5	(822)	(1,742)	(2,908)
Total output	72,735	69,885	65,256	60,752	58,113
Less: Other Catawba joint owners' share	12,166	11,961	6,261	3,827	—
Plus: Purchases from other Catawba joint owners	10,244	10,872	5,953	3,769	—
Total sources of energy	70,813	68,796	64,948	60,694	58,113
Line loss and Company usage	4,614	4,045	4,435	4,636	3,714
Total kilowatt-hour sales (c)	66,199	64,751	60,513	56,058	54,399
System average heat rate	10,021	10,024	9,881	9,900	9,853
System load factor	59.8%	62.5%	59.8%	55.8%	62.2%

(a) Includes cumulative effect of the accounting change for unbilled revenues for 1988.

(b) Does not include operating statistics of Nantahala Power and Light Company or unbilled kilowatt-hour sales.

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

(d) Includes 100% of Catawba generation.

Selected Financial Data

Quarterly Financial Data

Dollars in Thousands (except per-share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter(b)	Total
1988 by quarter (a)					
Electric Revenues	\$917,358	\$829,999	\$1,029,452	\$850,176	\$3,626,985
Electric Operating Income	167,726	124,483	219,017	118,325	629,551
Income Before Cumulative Effect of Accrual of Unbilled Revenues	135,190	95,777	192,914	24,250	448,131
Cumulative Effect of Accrual of Unbilled Revenues-Net	102,255	—	—	—	102,255
Net Income	<u>\$237,445</u>	<u>\$ 95,777</u>	<u>\$ 192,914</u>	<u>\$ 24,250</u>	<u>\$ 550,386</u>
Earnings Per Share					
Before Cumulative Effect of Accrual of Unbilled Revenues ..	\$1.20	\$0.82	\$1.77	\$0.11	\$3.90
Cumulative Effect of Accrual of Unbilled Revenues-Net	1.01	—	—	—	1.01
Total	<u>\$2.21</u>	<u>\$0.82</u>	<u>\$1.77</u>	<u>\$0.11</u>	<u>\$4.91</u>
1987 by quarter					
Electric Revenues	\$912,580	\$857,750	\$1,036,685	\$898,769	\$3,705,784
Electric Operating Income	178,015	133,254	202,641	144,047	657,957
Net Income	139,682	102,763	165,013	92,740	500,198
Earnings Per Share	\$ 1.24	\$ 0.88	\$ 1.50	\$ 0.78	\$ 4.40

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

(a) Quarterly information for 1988 has been restated to reflect the accrual of unbilled revenues. (See Note 1, "Notes to Consolidated Financial Statements.")

(b) The fourth quarter of 1988 includes the provision for abandonment loss and the cost of benefits for employees laid off after the work activity review. (See Notes 12 and 13, "Notes to Consolidated Financial Statements.")

Stock Market Information

The Company had approximately 120,277 holders of record of common stock as of December 31, 1988, and 119,107 holders as of December 31, 1987. During 1988 approximately 57,278,900 shares of common stock were traded, compared with 60,550,700 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
1988 by quarter				1987 by quarter			
Fourth	\$0.74	\$47 $\frac{1}{8}$	\$44 $\frac{5}{8}$	Fourth	\$0.70	\$50 $\frac{1}{4}$	\$40 $\frac{1}{8}$
Third	0.74	46 $\frac{1}{4}$	42 $\frac{3}{8}$	Third	0.70	48 $\frac{1}{4}$	43 $\frac{3}{8}$
Second	0.70	47 $\frac{7}{8}$	42 $\frac{1}{4}$	Second	0.67	46 $\frac{3}{8}$	39 $\frac{3}{8}$
First	0.70	49	43	First	0.67	51 $\frac{3}{4}$	45 $\frac{1}{4}$

Subsidiary Investments

Dollars in Thousands	1988	1987
Property and other assets	\$ 86,820	\$ 39,932
Investments and net current assets	122,079	352,839
Total assets	<u>208,899</u>	<u>392,771</u>
Deferred income taxes	16,131	5,589
Other liabilities	10,829	—
Total liabilities	<u>26,960</u>	<u>5,589</u>
Investments in and advances to subsidiaries	<u>\$181,939</u>	<u>\$387,182</u>
Earnings of subsidiaries, net	<u>\$ 18,482</u>	<u>\$ 8,616</u>

Total net assets for 1987 are \$93,633 for previously 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}*

Crandall C. Bowles
*President The Springs
Company⁴*

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
Customer Group^{1,4}*

Paul H. Henson
*Chairman
United Telecommunications,
Inc.⁴*

Dr. George R. Herbert
*President Research Triangle
Institute²*

George Dean Johnson, Jr.
*President Johnson
Development Associates, Inc.²*

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*

Dr. Max Lennon
President Clemson University²

Buck Mickel
*Chairman RSI Corporation
Director 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
Power 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
Customer Group*

Warren H. Owen
*Executive Vice President
Power Group*

William A. Coley
*Senior Vice President
Power Delivery*

Henry L. Cranford
*Senior Vice President
Customer Services*

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

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

Richard B. Priory
*Senior Vice President
Generation and Information
Services*

James R. Bavis
*Vice President Human
Resources*

Thomas C. Berry
*Vice President Southern
Division*

Shem K. Blackley, Jr.
*Vice President Transmission
and Distribution*

J. Kenneth Clark
*Vice President Corporate
Communications*

Robert L. Dick
*Vice President Construction
and Maintenance*

Excell O. Ferrell, III
Vice President Operation

Donald E. Hatley
*Vice President
Public Affairs*

John P. Holland
*Vice President
Central Division*

F. Alfred Jenkins
*Vice President
Western Division*

James C. Leathers
*Vice President Production
Support Department*

John F. Lomax
*Vice President Northern
Division*

Paul G. Martin
*Vice President Eastern
Division*

Ted C. McMeekin
*Vice President
Design Engineering*

John P. O'Keefe
Vice President Taxes

Richard J. Osborne
Vice President Finance

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

W. T. Robertson, Jr.
*Vice President Procurement,
Services and Materials*

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*

Sue A. Becht
Treasurer

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

David L. Hauser
Controller

Carolyn R. Duncan
Assistant Secretary

Billie M. Henderson
Assistant Secretary

W. Bruce Shannon
Assistant Treasurer

Phyllis T. Simpson
Assistant Secretary

Eugene C. Sites
Assistant Controller

Principal Subsidiaries and Affiliates

William H. Grigg
*President
Church Street Capital Corp.*

E. N. Hedgepeth, Jr.
*President and Chairman of the
Board
Nantahala Power and Light
Company*

Richard C. Ranson
*President
Crescent Land & Timber
Corp.
Chairman and Chief
Executive Officer Mill-Power
Supply Company*

Robert C. Vaughan
*President
Mill-Power Supply Company*

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

Richard J. Osborne
*President
Duke Energy Corp.*

Retiring Officers

Ralph W. Bostian
*Vice President Production
Support Department*

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

James W. Foster
Vice President Distribution

John D. Hicks
*Senior Vice President
Public Affairs*

C. Joe Sherrill†
*Assistant Vice President
Transmission-Substation
Division*

James W. White
*Vice President General
Services*

Hansel D. Whitley†
Assistant Controller

†Effective January 31, 1989

Other Information**Notice of annual meeting**

The 1989 meeting of holders of Duke Power Company common stock will be held Thursday, April 27, 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:
Investor Relations
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 1988 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 1988 Annual Report. Requests for these documents should be directed to Jeff Johnson, 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.

Duke Power Company

P.O. Box 33189

Charlotte, N.C. 28242

Bulk Rate

U.S. Postage

PAID

Charlotte, N.C.

Permit No. 2608

-NOTICE-

THE ATTACHED FILES ARE OFFICIAL RECORDS OF THE RECORDS & REPORTS MANAGEMENT BRANCH. THEY HAVE BEEN CHARGED TO YOU FOR A LIMITED TIME PERIOD AND MUST BE RETURNED TO THE RECORDS & ARCHIVES SERVICES SECTION P1-122 WHITE FLINT. PLEASE DO NOT SEND DOCUMENTS CHARGED OUT THROUGH THE MAIL. REMOVAL OF ANY PAGE(S) FROM DOCUMENT FOR REPRODUCTION MUST BE REFERRED TO FILE PERSONNEL.

-NOTICE-

50-269 8907130149 6/30/89